

AUDIT REPORT

DC Housing Solutions, Inc.

Statement of Net Position with Reports of Independent Public Accountants

Fiscal Year 2024

OIG No. 24-2-27HY

April 15, 2025



DANIEL W. LUCAS
INSPECTOR GENERAL



OUR MISSION

We independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

OUR VISION

We strive to be a world-class Office of the Inspector General that is customer focused and sets the standard for oversight excellence!

OUR VALUES

Accountability: We recognize that our duty extends beyond oversight; it encompasses responsibility. By holding ourselves accountable, we ensure that every action we take contributes to the greater good of the District.

Continuous Improvement: We view challenges not as obstacles, but as opportunities for growth. Our commitment to continuous improvement drives us to evolve, adapt, and enhance our practices.

Excellence: Mediocrity has no place in our lexicon. We strive for excellence in every facet of our work.

Integrity: Our integrity is non-negotiable. We act with honesty, transparency, and unwavering ethics. Upholding the public's trust demands nothing less.

Professionalism: As stewards of oversight, we maintain the utmost professionalism. Our interactions, decisions, and conduct exemplify the dignity of our role.

Transparency: Sunlight is our ally. Transparency illuminates our processes, decisions, and outcomes. By sharing information openly, we empower stakeholders, promote understanding, and reinforce our commitment to accountability.






MEMORANDUM

To: Keith Pettigrew
Executive Director
District of Columbia Housing Authority

Heather Mueller
Chief Financial Officer
District of Columbia Housing Authority

Raymond Skinner
Board Chair
Stabilization and Reform Board of Commissioners

From: Daniel W. Lucas
Inspector General 

Date: April 15, 2025

Subject: **DC Housing Solutions, Inc. Statement of Net Position**
OIG No. 24-2-27HY

This memorandum transmits the final *DC Housing Solutions, Inc. Statement of Net Position with Reports of Independent Public Accountants* for fiscal year 2024. SB & Company (SBC) conducted the audit and submitted these reports as part of our overall contract for the audit of the District of Columbia Housing Authority's basic financial statements for fiscal year 2024.

We received SBC's report on April 11, 2025. In this report, SBC noted one material internal control weakness over financial reporting and issued one recommendation for corrective action. Due to the significance of this issue, SBC did not express an opinion on the agency's financial statements.

Should you have questions or concerns, please contact me or Dr. Slemo Warigon, Assistant Inspector General for Audits, at (202) 792-5684.

DC HOUSING SOLUTIONS, INC.
(A Component Unit of the District of Columbia Housing Authority)

**Statement of Net Position with
Reports of Independent Public Accountants**

For the Year Ended September 30, 2024

DC HOUSING SOLUTIONS, INC.

**Statement of Net Position Together with
Reports of Independent Public Accountants**

SEPTEMBER 30, 2024

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Mayor, Members of the Council of the Government of the District of Columbia, the Inspector General of the Government of the District of Columbia, and the Board of Commissioners of the District of Columbia Housing Authority and DC Housing Solutions, Inc.
Washington, D.C.

Disclaimer of Opinion

We were engaged to audit the statements of net position of DC Housing Solutions, Inc. (DCHS) as of September 30, 2024, and the related notes to the statement of net position.

We did not audit the statements of net position of Highland Residential, L.P. or Parkway Overlook II, LP, which represent 100 percent of the assets, liabilities, and net position of the aggregate discretely presented component units as of December 31, 2023. Those statements were audited by another auditor whose reports expressed unmodified opinions on those financial statements and have been furnished to us, and our opinion, insofar as it relates to the amounts included for Highland Residential, L.P. and Parkway Overlook II, LP, is based solely on the reports of the other auditors.

We do not express an opinion on the accompanying statement of net position of DCHS. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the accompanying statement of net position.

Basis for Disclaimer of Opinion

During the year ended September 30, 2024, DCHS implemented a new computerized accounting system. Because of the implementation of the new accounting system and other issues, we could not obtain sufficient audit evidence to verify amounts in the accompanying statement of net position. As of the date of our audit report, management has not rectified its system deficiencies, or provided support for certain balances related to assets, liabilities, and net position.

Responsibilities of Management for the Statement of Net Position

Management is responsible for the preparation and fair presentation of the statement of net position in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the statement of net position that is free from material misstatement, whether due to fraud or error.

In preparing the statement of net position, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DCHS' ability to continue as a going concern for one year after the date that the statement of net position is issued.

Auditor's Responsibilities for the Audit of the Statement of Net Position

Our responsibility was to conduct an audit of DCHS' statement of net position in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of net position.

We are required to be independent of DCHS and to meet other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the statement of net position. Such information is the responsibility of management and, although not a part of the statement of net position, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the statement of net position in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the matters described in the *Basis for Disclaimer of Opinion* section. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2025, on our consideration of DCHS' internal controls 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DCHS' internal controls over financial reporting and compliance.

Washington, D.C.
April 7, 2025



DC HOUSING SOLUTIONS, INC.

Management's Discussion & Analysis September 30, 2024

Introduction

The District of Columbia provides quality affordable housing to extremely low through moderate income households, fosters sustainable communities, and cultivates opportunities for residents to improve their lives.

The DC Housing Solutions, Inc. (DCHS) purpose is related to facilitating the development of affordable housing and related facilities and lessening the burden of the government. This management discussion and analysis discusses DCHA' Statements of Net Position as of September 30, 2024 and 2023.

DCHS' Statement of Net Position

The Statement of Net Position present information on all of DCHS' assets and liabilities. The difference between DCHS' assets and liabilities is reported as net position. Increases or decreases in net position will serve as a useful indicator of whether the financial position of DCHS is improving or deteriorating.

DCHS' Financial Highlights for Fiscal Year 2024

In summary, the DCHS' FY 2024 financial highlights included the following:

- As of September 30, 2024, total assets and liabilities were \$50,158,571 and \$2,532,433, respectively. Total net position was \$47,626,138.

DCHS' Financial Highlights for Fiscal Year 2023

In summary, the DCHS' FY 2023 financial highlights included the following:

- As of September 30, 2023, total assets and liabilities were \$52,552,440 and \$2,532,433, respectively. Total net position was \$50,020,007.

Summary of Net Position

DCHS' statements of net position as of September 30, 2024 and 2023, report all financial assets of DCHA and are presented in a format where assets minus liabilities equal net position. Table 1 reflects a condensed summary of net position as of September 30, 2024 and 2023.

DC HOUSING SOLUTIONS, INC.

Management's Discussion & Analysis September 30, 2024

Table 1
Summary of Net Position

	As of September 30,		
	2024	2023	Change
Current Assets	\$ 10,788,397	\$ 11,593,672	\$ (805,275)
Noncurrent Assets	39,370,174	40,958,768	(1,588,594)
Total Assets	<u>50,158,571</u>	<u>52,552,440</u>	<u>(2,393,869)</u>
Current Liabilities	50	50	-
Noncurrent Liabilities	2,532,383	2,532,383	-
Total Liabilities	<u>2,532,433</u>	<u>2,532,433</u>	<u>-</u>
Net Position:			
Net Investment in Capital Assets	33,013,803	33,013,803	-
Restricted	10,127,764	11,486,157	(1,358,393)
Unrestricted	4,484,571	5,520,047	(1,035,476)
Total Net Position	<u>\$ 47,626,138</u>	<u>\$ 50,020,007</u>	<u>\$ (2,393,869)</u>

Comparative Analysis

- Current assets decreased \$805,275 and noncurrent assets decreased by \$1,588,594.
- Current liabilities and noncurrent liabilities remained the same.
- Net position decreased by \$2,323,869.

DC HOUSING SOLUTIONS, INC.

**Management's Discussion & Analysis
September 30, 2024**

Requests for Information

This financial report is designed to provide a general overview of DCHS' finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to:

**The Office of the Director of
Finance District of Columbia
Housing Authority 1133 N.
Capitol Street, N.E., Suite 329
Washington, D.C. 20002-7599
(202) 535-2878**

DC HOUSING SOLUTIONS, INC.

Statements of Net Position Business-Type Activities and Discretely Presented Component Units As of September 30, 2024

	<u>December 31, 2023</u>	
	Business-Type Activities	Discretely Presented Component Units
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents, Unrestricted	\$ -	\$ 1,442,087
Cash and Cash Equivalents, Restricted	10,127,764	26,305,534
Accounts Receivable, net	655,571	2,229,000
Prepaid Expenses and Other Assets	5,062	218,347
Total Current Assets	<u>10,788,397</u>	<u>30,194,968</u>
NONCURRENT ASSETS		
Investments	2,884,098	-
Developer Fee Receivable	3,472,273	-
Other Noncurrent Assets	-	292,539
Notes Receivable	-	-
Capital Assets, not being Depreciated	33,013,803	21,828,346
Capital Assets being Depreciated, Net	-	83,694,135
Total Noncurrent Assets	<u>39,370,174</u>	<u>105,815,020</u>
Total Assets	<u>\$ 50,158,571</u>	<u>\$ 136,009,988</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 50	\$ 68,520
Accrued Liabilities	-	4,659,251
Tenant Security Deposits	-	82,410
Current Portion of Long-Term Debt	-	863,766
Total Current Liabilities	<u>50</u>	<u>5,673,947</u>
NONCURRENT LIABILITIES		
Other Noncurrent Liabilities	-	1,994,702
Due to DCHA	2,532,383	-
Developer Fee Payable	-	6,820,154
Long-Term Debt, Net of Current	-	97,966,010
Total Noncurrent Liabilities	<u>2,532,383</u>	<u>106,780,866</u>
Total Liabilities	<u>2,532,433</u>	<u>112,454,813</u>
NET POSITION		
Net Investment in Capital Assets	33,013,803	27,107,519
Restricted	10,127,764	-
Unrestricted	4,484,571	(3,552,344)
Total Net Position	<u>47,626,138</u>	<u>23,555,175</u>
Total Liabilities and Net Position	<u>\$ 50,158,571</u>	<u>\$ 136,009,988</u>

The accompanying notes to the statement of net position is an integral part of this statement.

DC HOUSING SOLUTIONS, INC.

Combining Statement of Net Position Discretely Presented Component Units December 31, 2023

	Highland Residential, L.P.	Parkway Overlook II, LP	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents, Unrestricted	\$ 289,736	\$ 1,152,351	\$ 1,442,087
Cash and Cash Equivalents, Restricted	3,232,196	23,073,338	26,305,534
Accounts Receivable, Net	1,910,373	318,627	2,229,000
Prepaid Expenses and Other Assets	134,888	83,459	218,347
Total Current Assets	<u>5,567,193</u>	<u>24,627,775</u>	<u>30,194,968</u>
NONCURRENT ASSETS			
Capital Assets, not being Depreciated	13,215,826	8,612,520	21,828,346
Capital Assets being Depreciated, Net	33,154,613	50,539,522	83,694,135
Other Noncurrent Assets	6,207	286,332	292,539
Total Noncurrent Assets	<u>46,376,646</u>	<u>59,438,374</u>	<u>105,815,020</u>
Total Assets	<u>\$ 51,943,839</u>	<u>\$ 84,066,149</u>	<u>\$ 136,009,988</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 68,520	\$ -	\$ 68,520
Accrued Liabilities	98,411	4,560,840	4,659,251
Tenant Security Deposits	1,173	81,237	82,410
Current Portion of Long-Term Debt	299,862	563,904	863,766
Total Current Liabilities	<u>467,966</u>	<u>5,205,981</u>	<u>5,673,947</u>
NONCURRENT LIABILITIES			
Other Noncurrent Liabilities	366,154	1,628,548	1,994,702
Developer Fee Payable	2,668,808	4,151,346	6,820,154
Long-Term Debt, Net of Current	35,464,806	62,501,204	97,966,010
Total Noncurrent Liabilities	<u>38,499,768</u>	<u>68,281,098</u>	<u>106,780,866</u>
Total Liabilities	<u>38,967,734</u>	<u>73,487,079</u>	<u>112,454,813</u>
NET POSITION			
Net Investment in Capital Assets	10,605,771	16,501,748	27,107,519
Unrestricted	2,370,334	(5,922,678)	(3,552,344)
Total Net Position	<u>12,976,105</u>	<u>10,579,070</u>	<u>23,555,175</u>
Total Liabilities and Net Position	<u>\$ 51,943,839</u>	<u>\$ 84,066,149</u>	<u>\$ 136,009,988</u>

The accompanying notes to the statement of net position is an integral part of this statement.

DC HOUSING SOLUTIONS, INC.

Notes to the Statement of Net Position September 30, 2024

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

DC Housing Solutions, Inc. (DCHS) was organized as a nonprofit corporation under the laws of the District of Columbia Nonprofit Corporation Act on November 28, 2012. DCHS is operated for the purpose of facilitating the development of affordable housing and related facilities and lessening the burden of the government.

Reporting Entity

As required by accounting principles generally accepted in the United States of America (GAAP), the reporting entity include those of DCHS and all component units. The decision to include a component unit in the reporting entity was made by applying the criteria of accounting standards generally accepted by the Governmental Accounting Standards Board. These criteria include the manifestation of oversight responsibility including financial accountability, imposition of will, financial benefit to or burden on a primary organization, and financial accountability as a result of fiscal dependency.

On the basis of the application of these criteria, DCHS determined that one entity should be presented as a blended component unit and two entities should be presented as discretely presented component units in DCHS' statement of net position.

- Capitol Housing Partners LLC (CHP) – CHP is wholly owned by DCHS. CHP's purpose is to assist in the direct and indirect ownership and development of real estate projects in the District of Columbia as a guarantee entity for various development projects with various ownership interests. Due to the extent of control DCHS exercises over CHP, this component unit is blended for financial reporting purposes.
- Highland Residential, L.P. – Highland Residential, L.P.'s purpose is to develop, own, and operate an apartment complex. CHP is the sole member of Highland Residential GP, LLC which is the 0.01% general partner of Highland Residential, L.P. The financial statements of Highland Residential, L.P. are included in DCHS' statements as a discretely presented component unit due to management's professional judgment that excluding this entity would render the financial statements of DCHS misleading due to the close relation and financial integration of this entity. The partnership has a calendar year-end and accordingly, the amounts included are as of and for the respective year-end that falls within DCHS' September 30, 2024 year-end. Separate financial statements are issued for the discretely presented component unit, prepared in accordance with Financial Accounting Standards Board (FASB) guidance, and can be obtained by contacting the Deputy Executive Director for Administration at the District of Columbia Housing Authority (DCHA), 1133 N. Capitol Street, N.E., Suite 329, Washington, D.C. 20002-7599.

DC HOUSING SOLUTIONS, INC.

Notes to the Statement of Net Position September 30, 2024

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

- Parkway Overlook II, L.P. – Parkway Overlook II, L.P.’s purpose is to develop, own, and operate an apartment complex. CHP, a blended component unit of DCHS, is the sole member of Parkway Overlook II GP, LLC which is the 0.01% general partner of Parkway Overlook II, L.P. The financial statements of Parkway Overlook II, L.P. are included in DCHS’ statements as a discretely presented component unit due to management’s professional judgment that excluding this entity would render the financial statements of DCHS misleading due to the close relation and financial integration of this entity. The partnership has a calendar year-end and was formed on September 18, 2017. As such, the amounts included are as of December 31, 2021 and for the periods of the inception through December 31, 2021. Separate financial statements are issued for the discretely presented component unit, prepared in accordance with FASB guidance, and can be obtained by contacting the Deputy Executive Director for Administration at the DCHA, 1133 N. Capitol Street, N.E., Suite 329, Washington, D.C. 20002-7599.

DCHS is wholly owned by and for the benefit of, and is an affiliate of DCHA located in Washington, D.C., and is reported as a blended component unit of DCHA.

Measurement Focus, Basis of Accounting, and Financial Statement Presentations

The accompanying financial statements of DCHS have been prepared in conformity with GAAP for local government units as prescribed by the Governmental Accounting Standards Board (GASB).

In compliance with provisions for proprietary funds as prescribed by GASB, DCHS’ activity is accounted for in a manner similar to private business enterprises. Transactions are accounted for on a flow of economic resources measurement focus. With this focus, all assets and liabilities associated with this entity are included in the Statement of Net Position. The statement of net position has been prepared using the accrual basis of accounting.

Use of Estimates

The preparation of the statement of net position in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the statement of net position. Actual results could differ from those estimates.

DC HOUSING SOLUTIONS, INC.

Notes to the Statement of Net Position September 30, 2024

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

DCHS considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and nonnegotiable certificates of deposit to be cash equivalents.

Investments

Investments, when present, are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD. Investments, when present, are held by DCHS' agent in DCHS' name.

Capital Assets

All purchased fixed assets are valued at cost when historical records are available. When no historical records are available, fixed assets are valued at estimated historical cost. Donated capital assets and land are recorded at their acquisition value at the time they are received. All normal expenses of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold of \$5,000.

The cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method. Depreciation commences on modernization and development additions in the year following completion. The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	40 Years
Equipment	5 to 7 Years

Betterments in excess of \$5,000 with an estimated useful life of one year or more are capitalized. DCHS has defined acquisition costs to include labor cost, materials and supplies, and contract costs incurred in connection with a betterment and addition. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved.

Income Taxes

DCHS was formed as a District of Columbia nonprofit corporation and received its designation under section 501(c)(3) of the Internal Revenue Code on May 27, 2015, with a retroactive effective date of November 28, 2012.

DC HOUSING SOLUTIONS, INC.

Notes to the Statement of Net Position September 30, 2024

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three categories:

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted – Restricted assets whose use by DCHS is subject to externally imposed stipulations that can be fulfilled by actions of DCHS pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

Unrestricted – Assets that are not subject to externally imposed stipulations. The unrestricted net position may be designated for specific purposes by action of management or the DCHS Board or may otherwise be limited by contractual agreements with outside parties.

Certain assets, including cash and investments, may be classified as restricted on the Statement of Net Position because their use is restricted for specific purposes. It is DCHS' policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

2. DEPOSITIS AND INVESTMENTS

As of September 30, 2024, DCHS' deposits had a carrying amount of \$10,127,764 and a bank balance of \$10,127,764. Of the bank balances held in various financial institutions, certain amounts were covered by federal depository insurance. DCHS does not hold federal funds and therefore is not required to collateralize further. As of September 30, 2024, \$9,377,764 of DCHS' deposits on hand was not collateralized.

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, DCHS typically limits investment portfolio to maturities of 12 months or less.

Credit risk – DCHS has no policy regarding credit risk. DCHS had no assets that were considered to be investments under GAAP but does limit cash and cash equivalents held in savings and deposit accounts to under terms of 12 months.

DC HOUSING SOLUTIONS, INC.

Notes to the Statement of Net Position September 30, 2024

2. DEPOSITIS AND INVESTMENTS (continued)

Custodial credit risk – For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, DCHS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. DCHS had no assets that were considered to be investments under GAAP. DCHS has no custodial credit risk policy.

Concentration of credit risk – DCHS has no policy regarding credit risk and places no limit on the amount that DCHS may invest in any one issuer. DCHS had no assets that were considered to be investments under GAAP.

Fair Value Measurements – DCHS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of September 30, 2024, the investment of DCHS was in a certificate of deposit of \$100,000,000 which is not subject to the fair value measurement requirements is included in noncurrent investments.

3. NOTE RECEIVABLE

DCHS entered into a promissory note agreement on June 23, 2016 with Square 882N Affordable, LP relating to the financing of the Lofts at Capitol Quarter (the Property). The unpaid principal balance shall bear interest at the rate of zero (0.00%) per annum. The maturity date of the note is the earlier of (1) June 24, 2046 or (2) the sale, conveyance or refinancing of the Property, unless the indebtedness evidenced by the note is assumed by the buyer. The unpaid principal balance of the note as of September 30, 2024, was \$478,629. DCHS has fully reserved for the note.

Parkway Overlook, LP, a blended component unit of CHP, entered into a promissory note agreement on February 7, 2018 with Parkway Overlook II, LP. The note bears interest at 2.66% per annum. Principal and interest payments shall be due no later than 90 days following the end of each fiscal year to the extent that Cash Flow or Net Proceeds exist as defined in the Amended and Restated Agreement of Limited Partnership. All accrued and unpaid interest and loan principal shall become due and payable in full on February 7, 2048. All accrued interest was fully allowed for as of September 30, 2024. At September 30, 2024, the outstanding receivable balance was \$2,400,000. Management does not expect to collect on the note. As a result, all principal and accrued interest was fully allowed for as of September 30, 2024.

DC HOUSING SOLUTIONS, INC.

**Notes to the Statement of Net Position
September 30, 2024**

4. DEVELOPER FEE RECEIVABLES

Pursuant to the Development Agreement between CHP and Highland Residential, L.P., CHP shall earn a development fee upon completion of specific benchmarks. The Development Amount of \$4,700,000 shall be deemed earned and receivable in accordance with the following schedule:

10%	Upon Completion of the Initial Development and Construction Redevelopment Budget
10	Upon Completion of Plans for Construction and Rehabilitation
10	Upon Closing of Construction Loan
10	Upon Recording of Notice to Proceed
10	Upon On-Site Rehabilitation Work
20	Upon 50% Completion
30	Upon Receipt of Final Certificates of Occupancy for all Buildings
<u>100%</u>	

Pursuant to the Development Agreement between CHP and Parkway Overlook, II, L.P., CHP shall earn a development fee upon completion of specific benchmarks. The Development Amount of \$6,900,000 shall be deemed earned and receivable in accordance with the following schedule:

10%	Upon Completion of the Initial Development and Construction Redevelopment Budget
10	Upon Completion of Plans for Construction and Rehabilitation
10	Upon Closing of Construction Loan
10	Upon Recording of Notice to Proceed
10	Upon On-Site Rehabilitation Work
20	Upon 50% Completion
30	Upon Receipt of Final Certificates of Occupancy for all Buildings
<u>100%</u>	

DC HOUSING SOLUTIONS, INC.

Notes to the Statement of Net Position September 30, 2024

5. INVESTMENTS IN GENERAL PARTNERS

Capitol Housing Partners LLC (CHP) Affiliates

DCHS is the sole member of CHP. CHP is a partner or member either solely or severally with multiple entities as part of various housing projects, development and construction projects, and for financing activities. The various affiliates are detailed in the table below.

Entity	CHP Affiliate	CHP Interest	Percentage Ownership
Parkway Overlook GP, LLC	Capitol Housing Partners, LLC	Sole Member	100.00%
Parkway Overlook, LP	Parkway Overlook GP, LLC	General Partner	0.01%
Parkway Overlook, LP	Capitol Housing Partners, LLC	Limited Partner	99.99%
CHP Square 882N Owner, LLC	Capitol Housing Partners, LLC	Sole Member	100.00%
Square 882N Owner, LLC	CHP Square 882N Owner, LLC	Administrative Member	50.00%
Highland Residential GP, LLC	Capitol Housing Partners, LLC	Sole Member	100.00%
Highland Residential, LP	Highland Residential GP, LLC	General Partner	0.01%
CHP Square 882N Affordable, LLC	Capitol Housing Partners, LLC	Sole Member	100.00%
Square 882N Affordable GP, LLC	CHP Square 882N Affordable, LLC	Administrative Member	50.00%
Square 882N Affordable, LP	Square 882N Affordable GP, LLC	General Partner	0.09%
CHP Square 769N Owner, LLC	Capitol Housing Partners, LLC	Sole Member	100.00%
CHP Square 769N Affordable, LLC	Capitol Housing Partners, LLC	Sole Member	100.00%
Parkway Overlook I GP, LLC	Capitol Housing Partners, LLC	Sole Member	100.00%
Parkway Overlook II, LP	Parkway Overlook II GP, LLC	General Partner	0.01%

Square 882N Owner LLC

The purpose of Square 882N Owner LLC is to develop, own, and operate 156 condominium units. DCHS reports their financial interest in the entity on the equity method. As of September 30, 2024, their investment interest was \$50.

Square 882N Affordable L.P.

The purpose of Square 882N Affordable L.P. is to develop, own, and operate 39 affordable rental units. DCHS reports their financial interest in the entity on the equity method. As of September 30, 2024, their investment interest was \$1,883,938.

Parkway Overlook L.P.

The purpose of Parkway Overlook L.P. is to develop, own, and operate an apartment complex. As of September 30, 2024, their investment interest was \$100.

DC HOUSING SOLUTIONS, INC.

Notes to the Statement of Net Position September 30, 2024

5. INVESTMENTS IN GENERAL PARTNERS (continued)

Highland Residential L.P.

The purpose of Highland Residential L.P. is to develop, own, and operate an apartment complex. As of September 30, 2024, their investment interest was \$10.

DCHS' invest in these entities of cost is \$1,884,098 and is included in noncurrent investments.

6. CAPITAL ASSETS

Business-Type Activities

There was no capital asset activity for the year ended September 30, 2024. The only capital asset is land which has the balance of \$33,013,803 at September 30, 2024.

Discretely Presented Component Unit – Highland Residential, L.P.

Capital assets as of December 31, 2023 consisted of the following:

	<u>Balance</u>
Not Being Depreciated:	
Land	<u>\$ 13,215,726</u>
Total Not Being Depreciated	<u>13,215,726</u>
Depreciable:	
Buildings and Improvements	60,991,047
Furniture and Equipment	<u>1,272,773</u>
Total Depreciable Capital Assets	62,263,820
Accumulated Depreciation	<u>(29,109,207)</u>
Total Depreciated	<u>33,154,613</u>
Total	<u>\$ 46,370,339</u>

DC HOUSING SOLUTIONS, INC.

Notes to the Financial Statements September 30, 2024

6. CAPITAL ASSETS (continued)

Discretely Presented Component Unit – Parkway Overlook II, L.P.

Capital assets as of December 31, 2023 consisted of the following:

	<u>Balance</u>
Not Being Depreciated:	
Land	\$ 8,612,520
Total Not Being Depreciated	<u>8,612,520</u>
Depreciable:	
Buildings and Improvements	57,767,502
Furniture and Equipment	<u>5,242,263</u>
Total Depreciable Capital Assets	63,009,765
Accumulated Depreciation	<u>(12,470,243)</u>
Total Capital Assets Depreciated	<u>50,539,522</u>
Total	<u>\$ 59,152,042</u>

7. LONG-TERM DEBT

Discretely Presented Component Unit – Highland Residential, L.P.

The long-term debt of Highland Residential, L.P. consists of the following at December 31, 2023.

Mortgage Payable

Highland Residential L.P. entered into a first mortgage agreement on October 1, 2014 with the District of Columbia Housing Finance Agency (DCHFA), in the original amount of \$35,510,000, funded with proceeds from the issuance of Multifamily Housing Revenue Bonds, Series 2014 (the Bonds). The Bonds are made up of a \$21,600,000, permanent period loan and a \$13,910,000, construction period loan. The note is secured by the property. In connection with this loan, the Partnership is subject to various lender restrictions and requirements as stated in the trust indenture between DCHFA and the Trustee. Pursuant to the bond purchase agreement, as of October 1, 2014, the total principal amount of the Bonds was purchased from DCHFA by Capital One, N.A. and Citibank, N.A. in the aggregate principal amounts of \$25,510,000 and \$10,000,000, respectively. Payments of principal and interest will be made directly to Capital One and Citibank.

DC HOUSING SOLUTIONS, INC.

Notes to the Financial Statements September 30, 2024

7. LONG-TERM DEBT (continued)

All other terms of the loan shall remain in place as set forth in the trust indenture. Commencing on the bond closing date of October 23, 2014, the Bonds bore interest at a tax-exempt fixed rate of 4.6% per annum. Interest was payable monthly in arrears, commencing November 1, 2014, and payments of interest-only were due during the construction period. During 2018, the construction portion of the bonds of \$13,910,000, were paid in full from capital contributions from the investor limited partner. Following conversion, monthly amortizing principal and interest payments are due through April 23, 2033, the maturity date.

As of December 31, 2023, the outstanding principal balance was \$20,165,671. During the year ended December 31, 2023, \$1,033,892, of interest was incurred, of which \$80,663, remains payable.

Seller Note

Highland Residential L.P. entered into a loan agreement (the Seller Note) on October 23, 2014, with DCHA, an affiliate of the general partner, in the original amount of \$4,739,000. Commencing on the date of the note, interest shall accrue at a fixed rate of 2.98% per annum, compounding annually on the 15th day of January of each year. Payments of principal and interest shall be made from project surplus net cash flow and project available net capital proceeds at times and pari passu in right of payment in all other respects to the outstanding authority notes, in the amount and in the order of priority as provided in the partnership agreement. Payments shall be due and payable no later than thirty days after distribution of project surplus net cash flow or project available net capital proceeds. The entire outstanding principal amount of the note and any unpaid interest is due at maturity on October 23, 2044.

During the year ended December 31, 2023, \$172,963, of interest was incurred and \$1,418,839, remains payable as of December 31, 2023. The Seller Note was entered into by the Partnership in exchange for the acquisition of the Project. In accordance with the accounting guidance for business combinations under common control, the Seller Note, and the associated interest is included as a component of the general partners' equity on the statement of partners' equity (deficit) included in the financial statements of Highland Residential L.P. Therefore, the loan balance is not included as a liability.

Authority Notes

Highland Residential L.P. entered into a loan agreement on October 23, 2014, with DCHA, an affiliate of the general partner, in the original amount of \$10,552,713. The loan is evidenced by two promissory notes in the amounts of \$3,975,000, (Authority Note A) and \$6,577,713, (Authority Note B).

DC HOUSING SOLUTIONS, INC.

Notes to the Financial Statements September 30, 2024

7. LONG-TERM DEBT (continued)

DCHA was awarded Capital Fund Recovery Competition (CFRC) funds under the American Recovery and Reinvestment Act in the amount of \$6,577,713, which comprises Authority Note B, for energy efficient improvements of the Project, which will be substantially rehabilitated. Additionally, DCHA has provided a Program Income Funds loan in the amount of \$3,975,000, which comprises Authority Note A. Both promissory notes bear no interest during the term of the loans. Upon stabilization, as defined in the partnership agreement, principal payments shall be due to the extent that surplus cash exists at the end of each fiscal year. Payments of principal on one authority note shall be pari passu with the other Authority note and the Seller Note. Any unpaid principal shall be due at maturity. Authority Note A has a maturity date of October 23, 2044, and Authority Note B has a maturity date of October 23, 2049. As of December 31, 2023, the outstanding principal balance of \$10,552,713, remains payable.

On March 18, 2016, Highland Residential L.P. entered into another loan agreement with DCHA in the original amount of \$3,300,000. The proceeds of the loan will be used to rehabilitate, construct, and equip the development. The loan bears no interest during the term of the loan. Upon stabilization, as defined in the partnership agreement, principal payments shall be due to the extent that surplus cash exists at the end of each fiscal year and any payment on the loan shall be subordinate in right of payment to the Seller Note, Authority Note A and Authority Note B. Any outstanding principal shall be due at maturity on October 23, 2044. As of December 31, 2023, the outstanding principal balance of \$3,300,000, remains payable.

On November 20, 2017, Highland Residential L.P. obtained an additional loan from DCHA, in the original amount of \$2,300,000. The proceeds of the loan were used to rehabilitate, construct, and equip the development. The loan bears no interest during the term of the loan. Upon stabilization, as defined in the partnership agreement, principal payments shall be due to the extent that surplus cash exists at the end of each fiscal year and any payment on the loan shall be subordinate in right of payment to the Seller Note, Authority Note A, Authority Note B, and Authority Note \$3.3M. Any outstanding principal shall be due at maturity on October 23, 2044. As of December 31, 2023, the outstanding principal balance of \$2,300,000, remains payable.

The following table reflects amortization of long-term debt as of December 31, 2023:

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2024	\$ 299,862	\$ 1,056,698	\$ 1,356,560
2025	315,832	1,041,535	1,357,367
2026	332,652	1,025,565	1,358,217
2027	350,369	1,008,745	1,359,114
2028	368,086	991,925	1,360,011
2029 - 2033	2,052,425	4,758,341	6,810,766
2034 - 2038	4,102,038	5,477,941	9,579,979
2039 - 2043	6,224,354	4,302,203	10,526,557
2044 - 2048	16,063,139	991,925	17,055,064
2049 - 2049	5,655,911	-	5,655,911
Total	<u>\$ 35,764,668</u>	<u>\$ 20,654,878</u>	<u>\$ 56,419,546</u>

DC HOUSING SOLUTIONS, INC.

Notes to the Financial Statements September 30, 2024

7. LONG-TERM DEBT (continued)

Discretely Presented Component Unit – Parkway Overlook II, L.P.

District of Columbia Housing Finance Agency (DCHFA) Mortgage

Parkway Overlook II, LP entered into a first mortgage agreement on February 7, 2018, with DCHFA, in the original amount of \$38,041,000, funded with proceeds from the issuance of Multifamily Housing Bonds (the Bonds). The mortgage consists of 2018 Series Multifamily Tax-Exempt Mortgage-Backed Bonds (M-TEBS), in the amount of \$22,041,000, and 2018 Series Multifamily Housing Revenue Bonds, in the amount of \$16,000,000. In connection with this mortgage, the Partnership is subject to various lender restrictions, fees and requirements stated in the trust indenture between the District of Columbia Housing Finance Agency and the Trustee. The 2018 Series M-TEBS bear interest at a tax-exempt fixed rate of 3.50% per annum and have a maturity date of March 1, 2036. The 2018 Series Multifamily Housing Revenue Bonds bear interest at a fixed rate of 2.00% per annum and were paid off in full on their maturity date of September 1, 2020. As of December 31, 2023, the outstanding principal balance of \$21,325,147 remains payable.

DHCD Housing Production Trust Funds Loan

Parkway Overlook II, LP entered into a loan agreement on February 7, 2018, with the Department of Housing and Community Development (DHCD) in an amount not to exceed \$20,100,000. The loan bears interest at a rate of 3.00% per annum and has a maturity date of February 7, 2058. Payments of principal and interest will be deferred until the earlier of the Deferral Period, as defined, or 120 days after the end of the calendar year in which the Deferral Period occurs. The loan will be payable in annual installments, paid solely out of Available Cash Flow, as defined. As of December 31, 2022, \$20,100,000, of the loan has been drawn and remains outstanding. Interest incurred during 2023 was \$603,000, and accrued interest of \$3,309,811, remains payable.

Solar for All Note

Parkway Overlook II, LP entered into a loan agreement on February 7, 2018, with DCHA, an affiliate of the general partner, in the original amount of \$1,246,079. On August 1, 2018, the note was amended to increase the original principal amount by an additional \$266,902, to a total of \$1,512,981. The note bears interest at 2.66% per annum, compounding annually. Principal and interest payments shall be due no later than 90 days following the end of each fiscal year to the extent that Cash Flow or Net Proceeds exist as defined in the Amended and Restated Agreement of Limited Partnership. All accrued and unpaid interest and loan principal shall become due and payable in full on February 7, 2048. As of December 31, 2023, the outstanding principal balance of \$1,512,981, remains payable. Interest incurred during 2023 was \$44,999, and accrued interest of \$223,694, remains payable.

DC HOUSING SOLUTIONS, INC.

Notes to the Financial Statements September 30, 2024

7. LONG-TERM DEBT (continued)

Seller Note

Parkway Overlook II, LP entered into a loan agreement (the Seller Note) on February 7, 2018 with Parkway Overlook LP, the general partner, in the original amount of \$2,400,000. Commencing on the date of the note, interest shall accrue at a fixed rate of 2.66% per annum, compounding annually. Payments of principal and interest shall be made from available cash flow or net proceeds, as defined by the amended and restated agreement of limited partnership. Payments shall be due and payable no later than ninety days following the end of each fiscal year for any year in which the funds are available. The entire outstanding principal amount of the note and any unpaid interest is due at maturity on February 7, 2048. For the period ending December 31, 2022, \$70,602, of interest was incurred. As of December 31, 2022, \$324,821, of interest remains payable. The Seller Note was entered into by the Partnership in exchange for the acquisition of the Project. In accordance with the accounting guidance for business combinations under common control, the Seller Note and the associated interest is included as a component of the general partners' equity on the statement of partners' equity (deficit) included in the financial statements of Parkway Overlook II, L.P. Therefore, the loan balance is not included as a liability.

The following table reflects amortization of long-term debt as of December 31, 2023:

<u>Date</u>	<u>Principal</u>
2024	\$ 563,904
2025	595,684
2026	623,436
2027	652,484
2033 - 2037	39,016,619
2048 - 2049	1,512,981
2047 - 2050	-
2039 - 2043	20,100,000
Total	<u>\$ 63,065,108</u>

DC HOUSING SOLUTIONS, INC.

Notes to the Financial Statements September 30, 2024

8. SCHEDULE OF CHANGES IN NONCURRENT LIABILITIES

The following schedule summarizes changes in noncurrent liabilities of the discretely presented component units as of December 31, 2023:

Discretely Presented Component Unit – Highland Residential, L.P.

	Balance	Current Portion	Long-Term Portion
Mortgage and Notes Payable	\$ 35,764,668	\$ 299,862	\$ 35,464,806
Developer Fee Payable	2,215,361	-	2,215,361
Developer Fee Accrued Interest	453,447	-	453,447
Asset Management Fees Payable	366,154	-	366,154
Total	<u>\$ 38,799,630</u>	<u>\$ 299,862</u>	<u>\$ 38,499,768</u>

Discretely Presented Component Unit – Parkway Overlook II, L.P.

	Balance	Current Portion	Long-Term Portion
Mortgage and Notes Payable	\$ 63,065,108	\$ 563,904	\$ 62,501,204
Developer Fee Payable	4,027,964	-	4,027,964
Developer Fee Accrued Interest	123,382	-	123,382
Due to Affiliates	1,538,292	-	1,538,292
Asset Management Fees Payable	90,256	-	90,256
Total	<u>\$ 68,845,002</u>	<u>\$ 563,904</u>	<u>\$ 68,281,098</u>

DC HOUSING SOLUTIONS, INC.

Notes to the Financial Statements September 30, 2024

9. CONDENSED COMBINING INFORMATION FOR BLENDED COMPONENT UNITS

	DCHS	Blended Component Unit Capitol Housing Partners LLC	Total
Assets			
Current Assets	\$ 1,799,602	\$ 8,988,795	\$ 10,788,397
Other Assets	-	6,356,371	6,356,371
Capital Assets	-	33,013,803	33,013,803
Total Assets	<u>\$ 1,799,602</u>	<u>\$ 48,358,969</u>	<u>\$ 50,158,571</u>
Liabilities			
Current Liabilities	\$ -	\$ 50	\$ 50
Due to DCHA	41,370	2,491,013	2,532,383
Total Liabilities	<u>\$ 41,370</u>	<u>\$ 2,491,063</u>	<u>\$ 2,532,433</u>
Net Position			
Net Investment in Capital Assets	\$ -	\$ 33,013,803	\$ 33,013,803
Restricted	1,794,540	8,333,224	10,127,764
Unrestricted	(36,308)	4,520,879	4,484,571
Total Net Position	<u>1,758,232</u>	<u>45,867,906</u>	<u>47,626,138</u>
Total Liabilities and Net Position	<u>\$ 1,799,602</u>	<u>\$ 48,358,969</u>	<u>\$ 50,158,571</u>

10. ECONOMIC DEPENDENCY

DCHS is economically dependent on DCHA which provided the bulk of assets held by DCHS.



**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROLS
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF STATEMENT OF NET POSITION PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Mayor, Members of the Council of the Government of the District of Columbia,
the Inspector General of the Government of the District of Columbia, and the
Board of Commissioners of the District of Columbia Housing Authority and
DC Housing Solutions, Inc.
Washington, D.C.

We were engaged to audit, 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 (*Government Auditing Standards*), the statement of net position of DC Housing Solutions, Inc. (DCHS) as of September 30, 2024, and the related notes to the statement of net position, and have issued our disclaimer of an opinion dated April 7, 2025. Our report disclaims an opinion on such statement of net position because we were not able to obtain sufficient audit evidence on certain assets, liabilities and net position to form an opinion.

Report on Internal Controls Over Financial Reporting

In connection with our engagement to audit the statement of net position of DCHS, we considered DCHS' internal controls over financial reporting (internal controls) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statement of net position, but not for the purpose of expressing an opinion on the effectiveness of DCHS' internal controls. Accordingly, we do not express an opinion on the effectiveness of DCHS' internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of finding and response, we identified a certain deficiency in internal controls that we consider to be a material weakness.

A deficiency in internal controls 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 controls, such that there is a reasonable possibility that a material misstatement of DCHS' financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of finding and response to be a material weakness.



A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We do not consider the deficiency described in the accompanying schedule of finding and response to be a significant deficiency.

Report on Compliance and Other Matters

In connection with our engagement to audit the statement of net position of DCHS, 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 statement of net position. However, providing an opinion on compliance with those provisions was not an objective of our engagement, 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*. However, if the scope of our work had been sufficient to enable us to express an opinion on the statement of net position, other instances of noncompliance or other matters may have been identified and reported herein.

DCHS' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DCHS' response to the findings identified in our engagement and described in the accompanying schedule of finding and response. DCHS' responses were not subjected to the other auditing procedures applied in the engagement to audit the statement of net position and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

Washington, D.C.
April 7, 2025

SB + Company, LLC

DC HOUSING SOLUTIONS, INC.

Schedule of Findings and Responses As of September 30, 2024

Finding: 2024-01

Type of Finding: Material Weakness – Financial Closing Process and Verification of Balances

Condition:

SBC noted that DCHS's lacks an adequate closing process. Additionally, there was no validation to ensure that all material account balances in the general ledger were supported and accurate. The deficiencies in the close process resulted in SBC being unable to obtain sufficient audit evidence to verify or determine the proper accounting for balances related to the statement of net position.

Criteria:

Management must implement a formal financial statement closing process that ensures all material account balances are verified to guarantee the accuracy and completeness of the statement of net position. The process should ensure all transactions of the entity are properly recorded and charged to the correct entity during the year.

Cause:

Management lacked adequate controls over the statement of net position closing process and the verification process for account balances to ensure the year end balances are accurate and all transactions during the year were properly recorded.

Effect:

There was a disclaimer of opinion issued on the statement of net position as of September 30, 2024, because the necessary support to identify incorrect or unsupported account balances was not in place or could not be found. There was also no assurance that all and only transactions related to the entity were properly recorded during the year.

Recommendation:

SBC recommends that management establish a formal closing process that reconciles and analyzes all material account balances. This process should include specific timelines, defined responsibilities, appropriate supervisory reviews, and the necessary standard journal entries. This process should also ensure all transactions of the entity was properly included in the year end balances.

Management's Response:

Management acknowledges the recommendation. The management team went through several changes in the last few years and there have been delays in producing financial statements in a timely manner. Additionally, there was a financial and payroll software conversion completed in FY24. Management is working on developing a new closing process.

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REPORT WASTE, FRAUD, ABUSE, AND MISMANAGEMENT

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