

**MONTGOMERY ARMS DEVELOPMENT CORPORATION  
(A COMPONENT UNIT OF THE HOUSING  
OPPORTUNITIES COMMISSION OF  
MONTGOMERY COUNTY, MARYLAND**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2020 AND 2019**



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CONSULTING**

**MONTGOMERY ARMS DEVELOPMENT CORPORATION  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2020 AND 2019**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>3</b>
<b>STATEMENTS OF ACTIVITIES</b>	<b>4</b>
<b>STATEMENTS OF FUNCTIONAL EXPENSES</b>	<b>5</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>6</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>7</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SELECTED LINE ITEM DETAIL</b>	<b>14</b>
<b>NET CASH FLOW COMPUTATION</b>	<b>16</b>
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>17</b>



## INDEPENDENT AUDITORS' REPORT

Commissioners  
Housing Opportunities Commission  
of Montgomery County, Maryland  
Kensington, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Montgomery Arms Development Corporation (the Organization), a nonprofit organization and a component unit of the Housing Opportunities Commission of Montgomery County, Kensington, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

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

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

Commissioners  
Housing Opportunities Commission  
of Montgomery County, Maryland

**Opinion**

In our opinion, the 2020 financial statements referred to above present fairly, in all material respects, the financial position of the Montgomery Arms Development Corporation, Kensington, Maryland, as of June 30, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The 2019 financial statements were audited by other auditors, whose report dated February 10, 2020, expressed an unmodified opinion on those statements.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the 2020 financial statements as a whole. The 2020 supplementary information (selected line item detail and net cash flow computation) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The 2019 supplementary information was subjected to the auditing procedures applied in the 2019 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2019 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 March 15, 2021, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Organization's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
March 15, 2021

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION**  
**OF MONTGOMERY COUNTY, MARYLAND)**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND 2019**

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 226,742	\$ 272,194
Advance Due from HOC	833,566	843,767
Accounts Receivable and Other Assets, Net	38,309	32,673
Total Current Assets	1,098,617	1,148,634
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>		
Restricted Deposits and Funded Reserves	456,794	378,728
Tenant Deposits	65,679	62,541
Total Restricted Cash and Cash Equivalents	522,473	441,269
<b>NONCURRENT ASSETS</b>		
Property and Equipment, Net of Depreciation	8,580,316	8,922,757
Deferred Charges, Net	156,498	167,353
Total Noncurrent Assets	8,736,814	9,090,110
Total Assets	\$ 10,357,904	\$ 10,680,013
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 94,124	\$ 74,687
Accrued Interest Payable	873,390	769,615
Note and Mortgage Payable - Current	341,696	326,277
Total Current Liabilities	1,309,210	1,170,579
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Tenant Security Deposits Payable	65,179	61,797
<b>NONCURRENT LIABILITIES</b>		
Notes and Mortgage Payable - Noncurrent, Net	7,627,274	7,954,322
Note Payable to Montgomery County - Noncurrent	1,699,307	1,699,307
Deferred Revenue	-	645
Total Noncurrent Liabilities	9,326,581	9,654,274
Total Liabilities	10,700,970	10,886,650
<b>NET DEFICIT</b>		
Without Donor Restrictions	(343,066)	(206,637)
Total Liabilities and Net Deficit	\$ 10,357,904	\$ 10,680,013

See accompanying Notes to Financial Statements.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION**  
**OF MONTGOMERY COUNTY, MARYLAND)**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	Without Donor Restrictions 2020	Without Donor Restrictions 2019
	<u>2020</u>	<u>2019</u>
<b>REVENUE &amp; SUPPORT</b>		
Dwelling Rental	\$ 1,871,215	\$ 1,856,702
Other Grants	42,000	42,000
Other Income	40,830	14,044
Total Revenue & Support	<u>1,954,045</u>	<u>1,912,746</u>
<b>EXPENSES</b>		
Program Services:	1,782,403	1,856,057
Supporting Services		
Management and General	<u>308,071</u>	<u>276,200</u>
Total Expenses	2,090,474	2,132,257
<b>CHANGE IN NET ASSETS</b>	(136,429)	(219,511)
Net Assets - Beginning of Year	<u>(206,637)</u>	<u>12,874</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>(343,066)</u></u>	<u><u>(206,637)</u></u>

See accompanying Notes to Financial Statements.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION**  
**OF MONTGOMERY COUNTY, MARYLAND)**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	2020			2019		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Maintenance	\$ 331,697	\$ -	\$ 331,697	\$ 423,302	\$ -	\$ 423,302
Depreciation	342,441	-	342,441	342,360	-	342,360
Utilities	116,361	-	116,361	117,146	-	117,146
Interest Expense	455,407	-	455,407	421,486	-	421,486
Other Expenses	531,757	-	531,757	551,098	-	551,098
Bad Debt Expense	4,740	-	4,740	665	-	665
Administration	-	252,791	252,791	-	229,303	229,303
Fringe Benefits	-	55,280	55,280	-	46,897	46,897
Total Expenses by Function	<u>\$ 1,782,403</u>	<u>\$ 308,071</u>	<u>\$ 2,090,474</u>	<u>\$ 1,856,057</u>	<u>\$ 276,200</u>	<u>\$ 2,132,257</u>

See accompanying Notes to Financial Statements.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION**  
**OF MONTGOMERY COUNTY, MARYLAND)**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (136,429)	\$ (219,511)
Adjustment to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	342,441	342,360
Amortization of Mortgage Issuance Costs	14,643	14,648
Decrease in Negative Arbitrage (a Component of Interest Expense)	10,855	10,858
Bad Debt Expense	4,740	665
Increase in Accounts Receivable and Other Assets	(10,376)	(14,328)
Advances to HOC	10,201	(1,532)
Increase in Accounts Payable and Accrued Liabilities	19,437	12,868
Increase in Tenant Security Deposits	3,382	4,067
Decrease in Deferred Revenue	(645)	(645)
Increase in Accrued Interest Payable	103,775	55,235
Net Cash Provided by Operating Activities	<u>362,024</u>	<u>204,685</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	-	(53,782)
Net Cash Used by Investing Activities	<u>-</u>	<u>(53,782)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Mortgage Payable	(326,272)	(311,557)
Net Cash Used by Financing Activities	<u>(326,272)</u>	<u>(311,557)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	35,752	(160,654)
Cash and Cash Equivalents - Beginning of Year	<u>713,463</u>	<u>874,117</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 749,215</u>	<u>\$ 713,463</u>
<b>RECONCILIATION OF CASH AND RESTRICTED DEPOSITS - END OF YEAR PER THE CASH FLOW STATEMENT TO CASH PER THE BALANCE SHEET</b>		
Cash	226,742	272,194
Funded Reserves	522,473	441,269
Total	<u>\$ 749,215</u>	<u>\$ 713,463</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest	<u>395,387</u>	<u>405,636</u>

See accompanying Notes to Financial Statements.



**MONTGOMERY ARMS DEVELOPMENT CORPORATION  
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION  
OF MONTGOMERY COUNTY, MARYLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Montgomery Arms Development Corporation (the Organization) is a nonprofit organization that owns 132 units for residential rental operation. The 129 rented units as of June 30, 2020 and 2019 are divided into various rental groupings. (See Note 9, Commitments and Contingencies, for additional information.) The facility is located in Silver Spring, Maryland.

Edgewood Management Corporation has been contracted to manage the property.

**Cash and Cash Equivalents**

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

Restricted cash includes cash held with financial institutions for refunds of tenant security deposits, repairs, or improvements to the buildings which extend their useful lives, and annual mortgage insurance premium payments.

**Reporting Entity**

The financial information included in these statements reflects the activity of the Organization, a residential rental facility and component of the Housing Opportunities Commission of Montgomery County, Maryland (HOC). It is not intended to portray the financial condition of the HOC in its entirety.

**Rental Property**

Rental property and equipment are carried at cost. Buildings, which include building improvements, are depreciated over their estimated useful lives of 10 to 40 years using the straight-line method. Site improvements and furniture and equipment are depreciated over their estimated useful lives of 10 years using the straight-line method. Depreciation expense for the years ended June 30, 2020 and 2019 was \$342,441 and \$342,360, respectively.

**Income Taxes**

No provision or benefit for income taxes has been included in these financial statements because the Organization is a component unit of the HOC and is, therefore, exempt from income tax under Section 115 of the Internal Revenue Code.

**Rental Income**

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

**MONTGOMERY ARMS DEVELOPMENT CORPORATION  
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OF MONTGOMERY COUNTY, MARYLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Tenant Receivables**

Tenant receivables are recorded at estimated net realizable value. The allowance for uncollectible accounts is equal to the amount of receivables greater than 90 days outstanding. Receivables are charged off against the allowance when they are determined to be no longer collectible by management. As of June 30, 2020 and 2019, the allowance for uncollectible accounts was \$132 and \$-0-, respectively.

**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.

**Allocation of Functional Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization. Most costs are allocated as direct costs in the operation of specific programs. Each program has allowable expenses as defined by the program budgets and funding invoices. The indirect costs support the overall management of the organization.

**New Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which provides guidance on the presentation of restricted cash and equivalents in the statement of cash flows. The Organization implemented the ASU in fiscal year 2020 using the retrospective transition method. In the statement of cash flows, beginning cash, cash equivalents and restricted cash has been restated from the prior year to include tenant security deposits, reserve for replacements, residual receipts, and mortgage insurance premium escrows in accordance with the new pronouncement.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION  
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION  
OF MONTGOMERY COUNTY, MARYLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 2 RELATED PARTY TRANSACTIONS**

As of June 30, 2020 and 2019, amounts advanced to and receivable from the HOC amounted to \$833,566 and \$843,767, respectively.

The HOC is part of the Montgomery County Self-Insurance Program, which provides funds for potential losses through self-funding mechanisms and commercial insurance policies. Under Subsection (d) of Section 20-37 of the Maryland Code, Montgomery County, Maryland has been authorized to enter into agreements with various county agencies to establish and administer a self-insurance program.

The HOC provided \$10,400,000 of financing through the issuance of multi-family housing development bonds, (See Note 4 for more detail.)

The HOC made a \$1,600,000 loan secured by a third deed of trust security agreement and assignment of rents to the Organization for a period of 15 years with a 5% interest rate. (See Note 6 for more detail.)

The HOC has charged the Organization a development fee of \$330,370 and \$341,406 for the years ended June 30, 2020 and 2019, respectively, which are included in other expenses.

The HOC receives a monitoring fee of 0.25% of the original principal balance of the loan for services in administering compliance with occupancy requirements. The monitoring fee is included in the interest percentage and shown on the financial statements as interest expense.

The HOC charges an asset management fee for the services for administering the assets. The costs of these services were \$138,110 and \$145,850 for the years ended June 30, 2020 and 2019, respectively, and are included in other expenses.

**NOTE 3 NOTE PAYABLE — MONTGOMERY COUNTY**

The deed of trust note is collateralized by a second deed of trust, security agreement, and assignment of rents on the rental property (see Note 9, Commitments and Contingencies) in Montgomery County, Maryland. The note bears interest at the rate of 3% commencing after June 30, 2009, with the first payment commencing on July 1, 2010 and annually on the same date thereafter. Payment is required to the extent there is net cash flow and if the net cash flow is insufficient, the insufficiency shall accrue and be due at the end of the term. The note becomes due and payable on July 1, 2033. The outstanding balance as of June 30, 2020 and 2019 was \$1,699,307.

**NOTE 4 MORTGAGE PAYABLE**

The HOC provided \$10,400,000 of financing through the issuance of multi-family housing development bonds. These bonds are secured by a deed of trust, security agreement, and assignment of rents. The note provides for a 4.65% interest rate and monthly payments of \$53,626 through maturity in November 2034. The outstanding balance as of June 30, 2020 and 2019 was \$6,750,956 and \$7,072,394, respectively.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION**  
**OF MONTGOMERY COUNTY, MARYLAND)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 4 MORTGAGE PAYABLE (CONTINUED)**

Aggregate annual maturities of the mortgage payable for the next five years and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2021	\$ 336,711
2022	352,706
2023	369,461
2024	387,012
2025	405,397
2026 - 2030	2,334,816
2031 - 2035	<u>2,564,853</u>
Total	<u>\$ 6,750,956</u>

As of June 30, 2020 and 2019, mortgage payable, net consisted of the following:

	<u>2020</u>	<u>2019</u>
Mortgage Payable at Face	\$ 6,750,956	\$ 7,072,394
Debt Issuance Costs	<u>(211,164)</u>	<u>(225,807)</u>
Mortgage Payable, Net	<u>\$ 6,539,792</u>	<u>\$ 6,846,587</u>

Mortgage issuance costs are being amortized to interest expense over the term of the debt. For 2020 and 2019, amortization expense was \$14,648.

**NOTE 5 NOTE PAYABLE — STATE OF MARYLAND**

Deed of Trust Note/Promissory Note from the Department of Housing and Community Development of the state of Maryland provides for a 3% interest rate over a 30-year term. Monthly payments of \$632 are required through the maturity date of November 1, 2034. The borrower agreed that households occupying the dwelling would qualify as families of limited income, and to provide the lender with information and verification of household income at least every five years if not more often. The outstanding balance as of June 30, 2020 and 2019 was \$89,141 and \$93,975, respectively.

Aggregate annual maturities of the note payable for the next five years and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2021	\$ 4,983
2022	5,134
2023	5,291
2024	5,452
2025	5,617
2026 - 2030	30,756
2031 - 2035	<u>31,908</u>
Total	<u>\$ 89,141</u>

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
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**OF MONTGOMERY COUNTY, MARYLAND)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 6 NOTE PAYABLE — DUE TO OPPORTUNITY HOUSING REVOLVING FUND (OHRF) — HOC**

In accordance with Commission Resolutions dated April 9, 2003 and September 1, 2004, the OHRF — HOC advanced \$1,600,000 to the Organization to fund increased renovation costs. On July 1, 2006, the advanced funds were secured by a third deed of trust and deed of trust note with a 5% interest rate and a 15-year term, making the note due and payable on July 1, 2021. Payments of the lesser of the net cash flow (as defined in the Deed of Trust Note) or the amortization payment (the amount which when applied first to interest and then principal shall amortize the loan over its remaining term) are due annually beginning July 1, 2007. The annual payment is applied first to interest and then to principal. The outstanding balance as of June 30, 2020 and 2019 was \$1,340,037.

**NOTE 7 RESTRICTED DEPOSITS AND FUNDED RESERVES**

Under paragraph 9c(iii) of the deed of trust and paragraph 4 of the regulatory agreement, the Organization is required to make an initial deposit of \$130,000 into a replacement reserve account, with monthly deposits of \$3,850 commencing with the first installment of principal and interest. At June 30, 2020 and 2019, the replacement reserve had a balance of \$233,014 and \$157,939, respectively, and is included in restricted deposits and funded reserves on the balance sheet.

In addition, under the terms of the mortgage agreement with the HOC, the Organization is required to maintain a mortgage and renovation escrow. At June 30, 2020 and 2019, the mortgage escrow had a balance of \$130,218 and \$127,834, respectively. As of June 30, 2020 and 2019, the renovation escrow had a balance of \$93,562 and \$92,955, respectively. Both escrows are included in restricted deposits and funded reserves on the balance sheet.

**NOTE 8 CONCENTRATION OF CREDIT RISK**

The cash accounts are held in the name of the HOC and are included as part of the public funds which the bank has insured through a collateral pledge held by the Federal Reserve Bank of Boston. Replacement reserve funds are held in the pool which is managed by the HOC.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

The Organization has agreed to occupancy requirements under the regulatory agreement related to the deed of trust in favor of the HOC and the second deed of trust in favor of Montgomery County, Maryland.

The occupancy requirements under the regulatory agreement require that 52 units be set aside for persons or families whose income is equal to or less than 60% of the median income for the Washington Metropolitan Statistical Area as determined by the United States Department of Housing and Urban Development (HUD) adjusted for family size.

The occupancy requirements under the second deed of trust (paragraph 28) require that the aforementioned 52 units be held available to low-income tenants for 40 years starting June 30, 2003. Rents for these units shall not exceed the lesser of Subsection 8 Fair Market Rents for existing housing comparable units in the area as established by HUD, or 30% of 65% of the Washington Metropolitan Statistical Area income adjusted for household size. An additional 22 units shall be leased to persons or families participating in the Project-Based Housing Choice Voucher Program for families or persons who qualify for assistance under the McKinney Homeless Assistance Act. A written report to the HOC is required by July 30 of each year during the term of this deed of trust.

Under a payment in lieu of taxes agreement with Montgomery County, Maryland, the Organization agreed that 40% of the residents shall not exceed 60% of the area median income adjusted for family size, and that none of these residents' gross rent shall exceed 30% of 60% of the area median income adjusted for family size.

**NOTE 10 REAL ESTATE TAXES**

The Organization has made an agreement with Montgomery County to make a payment in lieu of taxes (PILOT) to the County. The Organization received a continuation of the exemption as of July 1, 2020.

**NOTE 12 PROPERTY AND EQUIPMENT**

As of June 30, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,193,259	\$ 1,193,259
Buildings and Building Improvements	13,444,636	13,444,636
Site Improvements	38,674	38,674
Furniture and Equipment	<u>234,554</u>	<u>234,554</u>
Total Capital Assets	14,911,123	14,911,123
Accumulated Depreciation	<u>(6,330,807)</u>	<u>(5,988,366)</u>
Total Property and Equipment	<u>\$ 8,580,316</u>	<u>\$ 8,922,757</u>

**MONTGOMERY ARMS DEVELOPMENT CORPORATION  
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION  
OF MONTGOMERY COUNTY, MARYLAND)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 13 LIQUIDITY AND AVAILABILITY OF RESOURCES**

The Organization's financial assets consist of cash and cash equivalents, including restricted cash and cash equivalents, and accounts receivable.

The following reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date.

	<u>2020</u>	<u>2019</u>
Cash	\$ 226,742	\$ 272,194
Accounts Receivable, Net	<u>871,875</u>	<u>876,440</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,098,617</u>	<u>\$ 1,148,634</u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 14 SUBSEQUENT EVENTS**

The Organization has evaluated all subsequent events through March 15, 2021, the date the financial statements were available to be issued.

Prior to fiscal year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. COVID-19 is having significant effects on global markets, supply chains and businesses. As of the end of the fiscal year, the Organization did not observe any material impacts on its operations or its financial position as a result of COVID-19 and management believes they are taking appropriate actions to mitigate any potential negative impacts. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated at this time as these events are still developing.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
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**OF MONTGOMERY COUNTY, MARYLAND)**  
**SELECTED LINE ITEM DETAIL**  
**JUNE 30, 2020 AND 2019**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	2020	2019
<b>CASH AND CASH EQUIVALENTS</b>		
Operating Cash	\$ 226,542	\$ 271,994
Petty Cash	200	200
Total Cash and Cash Equivalents	\$ 226,742	\$ 272,194
 <b>ACCOUNTS RECEIVABLE AND OTHER ASSETS, NET</b>		
Tenant Rent Receivables (Net of Allowance)	17,382	11,848
Other Receivables	5,931	5,336
Prepaid Expenses	14,996	15,489
Total Accounts Receivable and Other Assets, Net	\$ 38,309	\$ 32,673
 <b>RESTRICTED CASH AND CASH EQUIVALENTS</b>		
Mortgage Escrow	\$ 130,218	\$ 127,834
Replacement Reserves	233,014	157,939
Renovation Escrow	93,562	92,955
Tenant Deposits	65,679	62,541
Total Restricted Cash and Cash Equivalents	\$ 522,473	\$ 441,269
 <b>PROPERTY AND EQUIPMENT</b>		
Land	\$ 1,193,259	\$ 1,193,259
Buildings and Building Improvements	13,444,636	13,444,636
Site Improvements	38,674	38,674
Furniture and Equipment	234,554	234,554
Total Property and Equipment	14,911,123	14,911,123
Less: Accumulated Depreciation	(6,330,807)	(5,988,366)
Total Property and Equipment, Net of Depreciation	\$ 8,580,316	\$ 8,922,757
 <b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 66,123	\$ 49,790
Accrued Salaries	6,205	4,104
Prepaid Tenant Rent	16,455	15,168
Accrued Other	5,341	5,625
Total Accounts Payable and Accrued Liabilities	\$ 94,124	\$ 74,687
Tenant Security Deposits Payable:		
Tenant Security Deposits	\$ 59,391	\$ 56,758
Interest Payable - Security Deposits	5,788	5,039
Total Tenant Security Deposits Payable	\$ 65,179	\$ 61,797



**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION**  
**OF MONTGOMERY COUNTY, MARYLAND)**  
**SELECTED LINE ITEM DETAIL (CONTINUED)**  
**JUNE 30, 2020 AND 2019**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>2020</u>	<u>2019</u>
<b>NONCURRENT LIABILITIES</b>		
Note Payable - State of Maryland	\$ 84,157	\$ 89,139
Mortgage Payable	6,414,244	6,750,953
Note Payable - HOC	1,340,037	1,340,037
Note Payable - Montgomery County	1,699,307	1,699,307
Deferred Revenue	-	645
Debt Issuance Costs, Net	(211,164)	(225,807)
Total Noncurrent Liabilities	<u>\$ 9,326,581</u>	<u>\$ 9,654,274</u>
<b>DWELLING RENTAL</b>		
Rent - Current Residents	\$ 1,592,520	\$ 1,602,729
Rent - Subsidies	322,625	264,580
Vacancy Loss	(79,254)	(52,851)
Other Rent Fees	8,388	17,247
Laundry Income	21,540	20,916
Late Fees / NSF	5,396	4,081
Total Dwelling Rental	<u>\$ 1,871,215</u>	<u>\$ 1,856,702</u>
<b>OTHER INCOME</b>		
User Fees	\$ 1,658	\$ 1,810
Rental License	6,063	6,043
Misc Income	30,364	1,383
Total Other Income	<u>\$ 38,085</u>	<u>\$ 9,236</u>
<b>OPERATING EXPENSES</b>		
Other Expenses:		
Security Contract	\$ 390	\$ 7,616
Insurance	24,296	15,904
Asset Management Fees	138,110	145,850
Development Corporation Fee	330,370	341,406
Mortgage Insurance	34,489	36,063
Other Taxes	403	-
Solid Waste Tax	2,072	2,632
Water Quality Protect Charge	1,627	1,627
Total Other Expenses	<u>\$ 531,757</u>	<u>\$ 551,098</u>

**MONTGOMERY ARMS DEVELOPMENT CORPORATION**  
**(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION**  
**OF MONTGOMERY COUNTY, MARYLAND)**  
**NET CASH FLOW COMPUTATION**  
**YEAR ENDED JUNE 30, 2020**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

Net Cash Provided by Operating Activities	\$	362,024
Less: Operating Disbursements Not Included in Net Cash:		
Mortgage Principal Payments		321,438
State Principal Payments		4,834
Total Subtractions		<u>326,272</u>
Net Cash Flow	\$	<u>35,752</u>
Payment to HOC		
Montgomery County Amortization Payment (Interest)	\$	<u>-</u>
Montgomery County Minimum Payment	\$	<u>-</u>
HOC Loan Amortization Payment (Interest and Principal)	\$	<u>-</u>
HOC Minimum Payment	\$	<u>-</u>



**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***

Commissioners  
Housing Opportunities Commission  
of Montgomery County, Maryland  
Kensington, Maryland

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 the Montgomery Arms Development Corporation (the Organization), a component unit of the Housing Opportunities Commission of Montgomery County, Maryland, Kensington, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated March 15, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Organization'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.

Commissioners  
Housing Opportunities Commission  
of Montgomery County, Maryland

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization'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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
March 15, 2021