

Diamond Square Limited Partnership

Financial Statements

**For The Years Ended
June 30, 2018 And 2017**

Diamond Square Limited Partnership

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Independent Auditors' Report

To The Partners
Diamond Square Limited Partnership
10400 Detrick Avenue
Kensington, MD 20895

Report on the Financial Statements

We have audited the accompanying financial statements of Diamond Square Limited Partnership, which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of operations, changes in partners' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance

sheets of Diamond Square Limited Partnership as of June 30, 2018 and 2017, and the changes in partners' deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 14 - 28 is presented for purposes of additional analysis, and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018, on our consideration of Diamond Square Limited Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Diamond Square Limited Partnership's internal control over financial reporting and compliance.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 2, 2018

Name of Audit Firm: Hertzbach & Company, P.A.
Address: Red Brook Corporate Center
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Owings Mills, Maryland 21117
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Diamond Square Limited Partnership

Balance Sheets

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 135,578	\$ 324,882
Accounts receivable, net and other assets	56,354	2,196
Interfund receivable	10	268
	<u>191,942</u>	<u>327,346</u>
Total unrestricted current assets		
	191,942	327,346
Restricted cash and cash equivalents for current liabilities		
Restricted cash and cash equivalents	1,946,021	1,434,109
Tenants' security deposits	41,906	38,295
	<u>1,987,927</u>	<u>1,472,404</u>
Total restricted cash and cash equivalents for current liabilities		
	1,987,927	1,472,404
Property and equipment		
Property and equipment, net of accumulated depreciation	3,611,270	3,817,314
Deferred charges		
Negative arbitrage	14,022	14,022
	<u>14,022</u>	<u>14,022</u>
Total assets	<u>\$ 5,805,161</u>	<u>\$ 5,631,086</u>

See independent auditors' report and notes to financial statements.

Diamond Square Limited Partnership

Balance Sheets

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Liabilities and Partners' Deficit		
Current liabilities		
Accounts payable and accrued expenses	\$ 52,689	\$ 33,288
Accrued interest payable	4,698	4,909
Mortgage payable - current	<u>56,815</u>	<u>54,239</u>
Total current liabilities	114,202	92,436
Current liabilities payable from restricted assets		
Tenants' security deposits	<u>41,307</u>	<u>37,695</u>
Total current liabilities payable from restricted assets	41,307	37,695
Long-term liabilities		
First mortgage, net of current maturities, unamortized financing fees of \$39,335 - 2018 and \$41,972 - 2017	1,116,359	1,170,537
Other mortgages and notes payable	4,746,344	4,746,344
Deferred revenue	<u>1,240</u>	<u>1,860</u>
Total long-term liabilities	<u>5,863,943</u>	<u>5,918,741</u>
Total liabilities	6,019,452	6,048,872
Partners' deficit	<u>(214,291)</u>	<u>(417,786)</u>
Total liabilities and partners' deficit	<u>\$ 5,805,161</u>	<u>\$ 5,631,086</u>

See independent auditors' report and notes to financial statements.

Diamond Square Limited Partnership

Statements of Operations
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Dwelling rental income	\$ 1,266,837	\$ 1,237,870
Other income	4,674	7,014
Total operating revenues	<u>1,271,511</u>	<u>1,244,884</u>
Operating expenses		
Administrative	222,031	207,897
Operating and maintenance	283,181	273,835
Depreciation	206,044	191,087
Utilities	165,978	185,990
Fringe benefits	51,827	52,060
Interest expense	60,184	62,654
Other	93,126	106,016
Bad debt expense	2,493	2,265
Total operating expenses	<u>1,084,864</u>	<u>1,081,804</u>
Operating income	186,647	163,080
Nonoperating income		
Interest income	16,848	5,552
Total nonoperating income	<u>16,848</u>	<u>5,552</u>
Net income	<u>\$ 203,495</u>	<u>\$ 168,632</u>

See independent auditors' report and notes to financial statements.

Diamond Square Limited Partnership

Statements of Changes in Partners' Deficit For the Years Ended June 30, 2018 and 2017

Balance - July 1, 2016	\$ (586,418)
Net income - June 30, 2017	<u>168,632</u>
Balance - June 30, 2017	(417,786)
Net income - June 30, 2018	<u>203,495</u>
Balance - June 30, 2018	<u><u>\$ (214,291)</u></u>

See independent auditors' report and notes to financial statements.

Diamond Square Limited Partnership

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received for:		
Rental income	\$ 1,262,041	\$ 1,245,315
Interest income	16,848	5,552
Total cash receipts	<u>1,278,889</u>	<u>1,250,867</u>
Cash paid for services and to employees for:		
Administrative expenses	(40,298)	(55,731)
Management fees	(79,193)	(75,254)
Utilities	(150,152)	(165,046)
Salaries and wages	(167,031)	(165,938)
Operating and maintenance	(236,893)	(202,086)
Property insurance	(12,800)	(10,910)
Miscellaneous taxes and insurance	(8,738)	(8,130)
Tenant security deposits	1	(90)
Interest on first mortgage	(57,758)	(60,217)
Fringe benefits	(51,827)	(52,060)
Other expenses	(91,188)	(58,063)
Miscellaneous financial	(6,165)	(6,432)
Total cash disbursements	<u>(902,042)</u>	<u>(859,957)</u>
Net cash provided by operating activities	<u>376,847</u>	<u>390,910</u>
Cash flows from investing activities		
Net deposits to (withdrawals from) restricted cash	(511,912)	309,495
Capital expenditures	-	(437,389)
Net cash used in investing activities	<u>(511,912)</u>	<u>(127,894)</u>
Cash flows from financing activities		
Mortgage principal payments - first mortgage	(54,239)	(51,779)
Net cash used in financing activities	<u>(54,239)</u>	<u>(51,779)</u>
Net increase (decrease) in cash	(189,304)	211,237
Cash - beginning of year	324,882	113,645
Cash - end of year	<u>\$ 135,578</u>	<u>\$ 324,882</u>

See independent auditors' report and notes to financial statements.

Diamond Square Limited Partnership

Statements of Cash Flows (continued)
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of change in total net income from operations to net cash provided by operating activities		
Change in total net income from operations	\$ 203,495	\$ 168,632
Adjustments to reconcile change in total net income from operations to net cash provided by operating activities:		
Depreciation	206,044	191,087
Amortization of financing fees	2,637	2,637
(Increase) decrease in operating assets		
Accounts receivable, net and other assets	(54,158)	34,416
Tenant security deposits	(3,611)	(545)
Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities	19,039	(5,572)
Accrued interest payable	(211)	(200)
Tenant security deposits	3,612	455
Net cash provided by operating activities	<u>\$ 376,847</u>	<u>\$ 390,910</u>

See independent auditors' report and notes to financial statements.

Diamond Square Limited Partnership

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Diamond Square Limited Partnership (a Maryland limited partnership) (Partnership) was formed under the laws of the State of Maryland on June 18, 2003, for the purpose of acquiring 124 apartment units to provide rental housing of which 40 are for low and moderate income families. The Partnership acquired the net assets of Diamond Square Apartments, a component unit of the Housing Opportunities Commission of Montgomery County, Maryland (H.O.C.).

Method of Accounting

The Partnership's financial statements are prepared on the accrual method of accounting which recognizes income when it is earned and expenses when they are incurred. The Partnership's accounting and reporting policies are maintained in accordance with accounting principles generally accepted in the United States of America appropriate to a nonprofit organization operating in the rental real estate industry.

Property and Equipment

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

Impairment Of Long-Lived Assets

The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There have been no asset impairments as of June 30, 2018 and 2017.

Income Taxes

The Partnership files a partnership tax return and the net income or loss is reported by the partners on their respective income tax returns.

Cash and Cash Equivalents

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

Interest

The Partnership has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 835, *Interest*, which states that debt issuance costs related to a note shall be reported on the balance sheet as a direct deduction from the face amount of that note, and any amortization of debt issuance costs shall be reported as interest expense. Accordingly, the Partnership is reporting loan fees related to its mortgages payable as a direct deduction from the principal balances of the mortgages, and is reporting amortization of the loan fees as interest expense on the mortgages payable. See Note 6 for more information.

See independent auditors' report.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2018 and 2017

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Rental Income

Rental income is recognized as rents become due. Rent payments received in advance are deferred until earned. All leases between the Project and tenants of the property are operating leases.

Rental Subsidies

Certain tenants of the Partnership receive rental subsidies from the County and State as a result of the Partnership making units available for low-income tenants.

Rents Receivable and Bad Debts

Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts. Management periodically evaluates the need for an allowance for doubtful accounts by considering the Partnership's past receivables loss experience, known and inherent risks in the accounts receivable population, adverse situations that may affect a debtor's ability to pay, and current economic conditions. The allowance for doubtful accounts is increased by charges to bad debt expense and decreased by charge offs of the accounts receivable balances. Accounts receivable are considered past due after the tenth of the month in which they were due. Accounts receivable are considered uncollectible if they are outstanding over 90 days. The allowance as of June 30, 2018 and 2017 was \$2,493 and \$0, respectively.

2) Cash - Tenant Security Deposits

The amounts of \$41,906 and \$38,295 as of June 30, 2018 and 2017, respectively, on the accompanying balance sheets, represent funds deposited in a savings account with a balance that should be at least equal to the tenants' security deposits. Maryland Rent Escrow Law requires the Partnership to maintain a separate account for deposits paid by the tenants, and to credit the deposits annually with interest of 1.5% or the 1-year US Treasury yield curve rate a year, at six-month intervals. Tenant security deposits are held in a federally insured bank.

See independent auditors' report.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2018 and 2017

3) Concentration of Risk

The Partnership maintains its cash balances in several accounts at various financial institutions. At times, these balances may exceed the federal insured limits; however, the Partnership 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, 2018 and 2017.

4) Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 1,612,000	\$ 1,612,000
Buildings	7,119,321	7,119,321
Equipment	<u>212,869</u>	<u>212,869</u>
Total Property and Equipment	8,944,190	8,944,190
Less: Accumulated Depreciation	<u>5,332,920</u>	<u>5,126,876</u>
Property And Equipment, Net	<u>\$ 3,611,270</u>	<u>\$ 3,817,314</u>

5) Negative Arbitrage

HOC issued bonds to provide the financing for the Partnership's rehabilitation. Because HOC earned less in interest revenue from the Partnership's loan during the construction than it paid to the HOC bondholders, negative arbitrage occurred. Negative arbitrage occurs when investments acquired with the bond proceeds earn less interest than is due to the bondholders.

During the year ended June 30, 2003, the Partnership paid \$14,022 to HOC as charge for the incurred negative arbitrage, representing the difference between the interest HOC earns on its loan to the Partnership and the interest HOC pays to the bondholders over the life of the loan. The balance of the negative arbitrage is not being amortized and is included in Deferred Charges.

See independent auditors' report.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2018 and 2017

6) Long-Term Debt

Mortgage Payable

The Partnership is obligated to repay a mortgage to HOC. On June 20, 2003, the Partnership assumed the HUD regulatory agreement from HOC in conjunction with execution of a mortgage loan from HOC for \$1,810,000. The note is secured by a promissory note, deed of trust, security and assignment of rent agreements, and substantially all assets. Financing fees related to the mortgage were \$78,823 and are being amortized to interest expense on a straight-line basis, the results of which are not materially different than that of the effective interest method, over the term of the loan. The loan provides for interest at a nominal rate of 4.65% per annum, to accrue until maturity, with the final balance of principal and accrued interest due July 1, 2033. The outstanding principal and accrued interest balances as of June 30, 2018 and 2017 are \$1,212,509 and \$4,698, respectively, for 2018 and \$1,266,748 and \$4,909, respectively, for 2017. Unamortized financing fees for the years ended June 30, 2018 and 2017 were \$39,335 and \$41,972, respectively. For the years ended June 30, 2018 and 2017, interest incurred on the mortgage was \$60,184 and \$62,654, respectively, including amortized financing fees of \$2,637 for each of the years.

Amortization over the life of the Mortgage is as follows:

2019	\$	56,815
2020		59,514
2021		62,342
2022		65,303
2023		68,405
2024-2028		393,968
2029-2033		496,886
2034		<u>9,276</u>
Total	\$	<u>1,212,509</u>

DHCD Mortgage Payable

The Partnership is obligated under the terms of a second mortgage payable with The Department of Housing and Community Development (DHCD) in the original amount of \$2,000,000, dated June, 1991 and is non interest bearing and is due upon the sale of the property. There were no financing fees incurred related to this mortgage. As of June 30, 2018 and 2017 the principal balance was \$2,000,000.

Note Payable

The Partnership assumed a note payable, Deed of Trust Security Agreement, and Regulatory Agreement with Montgomery County, Maryland. The original amount of the note is \$2,746,344 and is non-interest bearing and is due upon the sale of the property. As of June 30, 2018 and 2017 the principal balance was \$2,746,344.

See independent auditors' report.

Diamond Square Limited Partnership

Notes to Financial Statements (continued)
For the Years Ended June 30, 2018 and 2017

7) Related Party Transactions

Property Management Fee

The Partnership 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, 2018 and 2017, management fees of \$56,063 and \$52,794, respectively, were incurred.

Asset Management Fee

The Partnership was charged an asset management fee of \$23,130 and \$22,460, respectively, for the years ended June 30, 2018 and 2017, by HOC.

Interfund Receivable

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

8) Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through the independent auditors' 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 auditors' report.

Diamond Square Limited Partnership

Detail of Selected Balance Sheet Accounts
As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Accounts receivable, net and other assets		
Insurance claims receivable	\$ 48,917	\$ -
Prepaid mortgage insurance	514	536
Other prepaid expense	-	1,660
Tenant receivable	9,416	-
Allowance for doubtful accounts	(2,493)	-
	<u>\$ 56,354</u>	<u>\$ 2,196</u>
Accounts payable and accrued expenses		
Accounts payable	\$ 22,606	\$ 12,053
Accrued salaries	13,720	9,891
Accrued utility payments	13,877	9,425
Resident prepaid rents	2,486	1,919
	<u>\$ 52,689</u>	<u>\$ 33,288</u>

See independent auditors' report.

Diamond Square Limited Partnership

Detailed Statements of Operations
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Dwelling rental income		
Rent	\$ 1,262,888	\$ 1,238,041
Vacancies and concessions	(10,493)	(15,909)
Tenant charges	5,423	4,095
Laundry income	9,019	11,643
	<u>9,019</u>	<u>11,643</u>
Total dwelling rental income	<u>\$ 1,266,837</u>	<u>\$ 1,237,870</u>
Administrative expenses		
Advertising and marketing	\$ -	\$ 546
Contract management fees	56,063	52,794
Miscellaneous	5,413	4,116
Salaries	111,381	108,606
Office supplies and expense	31,543	27,249
Professional fees	17,631	14,586
	<u>17,631</u>	<u>14,586</u>
Total administrative expenses	<u>\$ 222,031</u>	<u>\$ 207,897</u>
Operating and maintenance expenses		
Contracts	\$ 136,022	\$ 154,507
Salaries	59,479	58,141
Supplies and repairs	87,680	61,187
	<u>87,680</u>	<u>61,187</u>
Total operating and maintenance expenses	<u>\$ 283,181</u>	<u>\$ 273,835</u>
Utilities expense		
Electricity	\$ 96,840	\$ 111,731
Gas	16,444	10,720
Trash removal	14,851	18,993
Water	37,843	44,546
	<u>37,843</u>	<u>44,546</u>
Total utilities expense	<u>\$ 165,978</u>	<u>\$ 185,990</u>
Other expenses		
Asset management fees	\$ 23,130	\$ 22,460
Insurance	12,800	10,910
Mortgage insurance	6,187	6,453
Security expense	42,271	58,063
Taxes	8,738	8,130
	<u>8,738</u>	<u>8,130</u>
Total other expenses	<u>\$ 93,126</u>	<u>\$ 106,016</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA – Balance Sheet Data
As of June 30, 2018

Assets

Current assets

1120	Cash - operations	\$	135,578	
1130	Tenant accounts receivable		9,416	
1131	Allowance for doubtful accounts		(2,493)	
1145	Accounts and notes receivable - entity		48,927	
1200	Prepaid expenses		<u>514</u>	
1100T	Total current assets	\$		191,942

Deposits held in trust - funded

1191	Tenant security deposits		<u>41,906</u>	
1191T	Total deposits held in trust - funded			41,906

Restricted deposits and funded reserves

1310	Escrow deposits		16,704	
1320	Reserve for replacements		1,314,949	
1330	Other reserves		<u>614,368</u>	
1300T	Total restricted deposits and funded reserves			1,946,021

Property and equipment

1410	Land		1,612,000	
1420	Buildings		7,119,321	
1440	Building equipment		<u>212,869</u>	
1400T	Total property and equipment		8,944,190	
1495	Less: accumulated depreciation		<u>(5,332,920)</u>	
1400N	Net property and equipment			3,611,270

Other assets

1520	Intangible assets		<u>14,022</u>	
1500T	Total other assets			<u>14,022</u>
1000T	Total assets	\$		<u><u>5,805,161</u></u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA – Balance Sheet Data
As of June 30, 2018

Liabilities and Partners' Deficit

Current liabilities

2110	Accounts payable	\$	36,483	
2120	Accrued wages		13,720	
2131	Accrued interest payable		4,698	
2170	Mortgage payable- current		56,815	
2210	Deffered revenue		1,240	
2210	Prepaid revenue		<u>2,486</u>	
2122T	Total current liabilities	\$		115,442

Deposit liabilities

2191	Tenant security deposits held in trust (contra)		<u>41,307</u>	
	Total deposit liabilities			41,307

Long-term liabilities

2320	First mortgage, net of current maturities and unamortized financing fees of \$39,335		1,116,359	
2322	Other mortgages and notes payable		<u>4,746,344</u>	
2300T	Total long-term liabilities			<u>5,862,703</u>
2000T	Total liabilities			<u>6,019,452</u>

Partners' deficit

3130	Partners' deficit		<u>(214,291)</u>	
3130	Partners' deficit			<u>(214,291)</u>
2033T	Total liabilities and partners' deficit	\$		<u><u>5,805,161</u></u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Operations Data
For the Year Ended June 30, 2018

Rental revenue

5120	Rent revenue - gross potential	\$ 1,262,888
5100T	Total rent revenue	<u>1,262,888</u>

Vacancies

5220	Apartments	10,309
5250	Rental concessions	<u>184</u>
5200T	Total vacancies	<u>10,493</u>
5152N	Net rental revenue	<u>1,252,395</u>

Financial revenue

5490	Revenue from investments - security deposit interest (\$452); interest revenue from reserve \$17,300	<u>16,848</u>
5400T	Total financial revenue	<u>16,848</u>

Other revenue

5910	Laundry revenue	9,019
5920	Tenant charges	6,857
5990	Miscellaneous revenue - miscellaneous \$3,240	<u>3,240</u>
5900T	Total other revenue	<u>19,116</u>
5000T	Total revenue	<u>1,288,359</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Operations Data (continued)
For the Year Ended June 30, 2018

Administrative expenses

6310	Office salaries	111,381
6311	Office expense	31,543
6320	Management expense	56,063
6340	Legal expense - project	6,166
6350	Audit expense	10,810
6370	Bad debts	2,493
6390	Miscellaneous administrative expenses - furniture rental \$4,872; miscellaneous \$1,196	<u>6,068</u>
6263T	Total administrative expenses	<u>224,524</u>

Utility expenses

6450	Electricity	96,840
6451	Water	37,843
6452	Gas	<u>16,444</u>
6400T	Total utility expenses	<u>151,127</u>

Operating and maintenance expenses

6510	Payroll	59,479
6515	Supplies	87,680
6520	Contracts	111,037
6525	Garbage and trash removal	14,851
6530	Security contracts	42,271
6546	Heating/cooling repairs & maintenance	14,302
6548	Snow removal contracts	<u>10,683</u>
6500T	Total operating and maintenance expenses	<u>340,303</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Operations Data (continued)
For the Year Ended June 30, 2018

Taxes and insurance

6720	Property and liability insurance (hazard)	\$	12,800
6723	Health insurance and other employee benefits		51,827
6790	Miscellaneous taxes, licenses, permits, and insurance - solid waste tax \$4,531; water protection charges \$3,907; other tax \$300		<u>8,738</u>
6700T	Total taxes and insurance		<u>73,365</u>

Financial expenses

6820	Interest on first mortgage payable		60,184
6850	Mortgage insurance		<u>6,187</u>
6800T	Total financial expenses		<u>66,371</u>
6000T	Total expenses before depreciation and amortization		<u>855,690</u>
5060T	Profit before depreciation		432,669
6600	Depreciation		<u>206,044</u>
5060N	Operating income		<u>226,625</u>
7190	Asset management fees		<u>23,130</u>
3250	Net income	\$	<u>203,495</u>

S1000-010	Total mortgage principal payments required during the year -	\$	54,239
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement -	\$	103,568
S1000-030	Replacement reserves or residual receipts releases which are included as expense items on this profit and loss statement -	\$	47,816
S1000-040	Project improvement reserve releases under the flexible subsidy program that are included as expense items on this profit and loss statement -	\$	-

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Changes in Partners' Deficit Data
For the Year Ended June 30, 2018

S1100-060	Partners' deficit - June 30, 2017	\$ (417,786)
3247	Net income	<u>203,495</u>
3131	Partners' deficit - June 30, 2018	<u>\$ (214,291)</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Cash Flows Data
For the Year Ended June 30, 2018

Cash flows from operating activities:		
Cash received for:		
S1200-010	Rental income	\$ 1,262,041
S1200-020	Interest income	<u>16,848</u>
S1200-040	Total cash receipts	<u>1,278,889</u>
Cash paid for services and to employees for:		
S1200-050	Administrative expenses	(40,298)
S1200-070	Management fees	(79,193)
S1200-090	Utilities	(150,152)
S1200-100	Salaries and wages	(167,031)
S1200-110	Operating and maintenance	(236,893)
S1200-140	Property insurance	(12,800)
S1200-150	Miscellaneous taxes and insurance	(60,565)
S1200-160	Tenant security deposits	1
S1200-170	Other operating expenses	(91,188)
S1200-180	Interest on first mortgage	(57,758)
S1200-220	Miscellaneous financial	<u>(6,165)</u>
S1200-230	Total cash disbursements	<u>(902,042)</u>
S1200-240	Net cash provided by operating activities	<u>376,847</u>
Cash flows from investing activities:		
S1200-245	Increase in mortgage escrows	(22)
S1200-250	Increase in reserve for replacements	(241,102)
S1200-255	Increase in other escrows	<u>(270,788)</u>
S1200-350	Net cash used in investing activities	<u>(511,912)</u>
Cash flows from financing activities:		
S1200-360	Mortgage principal payments - first mortgage	<u>(54,239)</u>
S1200-460	Net cash used in financing activities	<u>(54,239)</u>
S1200-470	Net decrease in cash	(189,304)
S1200-480	Cash - beginning of year	<u>324,882</u>
S1200T	Cash - end of year	<u><u>\$ 135,578</u></u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Statement of Cash Flows Data (continued)
For the Year Ended June 30, 2018

Reconciliation of change in total net income from operations to net cash provided by operating activities:		
3250	Change in total net income from operations	\$ 203,495
	adjustments to reconcile change in total net income from operations to net cash provided by operating activities:	
6600	Depreciation	206,044
S1200-486	Amortization of financing fees	2,637
	(Increase) decrease in operating assets	
S1200-490	Tenant accounts receivable	(6,923)
S1200-500	Other receivables	(48,917)
S1200-520	Prepaid expenses	1,682
S1200-530	Tenant security deposits	(3,611)
	Increase (decrease) in operating liabilities	
S1200-540	Accounts payable	10,553
S1200-560	Accrued other	3,477
S1200-560	Accrued utilities	975
S1200-560	Accrued wages	3,829
S1200-570	Accrued interest	(211)
S1200-580	Tenant security deposits liability held in trust	3,612
S1200-590	Prepaid rent	567
S1200-600	Deferred revenue	(620)
S1200-600	Due to affiliate	258
S1200-610	Net cash provided by operating activities	<u>\$ 376,847</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA - Schedule of Surplus Cash
As of June 30, 2018

Cash

S1300-010	Cash	\$	177,484
S1300-040	Total cash		<u>177,484</u>

Current obligations

S1300-050	Accrued mortgage interest		4,698
S1300-075	Accounts payable - 30 days		36,483
S1400-100	Loans and notes payable		4,635
S1400-120	Accrued expenses		13,720
S1400-150	Other current obligations- estimated insurance \$12,800; estimated taxes \$8,438; operating reserve \$1,660 replacement reserve \$8,658; mip \$514		32,070
2191	Tenant security deposits held in trust (contra)		41,307
2210	Prepaid rents		<u>2,486</u>
	Total current obligations		<u>135,399</u>
	Surplus cash (deficiency)	\$	<u><u>42,085</u></u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2018

Changes in fixed assets:

		Assets			
		Balance			Balance
		07/01/17	Additions	Deductions	06/30/18
1410	Land	\$ 1,612,000	\$ -	\$ -	\$ 1,612,000
1420	Buildings	7,119,321	-	-	7,119,321
1440	Building equipment	212,869	-	-	212,869
		<u>\$ 8,944,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,944,190</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2018

Accumulated depreciation					
	Balance 07/01/17	Net Provisions	Deductions	Balance 06/30/18	Net Book Value 06/30/18
1495	\$ -	\$ -	\$ -	\$ -	\$ 1,612,000
1495	4,949,627	197,820	-	5,147,447	1,971,874
1495	177,249	8,224	-	185,473	27,396
	<u>\$ 5,126,876</u>	<u>\$ 206,044</u>	<u>-</u>	<u>5,332,920</u>	<u>\$ 3,611,270</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2018

Schedule of Letters of Credit – None

Schedule of Mortgages Payable – See Page 12 – Note 6

Schedule of Notes Payable – Page 12 – Note 6

Accounts and Notes Receivable – None

Property Management Fee Rate: \$4,671 Per Month

Identity of Interest Firms:

The Partnership has a property management agreement with Avison Young – Washington DC LLC, an affiliated organization.

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

Listing of Identity of Interest Companies & Activities
Doing Business with Owner/Agent:

Company Name	Type of Service	Amount Received
Avison Young – Washington DC LLC	Property Management Fee	\$ 56,063
Housing Opportunities Commission	Asset Management Fee	\$ 23,130

Identity of Interest amounts deferred: \$0

Partnership Employer Identification Number: 01-0787816

Reserve for Replacements:

In accordance with the provisions of the CDA regulatory agreement, restricted cash is deposited in a reserve account held by US Bank, to be used for the replacement of the property with the approval of CDA, as follows:

Balance - July 1, 2017	\$ 1,073,847
Monthly Deposits	103,568
Interest	10,954
Other Deposits	174,396
Authorized Releases	<u>(47,816)</u>
Balance - June 30, 2018	<u>\$ 1,314,949</u>

See independent auditors' report.

Diamond Square Limited Partnership

Supporting Data Required by CDA
For the Year Ended June 30, 2018

Mortgage Escrow Deposits:

Restricted cash is held by US Bank, as follows:

Balance - July 1, 2017	\$	16,682
Deposits		6,187
Transfers		<u>(6,165)</u>
Balance - June 30, 2018	\$	<u>16,704</u>

Other Reserves:

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

Balance - July 1, 2017	\$	343,580
Deposits		273,220
Interest		6,305
Authorized Releases		<u>(8,737)</u>
Balance - June 30, 2018	\$	<u>614,368</u>

Residual Receipts - None

Changes in Fixed Asset Accounts – See Pages 25 – 26

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

Cash Flow Loan Payments – None

See independent auditors' report.

Independent Auditors' Report
On Internal Control Over Financial Reporting and On Compliance
and Other Matters Based on An Audit Of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To The Partners
Diamond Square Limited Partnership
10400 Detrick Avenue
Kensington, MD 20895

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Diamond Square Limited Partnership, CDA Project Number 26.16.0003, which comprise the balance sheet as of June 30, 2018, and the related statements of operations, changes in partners' deficit, 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, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Diamond Square Limited Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Diamond Square Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Diamond Square Limited Partnership's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Diamond Square Limited Partnership's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Diamond Square Limited Partnership
Independent Auditors' Report
on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Diamond Square Limited Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 2, 2018

Diamond Square Limited Partnership

Schedule of Findings, Questioned Costs and Recommendations
June 30, 2018

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

Diamond Square Limited Partnership

Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations June 30, 2018

1) Prior Audit Period: July 1, 2016 – June 30, 2017

Audit Report, dated October 10, 2017, for the period ended June 30, 2017, issued by Hertzbach & Company, P.A.

There were no open findings from the prior audit period.

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

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

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

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

Diamond Square Limited Partnership


Statement of Project Owner's Certification
June 30, 2018

Diamond Square Limited Partnership
CDA Project Number 26.16.0003

Certification of Project Owner

We hereby certify that we have examined the accompanying financial statements and supplemental data of Diamond Square Limited Partnership and, to the best of our knowledge and belief, the same are complete and accurate.

Diamond Square Limited Partnership

Signature: 
Title: CFO
Date: 10/17/2018

Diamond Square Limited Partnership

Employer Identification Number: 01-0787816

Diamond Square Limited Partnership

Statement of Management Agent's Certification
June 30, 2018

Diamond Square Limited Partnership
CDA Project Number 26.16.0003

Management Agent's Certification

We hereby certify that we have examined the accompanying financial statements and supplemental data of Diamond Square Limited Partnership and, to the best of our knowledge and belief, the same are complete and accurate.

Avison Young - Washington DC LLC

Signature: Mark Wagner
Title: Asst. Controller
Date: 10/4/2018

Avison Young – Washington DC LLC

Management Agent Employer Identification Number: 27-1282426