



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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2018 AND 2017

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

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS	7 - 13
SUPPLEMENTARY INFORMATION	
Selected Line Item Detail	14 - 15
Net Cash Flow Computation	16
OTHER REPORT	
Independent Auditor's 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>	17 - 18

INDEPENDENT AUDITOR'S REPORT

October 23, 2018

To the 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 years ended June 30, 2018 and 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

To the Commissioners
Housing Opportunities Commission
of Montgomery County, Maryland

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montgomery Arms Development Corporation, Kensington, Maryland, as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The selected line item detail on pages 14 and 15 and the net cash flow computation on page 16 ("the supplementary information") is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary 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 23, 2018, 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.


BARBACANE, THORNTON & COMPANY LLP

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
BALANCE SHEETS
JUNE 30, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 395,455	\$ 402,451
Advance due from HOC	842,235	842,020
Accounts receivable and other assets, net	19,010	22,019
Total Current Assets	<u>1,256,700</u>	<u>1,266,490</u>
RESTRICTED CASH AND CASH EQUIVALENTS:		
Restricted deposits and funded reserves	419,898	447,315
Tenant deposits	58,764	52,710
Total Restricted Cash and Cash Equivalents	<u>478,662</u>	<u>500,025</u>
NONCURRENT ASSETS:		
Property and equipment, net of depreciation	9,211,335	9,553,152
Deferred charges, net	178,211	189,066
Total Noncurrent Assets	<u>9,389,546</u>	<u>9,742,218</u>
TOTAL ASSETS	<u><u>\$11,124,908</u></u>	<u><u>\$11,508,733</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 61,819	\$ 41,563
Accrued interest payable	714,380	650,677
Note and mortgage payable - current	311,557	297,502
Total Current Liabilities	<u>1,087,756</u>	<u>989,742</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Tenant security deposits payable	57,730	51,399
Total Current Liabilities Payable from Restricted Assets	<u>57,730</u>	<u>51,399</u>
NONCURRENT LIABILITIES:		
Notes and mortgage payable - noncurrent, net	8,265,951	8,562,864
Note payable to Montgomery County - noncurrent	1,699,307	1,699,307
Deferred revenue	1,290	1,935
Total Noncurrent Liabilities	<u>9,966,548</u>	<u>10,264,106</u>
TOTAL LIABILITIES	<u>11,112,034</u>	<u>11,305,247</u>
NET ASSETS	<u>12,874</u>	<u>203,486</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$11,124,908</u></u>	<u><u>\$11,508,733</u></u>

The accompanying notes are an integral part of these financial statements.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
Dwelling rental	\$ 1,820,210	\$ 1,828,492
Other income	47,869	17,551
TOTAL OPERATING REVENUE	<u>1,868,079</u>	<u>1,846,043</u>
OPERATING EXPENSES		
Administration	234,299	236,519
Maintenance	324,835	275,643
Depreciation	341,817	343,147
Utilities	113,569	101,104
Fringe benefits	54,304	49,001
Interest expense	443,685	463,249
Other expenses	582,960	549,502
Bad debt expense	7,025	7,950
TOTAL OPERATING EXPENSES	<u>2,102,494</u>	<u>2,026,115</u>
OPERATING LOSS	<u>(234,415)</u>	<u>(180,072)</u>
NONOPERATING REVENUE		
Investment income	1,803	415
Other grants	42,000	42,000
TOTAL NONOPERATING REVENUE	<u>43,803</u>	<u>42,415</u>
NET LOSS	<u>\$ (190,612)</u>	<u>\$ (137,657)</u>

The accompanying notes are an integral part of these financial statements.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

Net Assets - June 30, 2016	\$ 341,143
Less: Net Loss	<u>(137,657)</u>
Net Assets - June 30, 2017	203,486
Less: Net Loss	<u>(190,612)</u>
Net Assets - June 30, 2018	<u><u>\$ 12,874</u></u>

The accompanying notes are an integral part of these financial statements.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (190,612)	\$ (137,657)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	341,817	343,147
Amortization of mortgage issuance costs	14,648	14,648
Decrease in negative arbitrage (a component of interest expense)	10,855	10,855
Bad debt expense	7,025	7,950
Increase in accounts receivable and other assets	(4,016)	(10,134)
Advances to HOC	(215)	(14,829)
Increase in accounts payable and accrued liabilities	20,256	9,775
Decrease in deferred revenue	(645)	(645)
Increase in accrued interest payable	63,703	69,994
	<u>453,428</u>	<u>430,761</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>262,816</u>	<u>293,104</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net withdrawals from restricted deposits and funded reserves	27,417	24,806
Net withdrawals from tenant security deposits	277	3,385
Purchase of property and equipment	-	(18,600)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>27,694</u>	<u>9,591</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of mortgage payable	<u>(297,506)</u>	<u>(284,084)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(297,506)</u>	<u>(284,084)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,996)	18,611
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>402,451</u>	<u>383,840</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 395,455</u>	<u>\$ 402,451</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 354,479</u>	<u>\$ 367,752</u>

The accompanying notes are an integral part of these financial statements.

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

NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017 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 is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, repairs, or improvements to the buildings which extend their useful lives, 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. Land 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, 2018 and 2017 was \$341,817 and \$343,147, 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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, 2018 and 2017, the allowance for uncollectible accounts was \$7,146 and \$6, respectively.

Net Assets

All of the Organization's net assets are unrestricted as of June 30, 2018 and 2017.

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 RELATED PARTY TRANSACTIONS

As of June 30, 2018 and 2017, amounts advanced to and receivable from the HOC amounted to \$842,235 and \$842,020, 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 RELATED PARTY TRANSACTIONS (cont'd)

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 five percent interest rate. (See Note 6 for more detail.)

The HOC has charged the Organization a development fee of \$386,135 and \$388,410 for the years ended June 30, 2018 and 2017, respectively, which are included in other expenses.

The HOC receives a monitoring fee of one quarter of a percent 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 \$138,900 and \$97,110 for the years ended June 30, 2018 and 2017, 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 three percent 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, 2018 and 2017 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 percent interest rate and monthly payments of \$53,626 through maturity in November 2034. The outstanding balance as of June 30, 2018 and 2017 was \$7,379,258 and \$7,672,210, respectively.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 MORTGAGE PAYABLE (cont'd)

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>
2019	\$ 306,864
2020	321,442
2021	336,711
2022	352,706
2023	369,461
2024 - 2028	2,127,851
2029 - 2033	2,683,609
2034 - 2035	<u>880,614</u>
 TOTAL	 <u>\$ 7,379,258</u>

As of June 30, 2018 and 2017, mortgage payable, net consisted of the following:

	<u>2018</u>	<u>2017</u>
Mortgage payable at face	\$ 7,379,258	\$ 7,672,210
Debt issuance costs	<u>(240,455)</u>	<u>(255,103)</u>
Mortgage payable, net	<u>\$ 7,138,803</u>	<u>\$ 7,417,107</u>

Mortgage issuance cost are being amortized to interest expense over the term of the debt. For 2018 and 2017, 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 three percent 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, 2018 and 2017 was \$98,668 and \$103,222, respectively.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 NOTE PAYABLE - STATE OF MARYLAND (cont'd)

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>
2019	\$ 4,693
2020	4,836
2021	4,983
2022	5,134
2023	5,291
2024 - 2028	28,966
2029 - 2033	33,649
2034 - 2035	<u>11,116</u>
TOTAL	<u>\$ 98,668</u>

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 five percent 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, 2018 and 2017 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, 2018 and 2017, the replacement reserve had a balance of \$203,906 and \$233,506, respectively, and is included in restricted deposits and funded reserves on the balance sheet.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7 RESTRICTED DEPOSITS AND FUNDED RESERVES (cont'd)

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, 2018 and 2017, the mortgage escrow had a balance of \$124,792 and \$122,995, respectively. As of June 30, 2018 and 2017, the renovation escrow had a balance of \$91,200 and \$90,814, 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.

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 percent 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 20, 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 percent of 65 percent 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 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 percent of the residents shall not exceed 60 percent of the area median income adjusted for family size, and that none of these residents' gross rent shall exceed 30 percent of 60 percent of the area median income adjusted for family size.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
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OF MONTGOMERY COUNTY, MARYLAND)

NOTES TO FINANCIAL STATEMENTS

NOTE 10 NET ASSETS

The HOC follows the reporting requirements of the Governmental Accounting Standards Board ("GASB") and reclassifies the net assets of the Organization as of June 30 as follows:

	2018	2017
Net investment in capital assets	\$ (1,305,935)	\$ (1,261,624)
Restricted net position	420,932	448,626
Unrestricted net position	897,877	1,016,484
	\$ 12,874	\$ 203,486

NOTE 11 REAL ESTATE TAXES

The Organization has made an agreement with Montgomery County to make a payment in lieu of taxes ("PILOT") to the County. Unless sooner terminated, the agreement expires on December 31, 2020.

NOTE 12 PROPERTY AND EQUIPMENT

As of June 30, 2018 and 2017, property and equipment consisted of the following:

	2018	2017
Land	\$ 1,193,259	\$ 1,193,259
Buildings and building renovations	13,438,656	13,438,656
Site improvement	22,444	22,444
Miscellaneous fixed assets	202,982	202,982
Total Capital Assets	14,857,341	14,857,341
Accumulated depreciation	(5,646,006)	(5,304,189)
	\$ 9,211,335	\$ 9,553,152

NOTE 13 SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through October 23, 2018, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
SELECTED LINE ITEM DETAIL
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Operating cash	\$ 395,255	\$ 402,413
Petty cash	200	38
Total Cash and Cash Equivalents	<u>\$ 395,455</u>	<u>\$ 402,451</u>
<u>ACCOUNTS RECEIVABLE AND OTHER ASSETS, NET</u>		
Tenant rent receivables (net of allowance)	\$ 6	\$ 2,754
Other receivables	2,895	2,509
Prepaid expenses	16,109	16,756
Total Accounts Receivable and Other Assets, Net	<u>\$ 19,010</u>	<u>\$ 22,019</u>
<u>RESTRICTED CASH AND CASH EQUIVALENTS</u>		
Mortgage escrow	\$ 124,792	\$ 122,995
Replacement reserves	203,906	233,506
Renovation escrow	91,200	90,814
Tenant deposits	58,764	52,710
Total Restricted Cash and Cash Equivalents	<u>\$ 478,662</u>	<u>\$ 500,025</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	\$ 1,193,259	\$ 1,193,259
Buildings and building renovations	13,438,656	13,438,656
Site improvement	22,444	22,444
Miscellaneous fixed assets	202,982	202,982
Total Property and Equipment	14,857,341	14,857,341
Less: accumulated depreciation	(5,646,006)	(5,304,189)
Total Property and Equipment, Net of Depreciation	<u>\$ 9,211,335</u>	<u>\$ 9,553,152</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued liabilities:		
Accounts payable	\$ 42,454	\$ 16,912
Accrued salaries	3,648	4,099
Prepaid tenant rent	10,856	10,633
Accrued other	4,861	9,919
Total Accounts Payable and Accrued Liabilities	<u>\$ 61,819</u>	<u>\$ 41,563</u>
Tenant security deposits payable:		
Tenant security deposits	\$ 53,256	\$ 46,487
Interest payable - security deposits	4,474	4,912
Total Tenant Security Deposits Payable	<u>\$ 57,730</u>	<u>\$ 51,399</u>

Continued on next page.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
SELECTED LINE ITEM DETAIL
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>NON-CURRENT LIABILITIES</u>		
Note payable - State of Maryland	\$ 93,975	\$ 98,668
Mortgage payable	7,072,394	7,379,262
Note payable - HOC	1,340,037	1,340,037
Note payable - Montgomery County	1,699,307	1,699,307
Deferred revenue	1,290	1,935
Debt issuance costs, net	(240,455)	(255,103)
Total Non-current Liabilities	<u>\$ 9,966,548</u>	<u>\$ 10,264,106</u>
 <u>DWELLING RENTAL</u>		
Rent - current residents	\$ 1,534,075	\$ 1,518,781
Rent - subsidies	307,830	313,084
Concessions	(1,781)	(653)
Vacancy loss	(71,602)	(35,149)
Other rent fees	22,347	10,908
Laundry income	25,243	16,856
Late fees/NSF	4,098	4,665
Total Dwelling Rental	<u>\$ 1,820,210</u>	<u>\$ 1,828,492</u>
 <u>OTHER INCOME</u>		
User fees	\$ 1,901	\$ 2,189
Utility grant	40,000	15,000
Rental license	5,676	-
Other	292	362
Total Other Income	<u>\$ 47,869</u>	<u>\$ 17,551</u>
 <u>OPERATING EXPENSES</u>		
Other expenses:		
Security contract	\$ 800	\$ 3,017
Insurance	15,488	13,587
Asset management fees	138,900	97,110
Development corporation fee	386,135	388,410
Loan management fee	-	4,333
Mortgage insurance	37,565	38,999
Other taxes	2,445	2,563
Water quality protect charge	1,627	1,483
Total Other Expenses	<u>\$ 582,960</u>	<u>\$ 549,502</u>

**MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NET CASH FLOW COMPUTATION
FOR THE YEAR ENDED JUNE 30, 2018**

Net Cash Provided by Operating Activities	<u>\$ 262,816</u>
Less: Operating Disbursements Not Included in Net Cash	
Replacement reserve payments	46,200
Mortgage principal payments	292,952
State principal payments	4,554
Total Subtractions	<u>343,706</u>
 NET CASH FLOW	 <u><u>\$ (80,890)</u></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>

OTHER REPORT

INDEPENDENT AUDITOR'S
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

October 23, 2018

To the 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, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 23, 2018.

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 ("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 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.

To the Commissioners
Housing Opportunities Commission
of Montgomery County, Maryland

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.

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.


BARBACANE, THORNTON & COMPANY LLP