

Paddington Square Development Corporation

HUD Project No.: 000-11245/000-11323

**Financial Statements and Supplementary Information
with Report of Independent Auditors**

June 30, 2023 and 2022

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Report of Independent Auditors

To the Management of
Paddington Square Development Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Paddington Square Development Corporation, a Maryland corporation, which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paddington Square Development Corporation as of June 30, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Paddington Square Development Corporation adopted accounting standards changes related to accounting for and disclosing leasing arrangements. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Paddington Square Development Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Paddington Square Development Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that

an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Paddington Square Development Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Paddington Square Development Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Supplementary Information

Management has omitted the management's discussion and analysis report that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by the missing information.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, which includes HUD-required financial data templates, is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, 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. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Matters

The schedule of the computation of mid-year surplus cash as of December 31, 2022, schedule of the status of prior audit findings, questioned costs, and recommendations, mortgagor's (owner's) certification, and the managing agent's certification have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2023 on our consideration of Paddington Square Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 effectiveness of Paddington Square Development Corporation's 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 Paddington Square Development Corporation's internal control over financial reporting and compliance.



Dover, Ohio
October 2, 2023
Lead Auditor: Dirk Wallace

Employer's Identification Number: 94-3108253

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
STATEMENTS OF NET POSITION
June 30, 2023 and 2022

ASSETS AND DEFERRED OUTFLOW

	2023	2022
Current Assets		
Cash and Cash equivalents	\$ 763,220	\$ 479,656
Accounts Receivable, Prepaids, and Other Assets, net of Allowance for Doubtful Accounts	84,996	142,429
Total Current Assets	848,216	622,085
Restricted Assets		
Customer Deposits - Funded Security Deposits	74,312	98,082
Restricted Cash and Cash Equivalents	896,709	964,106
Total Restricted Assets	971,021	1,062,188
Fixed and Non-Current Assets		
Property and Equipment, net of Accumulated Depreciation	17,293,424	17,916,841
Total Fixed and Non-Current Assets	17,293,424	17,916,841
Total Assets	19,112,661	19,601,114
Deferred Outflow of Resources	21,418	148,593
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 19,134,079	\$ 19,749,707

LIABILITIES, DEFERRED INFLOW AND NET POSITION

Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 216,483	\$ 198,179
Prepaid Rent	83,443	53,387
Accrued Interest	487,149	435,947
Accrued Pension and OPEB Liabilities	138,632	327,987
Mortgage Notes Payable - Current	325,120	315,901
Due to Related Party	1,324,697	1,080,250
Total Current Liabilities	2,575,524	2,411,651
Current Liabilities Payable - from Restricted Assets		
Customer Deposits Payable - Tenant Security Deposits	85,340	86,087
Non-Current Liabilities		
Mortgages Payable, Net of Unamortized Financing Costs of \$106,331 and \$111,186, Respectively	17,840,882	18,161,147
Note Payable - Montgomery County	5,196,232	5,196,232
Total Non-Current Liabilities	23,037,114	23,357,379
Total Liabilities	25,697,978	25,855,117
Deferred Inflow of Resources	235,060	190,662
Net Position		
Net Investment in Capital Assets	(6,175,141)	(5,867,625)
Restricted	896,709	964,106
Unrestricted	(1,520,527)	(1,392,553)
Total Net Position	(6,798,959)	(6,296,072)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 19,134,079	\$ 19,749,707

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended June 30, 2023 and 2022

	2023	2022
Operating Revenue		
Dwelling Rental	\$ 3,010,110	\$ 2,897,367
Other Revenue	63,274	107,977
Investment Income	1,364	589
Total Operating Revenues	3,074,748	3,005,933
Operating Expenses		
Administration	404,166	306,381
Maintenance	806,946	556,774
Depreciation	623,417	627,004
Utilities	200,943	288,803
Fringe Benefits	118,246	196,158
Interest Expense	586,411	947,646
Bad Debt Expense (Recovery)	3,183	(28,312)
Other Expenses	834,323	867,509
Total Operating Expenses	3,577,635	3,761,963
Change in Net Position	\$ (502,887)	\$ (756,030)

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

STATEMENTS OF CHANGES IN NET POSITION

For the years ended June 30, 2023 and 2022

BALANCE, JULY 1, 2021	\$ (5,540,042)
Change in net position	<u>(756,030)</u>
BALANCE, JUNE 30, 2022	(6,296,072)
Change in net position	<u>(502,887)</u>
BALANCE, JUNE 30, 2023	<u><u>\$ (6,798,959)</u></u>

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ (502,887)	\$ (756,030)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:		
Interest Expense - Debt Issuance Costs	4,016	266,255
Depreciation	623,417	627,004
Bad Debt Expense (Recovery)	3,183	(28,312)
Change in:		
Accounts Receivable, Prepaids, and Other Assets	54,250	3,706
Accounts Payable and Accrued Liabilities	18,304	112,678
Prepaid Rent	30,056	42,134
Accrued Interest	51,202	40,755
Accrued Pension & OPEB Liabilities	(189,355)	56,616
Due to Related Party	244,447	(209,410)
Customer Deposits Payable	(747)	(3,135)
Deferred Inflows/Outflows	171,573	19,974
Total Adjustments	1,010,346	928,265
Net Cash Provided by Operating Activities	507,459	172,235
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of (Payments for) Financing Costs	839	(99,886)
Net Cash Used in Investing Activities	839	(99,886)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on Mortgage Payable	(315,901)	(18,682,958)
Proceeds of Mortgage Payable	-	18,665,800
Net Cash Used in Financing Activities	(315,901)	(17,158)
Net change in cash, cash equivalents and restricted cash	192,397	55,191
Cash, cash equivalents and restricted cash at beginning of year	1,541,844	1,486,653
Cash, cash equivalents and restricted cash at end of year	\$ 1,734,241	\$ 1,541,844
Cash and cash equivalents	\$ 763,220	\$ 479,656
Customer deposits - funded security deposits	74,312	98,082
Restricted cash	896,709	964,106
Total cash, cash equivalents and restricted cash	\$ 1,734,241	\$ 1,541,844
Supplemental Disclosure of Cash Flow Information:		
Cash Paid for Interest	\$ 531,193	\$ 640,728
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Increase in Equity Contributions due to Decrease in Mortgages Payable	\$ -	\$ -

See accompanying notes to the financial statements

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

1. Organization

Paddington Square Development Corporation (the “Corporation”) is a corporation formed under the laws of the state of Maryland on February 6, 2004. The Corporation was formed for the purpose of acquiring, owning, operating, and maintaining a housing project consisting of 165 apartment units for persons of eligible income located in Silver Spring, Maryland known as Paddington Square (the “Project”).

Housing projects undertaken, financed, or assisted by the Corporation and the Project’s related expenditures must be approved by the Housing Opportunities Commission of Montgomery County, Maryland (“HOC”), a component unit of Montgomery County, Maryland. 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.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Corporation's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). All transactions are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

HOC adopted GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (“GASB 75”). GASB 75 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures associated with post employment benefits other than pensions (“OPEB”) of State and Local Governments. For defined benefit OPEB, GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. In addition, GASB 75 details the recognition and disclosure requirements for employers with liabilities to a defined benefit OPEB plan and for employers whose employees are provided with defined contribution OPEB.

Reporting entity

In accordance with GASB 61, The Financial Reporting Entity Omnibus - An Amendment of GASB Statements No. 14 and No. 34, HOC’s basic financial statements include those of the Corporation and any component units. Component units are legally separate organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

2. Summary of significant accounting policies and nature of operations (continued)

Reporting entity (continued)

An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

1. The primary government (HOC) is legally entitled to or can otherwise access the organization's resources
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
3. The primary government is obligated in some manner for the debt of the organization.

Based upon the application of these criteria, this report includes all programs and activities operated by the Corporation. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. However, the Corporation is owned by HOC and as such is included in their financial statements.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations

The Corporation operates one property in Silver Spring, Maryland. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, repairs or improvements to the buildings which extend their useful lives, annual mortgage insurance premiums, property taxes, and property insurance payments.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

2. Summary of significant accounting policies and nature of operations (continued)

Concentration of credit risk

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

Accounts receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of June 30, 2023 and 2022, the allowance for doubtful accounts was \$281,832 and \$278,648, respectively.

Fixed assets and depreciation

All fixed assets are recorded at cost. Depreciation on the main building structures and major improvements is computed using the straight-line method over 40 years. Equipment and other fixed assets are depreciated over a 10 year period using the straight-line method. Depreciation expense for the years ended June 30, 2023 and 2022 was \$623,417 and \$627,004, respectively.

Deferred charges and amortization

Under ASC-835, Interest, as issued by the Financial Accounting Standards Board (FASB), the deferred charges are recorded as a reduction of the related debt balance and the amortization of the charges is included in interest expense. Permanent loan fees totaling \$111,147 are amortized using the straight-line method over the term of the loans. Amortization included in interest expense for these loan and mortgage financing fees for the years ended June 30, 2023 and 2022 is \$4,016 and \$266,255, respectively, which includes a write-off of amortization fees of \$0 and \$265,455, respectively. Accumulated amortization for the years ended June 30, 2023 and 2022 is \$800 and \$339,854, respectively.

Revenue recognition for tenant leases and tenant charges

The Corporation is the lessor of the Project and accounts for tenant leases as operating leases. The Corporation determines if a contract is a lease or contains a lease at inception. At the commencement of an operating lease, no income is recognized; subsequently, lease payments received are recognized on a straight-line basis. Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income includes fees for late payments and other charges, and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes

The Corporation, as part of a unit of local government, is incorporated as a not-for-profit entity in the State of Maryland and is therefore exempt from real estate, sales and income taxes. Although the Corporation's articles of incorporation outline its charitable purposes, it has not been designated as a tax-exempt entity by the IRS. As such, the Corporation is deemed a C-Corporation for federal filing purposes. The Corporation has accounted for federal income taxes under the asset and liability method, which requires recognition of deferred tax assets and liabilities from the expected future tax consequences of events that have been included in its financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the book and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in the tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Deferred tax assets arise from the utilization of net operating losses. In evaluating the ability to recover its deferred tax assets, management considered all positive and negative evidence, including future taxable income and tax planning strategies. Management believes that it is more-likely-than-not that the benefit from the deferred tax assets will not be realized. Accordingly, management has provided a full valuation allowance on its deferred tax assets as of June 30, 2023 and 2022.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. The Corporation has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Impairment of long-lived assets

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There were no impairment losses recognized for the years ended June 30, 2023 and 2022.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

2. Summary of significant accounting policies and nature of operations (continued)

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2023 and 2022, the Corporation incurred \$33,813 and \$30,092, respectively, in advertising costs, which is included in administration expenses on the accompanying statement of revenues, expenses, and changes in net position.

Net position

HOC, the Corporation’s principal investor, is required to report on a fund basis and replace the owner’s equity section with the following as of June 30:

	2023	2022
Net investment in capital assets	\$ (6,175,141)	\$ (5,867,625)
Restricted	896,709	964,106
Unrestricted	(1,520,527)	(1,392,553)
Total net position	\$ (6,798,959)	\$ (6,296,072)

Subsequent events

Subsequent events have been evaluated through October 2, 2023, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Change in accounting principle

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 842, *Leases* (“FASB ASC 842”) to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements.

FASB ASC 842 was adopted January 1, 2022 and no adjustment to the financial statements was deemed necessary. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements.

3. Restricted cash

Replacement reserve

In accordance with the Regulatory Agreement with HOC, disbursements from the replacement reserve for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior consent of HOC. The replacement reserve is pooled with other properties that are controlled by HOC and deposited with Montgomery County, Maryland (the “County”). As of both June 30, 2023 and 2022, the balance of the replacement reserve was \$104.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

3. Restricted cash (continued)

Replacement reserve (continued)

As part of the refinancing plan settlement with Love Funding approved on December 18, 2014, the Corporation established an additional replacement reserve escrow account, with an initial deposit of \$249,150, and monthly deposits of \$4,813. As of June 30, 2021, the balance of the additional replacement reserve was \$797,473. Due to refinancing on February 24, 2022, the balance of replacement reserve in the amount of \$623,108 was transferred to Dwight Capital replacement reserve escrow account.

As part of the refinancing plan settlement with Dwight Capital approved on February 24, 2022, the Corporation continued the additional replacement reserve escrow account, with monthly deposits of \$4,400. As of June 30, 2023 and 2022 the balance of the additional replacement reserve was \$734,466 and \$797,473, respectively, which includes the transfer of \$623,108 from prior replacement reserve escrow account.

Renovation escrow

The Corporation is required to fund a renovation escrow account with deposits to be made for capital improvements or major repairs. As of both June 30, 2023 and 2022, the balance of the renovation escrow was \$105,243.

Mortgage escrow

The Corporation is required to fund an escrow account to pay for mortgage insurance premiums, property taxes, and property insurance. As of June 30, 2023 and 2022, the balance of the mortgage escrow was \$56,896 and \$61,286, respectively.

Tenant security deposits

Tenant security deposits are placed into an interest-bearing account and are generally held until termination of the leases, at which time some or all of the deposits may be returned to the lessees. As of June 30, 2023 and 2022, the balance of the tenant security deposits was \$74,312 and \$98,082, respectively.

4. Property and equipment

Fixed assets consist of the following as of June 30:

	Balances at June 30, 2022	Additions	Balances at June 30, 2023
Land	\$ 2,720,000	\$ -	\$ 2,720,000
Buildings and improvements	24,793,669	-	24,793,669
Equipment and other fixed assets	107,061	-	107,061
Subtotal	27,620,730	-	27,620,730
Less: Accumulated depreciation	(9,703,889)	(623,417)	(10,327,306)
Fixed assets, net	<u>\$ 17,916,841</u>	<u>\$ (623,417)</u>	<u>\$ 17,293,424</u>

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

5. Mortgage payable – (\$18,665,800)

On January 8, 2014, HOC approved a refinancing plan to engage Love Funding as the Multifamily Accelerated Processing (“MAP”) Lender, and to obtain a FHA 223(f) Government National Mortgage Association (“GNMA” or “Ginnie Mae”) backed mortgage for the Project. This execution garnered approximately \$21 million in loan proceeds and retired \$20 million in outstanding debt. The final application was submitted to HUD in June 2014 and approved on December 18, 2014. The mortgage accrued interest at a rate of 3.6% with accrued interest payable monthly.

On February 24, 2022 the loan from Love Funding was paid in full and the Corporation engaged Dwight Capital as the MAP Lender, and to obtain a FHA 223(f) GNMA backed mortgage for the Project. The loan bears interest at 2.88% and matures on March 1, 2057.

Monthly interest and principal payments in the amount of \$70,591 are due at the beginning of each month beginning April 1, 2022. The outstanding balance at June 30, 2023 and 2022 was \$18,272,333 and \$18,588,234, respectively, and accrued interest was \$43,853 and \$44,612, respectively.

Mortgage payable as of June 30, 2023 and 2022 consists of the following:

	2023	2022
Principal balance	\$ 18,272,333	\$ 18,588,234
Less: unamortized financing costs	(106,331)	(111,186)
Mortgage payable, net of unamortized financing costs	\$ 18,166,002	\$ 18,477,048

Debt issuance costs are being amortized to interest expense over the term of the loan. For the years ended June 30, 2023 and 2022, the effective interest rate was 2.89% and 3.35%, respectively. Amortization expense for debt issuance costs for the years ended June 30, 2023 and 2022 was \$4,016 and \$266,255, respectively, which includes a write-off of amortization fees of \$265,455.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

5. Mortgage payable – (\$18,665,800) (continued)

Future aggregate minimum principal and interest payment requirements over each of the next five years and thereafter are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ 325,121	\$ 521,973	\$ 847,094
2025	334,608	512,486	847,094
2026	344,373	502,721	847,094
2027	354,423	492,671	847,094
2028	364,768	482,326	847,094
2029 through 2033	1,989,857	2,245,613	4,235,470
2034 through 2038	2,297,658	1,937,812	4,235,470
2039 through 2043	2,653,072	1,582,398	4,235,470
2044 through 2048	3,063,463	1,172,007	4,235,470
2049 through 2053	3,537,333	698,137	4,235,470
2054 through 2057	3,007,657	168,941	3,176,598
	<u>\$ 18,272,333</u>	<u>\$ 10,317,085</u>	<u>\$ 28,589,418</u>

6. Loan payable to Montgomery County, MD – (\$9,144,902)

On February 4, 2004, HOC acquired Paddington Square and in September 2009, HOC refinanced the original acquisition loan with a new loan facility of \$9,144,902, which was advanced to the Corporation from the County to finance improvements on the Project. The note provided a 35-year term maturing on July 1, 2039 with no interest to be charged until March 1, 2014 at which time 1% per annum was to be charged for the remainder of the term. The loan was to be paid back from available cash flow commencing on July 1, 2015 and amortizing over the remaining 24 years of the term.

This note was partially repaid as a part of the refinancing agreement of December 18, 2014. The remainder of the loan outstanding as a result of the refinancing is \$5,196,232 and is included in noncurrent loans payable as of June 30, 2023 and 2022. As of June 30, 2023 and 2022, accrued interest was \$443,296 and \$391,335, respectively.

7. Related party transactions

Due to related party

The Corporation received advances from affiliates of the Corporation. The advances do not bear interest and are due on demand. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current statuses of individual accounts. As of June 30, 2023 and 2022, \$1,324,697 and \$1,080,250, respectively, remained payable.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

7. Related party transactions (continued)

Asset management fee

Pursuant to the Asset Management Fee Agreement (the “Agreement”), the Corporation agreed to pay an annual asset management fee to HOC equal to the proportionate share of the asset management agent’s indirect overhead expense attributable to the Project for the preceding year as determined annually as part of the asset management agent’s annual budget. The Agreement continued until March 1, 2005 and renews automatically without notice. For each of the years ended June 30, 2023 and 2022, asset management fees of \$104,470 were incurred and paid and are included in other expenses on the accompanying statements of revenues, expenses and changes in net position.

Development corporation fee

During the course of operations, the Corporation paid fees to HOC for services related to the operation of the Corporation. For the years ended June 30, 2023 and 2022, development corporation fees of \$587,002 and \$628,231, respectively, were incurred and paid and are included in other expenses on the accompanying statements of revenues, expenses and changes in net position.

8. Pension plan

HOC participates in the State of Maryland, Montgomery County Employees’ Retirement System, which is a cost-sharing multiple employer defined benefit pension plan administered by Montgomery County. It is HOC’s policy to allocate pension liabilities, deferred inflows of resources and deferred outflows of resources to projects based on actual time spent by HOC personnel in the various projects and programs of HOC.

The Corporation’s share of HOC’s net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense has been allocated as follows:

As of and for the year ended June 30, 2023:

Net pension liability	\$	104,939
Deferred inflow of resources		57,743
Deferred outflow of resources		77,463
Pension expense		1,771

As of and for the year ended June 30, 2022:

Net pension liability	\$	275,283
Deferred inflow of resources		74,213
Deferred outflow of resources		111,121
Pension expense		95,584

For additional information about the Montgomery County Employees’ Retirement System, please refer to Montgomery County’s Annual Financial Reports, which can be found at <https://www.montgomerycountymd.gov/mcerp/>.

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

9. OPEB plan

HOC also participates in the State of Maryland, Montgomery County Retiree Health Benefit Plan, which is a cost-sharing multiple-employer defined benefit OPEB plan administered by Montgomery County. It covers employees of local government employers that have adopted a resolution to participate in the plan. It is HOC's policy to allocate OPEB liabilities, deferred inflows of resources and deferred outflows of resources to projects based on actual time spent by HOC personnel in the various projects and programs of HOC.

The Corporation's share of HOC's net OPEB liability, deferred inflows of resources, deferred outflows of resources and OPEB expense has been allocated as follows:

As of and for the year ended June 30, 2023:

Net OPEB liability	\$	33,693
Deferred inflow of resources		99,854
Deferred outflow of resources		21,418
OPEB expense (income)		(19,552)

As of and for the year ended June 30, 2022:

Net OPEB liability	\$	52,704
Deferred inflow of resources		116,449
Deferred outflow of resources		37,472
OPEB expense (income)		(18,995)

For additional information about the Montgomery County Retiree Health Benefit Plan, please refer to Montgomery County's Annual Financial Reports, which can be found at <https://www.montgomerycountymd.gov/mcgrp/>.

10. Property management fee

Pursuant to the agreement for property management services dated February 1, 2013, Residential One, LLC, an unrelated third party, earned a monthly property management fee equal to \$46 per unit for performing central accounting, recertification, marketing, office support and overhead expenses of front-line personnel who do not work at the Project, and corporate administration. For the years ended June 30, 2023 and 2022, property management fees of \$96,922 and \$87,584, respectively, were incurred and paid and are included in administration on the accompanying statements of revenues, expenses and changes in net position.



**SUPPLEMENTARY INFORMATION
REQUIRED BY HUD**

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

BALANCE SHEET - HUD BASIS

June 30, 2023

ASSETS

CURRENT ASSETS

1120 Cash - operations	\$	763,220
1130 Tenant accounts receivable		319,652
1131 Allowance for doubtful accounts		(281,832)
1130 Net tenant accounts receivable		37,820
1135 Accounts receivable - HUD		4,760
1200 Prepaid expenses		42,416
1100T Total current assets		<u>848,216</u>

DEPOSITS HELD IN TRUST

1191 Tenant deposits held in trust		74,312
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RESTRICTED DEPOSITS AND FUNDED RESERVES

1310 Escrow deposits		162,139
1320 Replacement reserve		734,570
1300T Total restricted deposits and funded reserves		<u>896,709</u>

FIXED ASSETS

1410 Land		2,720,000
1420 Buildings		24,793,669
1470 Maintenance equipment		13,880
1490 Miscellaneous fixed assets		
Personal property		93,181
1400T Total fixed assets		<u>27,620,730</u>
1495 Accumulated depreciation		10,327,306
1400N Net fixed assets		<u>17,293,424</u>

OTHER ASSETS

1590 Miscellaneous Other Assets		21,418
1500T Total other assets		<u>21,418</u>

1000T TOTAL ASSETS	\$	<u>19,134,079</u>
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See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

BALANCE SHEET - HUD BASIS (CONTINUED)

June 30, 2023

LIABILITIES AND EQUITY

CURRENT LIABILITIES

2110	Accounts payable - operations	\$	182,130
2120	Accrued wages payable		34,353
2131	Accrued interest payable - mortgage payable		487,149
2160	Notes payable - short-term		1,324,697
2170	Mortgage payable - first mortgage (short-term)		325,120
2190	Miscellaneous current liabilities		138,632
2210	Prepaid revenue		83,443
2122T	Total current liabilities		<u>2,575,524</u>

DEPOSIT LIABILITIES

2191	Tenant deposits held in trust - contra		85,340
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LONG-TERM LIABILITIES

2310	Notes payable - long-term		5,196,232
2320	Mortgage payable - first mortgage		17,947,213
2340	Debt issuance costs		(106,331)
2390	Miscellaneous long-term liabilities		235,060
2300T	Total long-term liabilities		<u>23,272,174</u>

2000T	Total liabilities		25,933,038
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3160	Total equity		<u>(6,798,959)</u>
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2033T	TOTAL LIABILITIES AND EQUITY	\$	<u>19,134,079</u>
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See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

STATEMENT OF PROFIT AND LOSS - HUD BASIS

For the year ended June 30, 2023

Rental revenue		
5120	Rent revenue - gross potential	\$ 2,640,885
5121	Tenant assistant payments	366,194
5100T	Total rental revenue	<u>3,007,079</u>
Vacancies		
5220	Apartments	60,801
5200T	Total vacancies	<u>60,801</u>
5152N	Net rental revenue (rent revenue less vacancies)	<u>2,946,278</u>
Financial revenue		
5410	Financial revenue - project operations	1,281
5440	Revenue from investments - replacement reserve	83
5400T	Total financial revenue	<u>1,364</u>
Other revenue		
5910	Laundry and vending	29,143
5920	Tenant charges	34,689
5990	Miscellaneous (specify)	
	Rental license	63,274
5900T	Total other revenue	<u>127,106</u>
5000T	Total revenue	<u>3,074,748</u>
Administrative expenses		
6204	Management consultants	587,002
6210	Advertising and marketing	33,813
6250	Other renting expense	6,254
6310	Office salaries	109,236
6311	Office expenses	24,910
6320	Management fee	96,922
6330	Manager or superintendent salaries	157,030
6340	Legal expenses - project	4,163
6350	Auditing expenses	16,210
6390	Miscellaneous administrative expenses	61,216
6263T	Total administrative expenses	<u>1,096,756</u>
Utility expenses		
6450	Electricity	36,260
6451	Water	105,970
6452	Gas	23,994
6400T	Total utility expenses	<u>166,224</u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
STATEMENT OF PROFIT AND LOSS - HUD BASIS (CONTINUED)
For the year ended June 30, 2023

Operating and maintenance expenses		
6510	Payroll	\$ 261,430
6515	Supplies	149,035
6520	Contracts	414,882
6525	Garbage and trash removal	34,719
6530	Security payroll/contract	3,918
6500T	Total operating and maintenance expenses	<u>863,984</u>
Taxes and insurance		
6720	Property and liability insurance (hazard)	58,524
6722	Workmen's compensation	8,106
6723	Health insurance and other employee benefits	91,739
6790	Miscellaneous taxes, licenses, permits, and insurance (specify)	
	Insurance reserve	4,750
	Vehicle insurance	1,330
	Solid waste tax	2,960
	Water quality protect charge (RFSA)	6,608
6700T	Total taxes and insurance	<u>174,017</u>
Financial expenses		
6820	Interest on mortgage payable	586,411
6850	Mortgage insurance premium	64,761
6890	Miscellaneous financial expenses (specify)	
	Security deposit interest expense	2,065
6800T	Total financial expenses	<u>653,237</u>
Operating results		
6000T	Total costs of operation before depreciation	<u>2,954,218</u>
5060T	Profit (loss) before depreciation	120,530
6600	Depreciation expenses	623,417
5060N	Operating profit or (loss)	<u>(502,887)</u>
3250	Net income or (loss)	<u>\$ (502,887)</u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
STATEMENT OF PROFIT AND LOSS - HUD BASIS (CONTINUED)
For the year ended June 30, 2023

Part II

S1000-010 Total first mortgage principal payments required during the audit period (12 monthly payments). This applies to all direct loans, HUD-held and HUD-insured first mortgages.	<u><u>\$ 315,901</u></u>
S1000-020 The total of all monthly reserve for replacement deposits (usually 12 months) required during the audit period even if deposits have been temporarily waived or suspended.	<u><u>\$ 52,800</u></u>
S1000-030 Replacement Reserves, or Residual receipts and Releases which are included as expense items on this Profit and Loss statement.	<u><u>\$ 115,882</u></u>
S1000-040 Project Improvement Reserve Releases under the Flexible Subsidy Program that are included as expense items on this Profit and Loss Statement.	<u><u>\$ -</u></u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
STATEMENT OF EQUITY - HUD BASIS
For the year ended June 30, 2023

S1100-010	Beginning of period balance	\$ (6,296,072)
3250	Net income (loss)	(502,887)
3160	End of period balance	<u><u>\$ (6,798,959)</u></u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

STATEMENT OF CASH FLOWS - HUD BASIS

For the year ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

S1200-010	Rental income received	\$ 3,053,587
S1200-020	Interest receipts	1,364
S1200-030	Other operating receipts	127,106
S1200-040	Total receipts	<u>3,182,057</u>

CASH PAID FOR:

S1200-050	Administrative expenses	(473,714)
S1200-070	Management fee expense	(96,922)
S1200-090	Utility expenses	(166,224)
S1200-100	Salaries and wages expense	(524,799)
S1200-110	Operating and maintenance expenses	(620,336)
S1200-140	Property insurance expense	(58,524)
S1200-150	Miscellaneous taxes and insurance expense	(115,493)
S1200-180	Interest on mortgage payable	(531,193)
S1200-210	Mortgage insurance premium	(63,623)
S1200-230	Total disbursements	<u>(2,650,828)</u>
S1200-240	Net cash provided by operating activities	531,229

CASH FLOWS FROM INVESTING ACTIVITIES

S1200-245	Net withdrawals to the mortgage escrow account	4,390
S1200-250	Net deposits from the reserve for replacement account	63,007
S1200-340	Other investing activities	
	Disposal of financing costs	839
S1200-350	Net cash provided by investing activities	<u>68,236</u>

CASH FLOWS FROM FINANCING ACTIVITIES

S1200-360	Principal payments - mortgage payable	<u>(315,901)</u>
S1200-460	Net cash used in financing activities	<u>(315,901)</u>
S1200-470	NET DECREASE IN CASH & EQUIVALENTS	283,564
S1200-480	BEGINNING CASH AND CASH EQUIVALENTS	<u>479,656</u>
S1200T	ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 763,220</u></u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
STATEMENT OF CASH FLOWS - HUD BASIS (CONTINUED)
For the year ended June 30, 2023

RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
3250 NET INCOME (LOSS)	\$ (502,887)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
6600 Depreciation expense	623,417
S1200-486 Amortization of debt issuance costs	4,016
Changes in asset and liability accounts	
Decrease (increase) in assets	
S1200-490 Tenant accounts receivable	39,355
S1200-500 Accounts receivable - HUD	16,940
S1200-520 Prepaid expenses	1,138
S1200-530 Cash restricted for tenant security deposits	23,770
	81,203
Increase (decrease) in liabilities	
S1200-540 Accounts payable - operations and accrued liabilities	15,407
S1200-560 Accrued liabilities	18,951
S1200-570 Accrued interest payable	51,202
S1200-580 Tenant security deposits held in trust	(747)
S1200-590 Prepaid rent	30,056
S1200-600 Other adjustments to reconcile net income (loss) to net cash provided by operating activities	
Change in deferred inflow pension and OPEB	155,519
Change in net pension and OPEB liabilities	(189,355)
Related party liabilities	244,447
	325,480
S1200-610 NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 531,229

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

COMPUTATION OF SURPLUS CASH - HUD BASIS

June 30, 2023

S1300-010	Cash (Accounts 1110, 1120, 1191, 1192)	\$ 837,532
1135	Accounts receivable - HUD	<u>4,760</u>
S1300-040	Total cash	842,292
S1300-075	Accounts payable (due within 30 days)	182,130
S1300-100	Accrued expenses (not escrowed)	34,353
2210	Prepaid revenue	83,443
2191	Tenant deposits held in trust	85,340
S1300-110	Other current obligations:	
S1300-120	First mortgage principal due in the following month	
S1300-130	\$ 26,738	
S1300-120	First mortgage interest due in the following month	
S1300-130	\$ 43,854	
S1300-120	Mortgage insurance premium due in the following month	
S1300-130	\$ 5,302	
S1300-120	Replacement reserve deposit due in the following month	
S1300-130	\$ 4,400	
S1300-120	Escrow deposits due in the following month	
S1300-130	\$ 3,494	<u>83,788</u>
S1300-140	Less total current obligations	<u>469,054</u>
S1300-150	Surplus cash (deficiency)	<u><u>\$ 373,238</u></u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
COMPUTATION OF SURPLUS CASH - HUD BASIS (UNAUDITED)
December 31, 2022

S1300-010	Cash (Accounts 1110, 1120, 1191, 1192)	\$ 698,568
1135	Accounts receivable - HUD	<u>479</u>
S1300-040	Total cash	699,047
S1300-075	Accounts payable (due within 30 days)	54,032
S1300-100	Accrued expenses (not escrowed)	41,475
2210	Prepaid revenue	80,318
2191	Tenant deposits held in trust	86,616
S1300-110	Other current obligations:	
S1300-120	First mortgage principal due in the following month	
S1300-130	\$ 26,356	
S1300-120	First mortgage interest due in the following month	
S1300-130	\$ 44,235	
S1300-120	Mortgage insurance premium due in the following month	
S1300-130	\$ 77,291	
S1300-120	Replacement reserve deposit due in the following month	
S1300-130	\$ 4,400	
S1300-120	Escrow deposits due in the following month	
S1300-130	\$ 6,972	<u>159,254</u>
S1300-140	Less total current obligations	<u>421,695</u>
S1300-150	Surplus cash (deficiency)	<u>\$ 277,352</u>
S1300-200	Amount available for distribution during next fiscal period	<u>\$ 277,352</u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

For the year ended June 30, 2023

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
1410 Land	\$ 2,720,000	\$ -	\$ -	\$ 2,720,000
1420 Buildings	24,793,669	-	-	24,793,669
1470 Maintenance equipment	13,880	-	-	13,880
1490 Miscellaneous fixed assets	93,181	-	-	93,181
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	<u>\$ 27,620,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,620,730</u>
Accumulated depreciation	<u>\$ 9,703,889</u>	<u>\$ 623,417</u>	<u>\$ -</u>	<u>\$ 10,327,306</u>
Net book value	<u>\$ 17,916,841</u>			<u>\$ 17,293,424</u>

See report of independent auditors

PADDINGTON SQUARE DEVELOPMENT CORPORATION
 HUD PROJECT NO. 000-11245/000-11323
 SCHEDULE OF ADDITIONAL SUPPLEMENTAL DATA
 For the year ended June 30, 2023

In accordance with the U.S. Department of Housing and Urban Development (“HUD”) Consolidated Audit Guide for Audits of HUD Programs Handbook 2000.04 REV-2 dated December 2001, the following supplemental data is furnished:

SCHEDULE OF CHANGES IN REPLACEMENT RESERVE

BALANCE, JULY 1, 2022	\$	797,577
Monthly deposits		52,800
Interest income		75
Approved withdrawals		(115,882)
BALANCE, JUNE 30, 2023	\$	<u>734,570</u>

OTHER SUPPORTING DATA

MISCELLANEOUS OTHER ASSETS (1590)

Deferred outflow OPEB		21,418
Total	\$	<u>21,418</u>

MISCELLANEOUS CURRENT LIABILITIES (2190)

Net pension liability	\$	104,939
Net OPEB liability		33,693
Total	\$	<u>138,632</u>

MISCELLANEOUS LONG-TERM LIABILITIES (2390)

Deferred inflow - pension	\$	57,743
Deferred inflow - OPEB		99,854
Deferred outflow pension		77,463
Total	\$	<u>235,060</u>

MISCELLANEOUS ADMINISTRATIVE EXPENSES (6390)

Miscellaneous operating expenses	\$	10,165
Gasoline		3,411
Vehicle repairs and maintenance		2,861
Temp agency services		39,135
Training program		998
Food & Beverage		293
Phone rent		110
Vehicle lease/rent		1,060
Bad debt		3,183
Total	\$	<u>61,216</u>



REPORT OF INDEPENDENT AUDITORS 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 management of
Paddington Square Development Corporation:

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 Paddington Square Development Corporation, which comprise the statement of net position as of June 30, 2023, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2023.

Report Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Paddington Square Development Corporation's internal control over financial reporting (internal control) as a basis for designing 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 Paddington Square Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Paddington Square Development Corporation'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paddington Square Development Corporation'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Novogradec & Company LLP". The signature is written in a cursive, flowing style.

Dover, Ohio
October 2, 2023



REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR ITS MAJOR HUD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS

To the management of
Paddington Square Development Corporation:

Report on Compliance for its Major HUD Program

Opinion on its Major HUD Program

We have audited Paddington Square Development Corporation’s compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the “Guide”) that could have a direct and material effect on Paddington Square Development Corporation’s major U.S. Department of Housing and Urban Development (“HUD”) program for the year ended June 30, 2023. Paddington Square Development Corporation’s major HUD program and the related direct and material compliance requirements are as follows:

Name of Major HUD Program	Direct and Material Compliance Requirements
Section 207/223(f) HUD-Insured Mortgage	mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant security deposits, management functions, unauthorized change of ownership/ acquisition of liabilities, and unauthorized loans of project funds

In our opinion, Paddington Square Development Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD program for the year ended June 30, 2023.

Basis for Opinion on its Major HUD Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (“GAAS”); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Paddington Square Development Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that our audit evidence provides a reasonable basis for our opinion on compliance for its major HUD program. Our audit does not provide a legal determination of Paddington Square Development Corporation’s compliance.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or grant agreements applicable to Paddington Square Development Corporation’s HUD program.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Paddington Square Development Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Paddington Square Development Corporation's compliance with the requirements of its major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Paddington Square Development Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Paddington Square Development Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of Paddington Square Development Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the compliance requirements of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Novogradac & Company LLP

Dover, Ohio
October 2, 2023

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/000-11323
SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RECOMMENDATIONS
June 30, 2023

Findings – Financial Statements Audit

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO. 000-11245/00011323
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS, AND
RECOMMENDATIONS (UNAUDITED)
June 30, 2023

Findings – Financial Statements Audit for the year ended June 30, 2022

Audit report, dated September 28, 2022 for the year ended June 30, 2022, issued by Novogradac & Company, LLP.

There were no financial statement audit findings for the year ended June 30, 2022.

Findings from Other Audits or Studies

There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.

Findings from Deficiencies Listed in Letters or Reports Issued by HUD Management

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

PADDINGTON SQUARE DEVELOPMENT CORPORATION
HUD PROJECT NO.000-11245/000-11323
MORTGAGOR'S (OWNER'S) CERTIFICATION
June 30, 2023

We hereby certify that we have examined the accompanying financial statements and supplemental data of Paddington Square Development Corporation and, to the best of our knowledge and belief, the same is complete and accurate.

Paddington Square Development Corporation



Signature

09 / 29 / 2023

Date

Name of Signatory

Timothy Goetzinger

Title of Certifying Official

Acting Chief Financial Officer

Auditee Telephone Number

(240) 627-9400

PADDINGTON SQUARE DEVELOPMENT CORPORATION

HUD PROJECT NO. 000-11245/000-11323

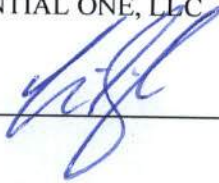
MANAGING AGENT'S CERTIFICATION

June 30, 2023

We hereby certify that we have examined the accompanying financial statements and supplemental data of Paddington Square Development Corporation and, to the best of our knowledge and belief, the same is complete and accurate.

RESIDENTIAL ONE, LLC

Signature



Name of Signatory

Louis Sigalas

Managing Agent Tax Identification Number

47-4263376

Name of Property Manager

Ronda Hill