

**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, 2022 AND 2021



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**MONTGOMERY ARMS DEVELOPMENT CORPORATION
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Commissioners
Housing Opportunities Commission
of Montgomery County, Maryland

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
February 23, 2023

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 291,176	\$ 280,042
Advance Due from HOC	829,633	827,766
Accounts Receivable and Other Assets, Net	69,376	74,826
Total Current Assets	1,190,185	1,182,634
RESTRICTED CASH AND CASH EQUIVALENTS		
Restricted Deposits and Funded Reserves	297,667	320,230
Tenant Deposits	69,405	69,374
Total Restricted Cash and Cash Equivalents	367,072	389,604
NONCURRENT ASSETS		
Property and Equipment, Net of Depreciation	7,899,139	8,237,873
Deferred Charges, Net	134,787	145,643
Total Noncurrent Assets	8,033,926	8,383,516
Total Assets	\$ 9,591,183	\$ 9,955,754
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 55,170	\$ 59,016
Accrued Interest Payable	1,097,103	993,472
Note and Mortgage Payable - Current	374,747	357,840
Total Current Liabilities	1,527,020	1,410,328
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Tenant Security Deposits Payable	64,205	68,574
NONCURRENT LIABILITIES		
Notes and Mortgage Payable - Noncurrent, Net	6,924,096	7,284,082
Note Payable to Montgomery County - Noncurrent	1,699,307	1,699,307
Total Noncurrent Liabilities	8,623,403	8,983,389
Total Liabilities	10,214,628	10,462,291
NET DEFICIT		
Without Donor Restrictions	(623,445)	(506,537)
Total Liabilities and Net Deficit	\$ 9,591,183	\$ 9,955,754

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, 2022 AND 2021

	Without Donor Restrictions 2022	Without Donor Restrictions 2021
	<u>2022</u>	<u>2021</u>
REVENUE & SUPPORT		
Dwelling Rental	\$ 1,893,460	\$ 1,883,575
Other Grants	44,859	39,141
Other Income	17,053	9,221
Total Revenue & Support	<u>1,955,372</u>	<u>1,931,937</u>
EXPENSES		
Program Services:	1,751,068	1,765,896
Supporting Services		
Management and General	321,212	329,512
Total Expenses	<u>2,072,280</u>	<u>2,095,408</u>
CHANGE IN NET DEFICIT	(116,908)	(163,471)
Net Deficit - Beginning of Year	<u>(506,537)</u>	<u>(343,066)</u>
NET DEFICIT - END OF YEAR	<u><u>\$ (623,445)</u></u>	<u><u>\$ (506,537)</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, 2022 AND 2021

	2022			2021		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Maintenance	\$ 367,193	\$ -	\$ 367,193	\$ 298,337	\$ -	\$ 298,337
Depreciation	338,735	-	338,735	342,443	-	342,443
Utilities	142,526	-	142,526	119,175	-	119,175
Interest Expense	423,308	-	423,308	456,040	-	456,040
Other Expenses	413,941	-	413,941	546,717	-	546,717
Bad Debt Expense	65,365	-	65,365	3,184	-	3,184
Administration	-	250,124	250,124	-	257,096	257,096
Fringe Benefits	-	71,088	71,088	-	72,416	72,416
Total Expenses by Function	<u>\$ 1,751,068</u>	<u>\$ 321,212</u>	<u>\$ 2,072,280</u>	<u>\$ 1,765,896</u>	<u>\$ 329,512</u>	<u>\$ 2,095,408</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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (116,908)	\$ (163,471)
Adjustment to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	338,735	342,443
Amortization of Mortgage Issuance Costs	14,647	14,647
Decrease in Negative Arbitrage (a Component of Interest Expense)	10,856	10,855
Bad Debt Expense	65,365	3,184
Increase in Accounts Receivable and Other Assets	(59,915)	(39,701)
Advances to HOC	(1,867)	5,800
Increase in Accounts Payable and Accrued Liabilities	(3,847)	(35,108)
Increase in Tenant Security Deposits	(4,369)	3,395
Increase in Accrued Interest Payable	103,631	120,082
Net Cash Provided by Operating Activities	346,328	262,126
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Mortgage Payable	(357,726)	(341,695)
Net Cash Used by Financing Activities	(357,726)	(341,695)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,398)	(79,569)
Cash and Cash Equivalents - Beginning of Year	669,646	749,215
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 658,248	\$ 669,646
RECONCILIATION OF CASH AND RESTRICTED DEPOSITS - END OF YEAR PER THE CASH FLOW STATEMENT TO CASH PER THE BALANCE SHEET		
Cash	\$ 291,176	\$ 280,042
Funded Reserves	367,072	389,604
Total	\$ 658,248	\$ 669,646
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 335,958	\$ 395,387

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, 2022 AND 2021**

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, 2022 and 2021 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, 2022 and 2021, was \$338,735 and \$342,443, respectively.

Net Assets

Net Assets Without Donor Restrictions includes those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation.

Net Assets With Donor Restrictions includes those net assets subject to donor-imposed restrictions that will be satisfied by actions of the Organization, passage of time, or maintained permanently by the Organization.

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
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OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contributions and grants received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

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.

A portion of the Organization's revenue is the product of cost reimbursement government grants to cover housing subsidies for eligible low-income residents. Therefore, the Organization recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred. Amounts received prior to incurring qualifying expenditures are reported as deferred revenues in the Statement of Financial Position. As of June 30, 2022, the Organization does not have any conditional grants that have not been recognized as revenue in the Statement of Activities because conditions have not been met.

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, 2022 and 2021, the allowance for uncollectible accounts was \$45,383 and \$3,279, 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.

Functional Allocation of 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.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASU's to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605 *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. No cumulative-effect adjustment to net assets was recorded because the adoption did not impact the Organization's reported historical revenue. The Organization's main revenue stream is not within the scope of Topic 606.

NOTE 2 RELATED PARTY TRANSACTIONS

As of June 30, 2022 and 2021, amounts advanced to and receivable from the HOC amounted to \$829,003 and \$827,136, 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 \$186,923 and \$334,491 for the years ended June 30, 2022 and 2021, 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 \$138,020 and \$138,020 for the years ended June 30, 2022 and 2021, respectively, and are included in other expenses.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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, 2022 and 2021 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, 2022 and 2021 was \$6,061,651 and \$6,414,244, respectively.

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>
2023	\$ 369,456
2024	387,012
2025	405,397
2026	424,655
2027	444,828
2028 - 2031	2,000,901
2032 - 2035	<u>2,029,402</u>
Total	<u>\$ 6,061,651</u>

As of June 30, 2022 and 2021, mortgage payable, net consisted of the following:

	<u>2022</u>	<u>2021</u>
Mortgage Payable at Face	\$ 6,061,651	\$ 6,414,244
Debt Issuance Costs	<u>(181,869)</u>	<u>(196,516)</u>
Mortgage Payable, Net	<u>\$ 5,879,782</u>	<u>\$ 6,217,728</u>

Mortgage issuance costs are being amortized to interest expense over the term of the debt. For the years ended June 30, 2022 and 2021, amortization expense was \$14,647 and \$14,647, respectively.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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, 2022 and 2021 was \$79,024 and \$84,157, 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>
2023	\$ 5,291
2024	5,452
2025	5,617
2026	5,788
2026	5,964
2027 - 2031	25,728
2032 - 2035	25,184
Total	<u>\$ 79,024</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 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 both June 30, 2022 and 2021 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, 2022 and 2021, the replacement reserve had a balance of \$72,299 and \$95,708, 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
JUNE 30, 2022 AND 2021**

NOTE 7 RESTRICTED DEPOSITS AND FUNDED RESERVES (CONTINUED)

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, 2022 and 2021, the mortgage escrow had a balance of \$131,738 and \$130,935, respectively. As of June 30, 2022 and 2021, the renovation escrow had a balance of \$93,630 and \$93,587, 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% 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.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 11 PROPERTY AND EQUIPMENT

As of June 30, 2022 and 2021, property and equipment consisted of the following:

	<u>2022</u>	<u>2021</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>(7,011,984)</u>	<u>(6,673,250)</u>
Total Property and Equipment	<u>\$ 7,899,139</u>	<u>\$ 8,237,873</u>

NOTE 12 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, 2022 and 2021, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date.

	<u>2022</u>	<u>2021</u>
Cash	\$ 291,176	\$ 280,042
Accounts Receivable, Net	<u>899,009</u>	<u>902,592</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,190,185</u>	<u>\$ 1,182,634</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 13 SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through February 23, 2023, the date the financial statements were available to be issued.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
SELECTED LINE ITEM DETAIL
JUNE 30, 2022 AND 2021
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2022</u>	<u>2021</u>
CASH AND CASH EQUIVALENTS		
Operating Cash	\$ 291,176	\$ 279,842
Petty Cash	-	200
Total Cash and Cash Equivalents	<u>\$ 291,176</u>	<u>\$ 280,042</u>
 ACCOUNTS RECEIVABLE AND OTHER ASSETS, NET		
Tenant Rent Receivables (Net of Allowance)	\$ 32,516	\$ 45,098
Other Receivables	22,873	14,985
Prepaid Expenses	13,987	14,743
Total Accounts Receivable and Other Assets, Net	<u>\$ 69,376</u>	<u>\$ 74,826</u>
 RESTRICTED CASH AND CASH EQUIVALENTS		
Mortgage Escrow	\$ 131,738	\$ 130,935
Replacement Reserves	72,299	95,708
Renovation Escrow	93,630	93,587
Tenant Deposits	69,405	69,374
Total Restricted Cash and Cash Equivalents	<u>\$ 367,072</u>	<u>\$ 389,604</u>
 PROPERTY AND EQUIPMENT		
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	(7,011,984)	(6,673,250)
Total Property and Equipment, Net of Depreciation	<u>\$ 7,899,139</u>	<u>\$ 8,237,873</u>
 CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 19,195	\$ 23,862
Accrued Salaries	6,271	7,433
Prepaid Tenant Rent	23,305	22,242
Accrued Other	6,399	5,479
Total Accounts Payable and Accrued Liabilities	<u>\$ 55,170</u>	<u>\$ 59,016</u>
 Tenant Security Deposits Payable:		
Tenant Security Deposits	\$ 57,426	\$ 62,199
Interest Payable - Security Deposits	6,779	6,375
Total Tenant Security Deposits Payable	<u>\$ 64,205</u>	<u>\$ 68,574</u>

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
SELECTED LINE ITEM DETAIL (CONTINUED)
JUNE 30, 2022 AND 2021
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2022</u>	<u>2021</u>
NONCURRENT LIABILITIES		
Note Payable - State of Maryland	\$ 73,733	\$ 79,023
Mortgage Payable	5,692,195	6,061,538
Note Payable - HOC	1,340,037	1,340,037
Note Payable - Montgomery County	1,699,307	1,699,307
Debt Issuance Costs, Net	(181,869)	(196,516)
Total Noncurrent Liabilities	<u>\$ 8,623,403</u>	<u>\$ 8,983,389</u>
DWELLING RENTAL		
Rent - Current Residents	\$ 1,613,548	\$ 1,600,344
Rent - Subsidies	323,478	332,486
Rent - COVID-19 Deferral Plan	(2,291)	-
Vacancy Loss	(32,883)	(81,409)
Concessions	(37,221)	(4,655)
Other Rent Fees	5,575	17,320
Laundry Income	22,052	19,504
Late Fees / NSF	1,202	(15)
Total Dwelling Rental	<u>\$ 1,893,460</u>	<u>\$ 1,883,575</u>
OTHER INCOME		
User Fees	\$ 1,859	\$ 1,248
Rental License	6,063	6,063
Misc Income	8,997	1,859
Total Other Income	<u>\$ 16,919</u>	<u>\$ 9,170</u>
OPERATING EXPENSES		
Other Expenses:		
Security Contract	\$ 3,717	\$ 512
Insurance	39,917	37,079
Asset Management Fees	138,020	138,020
Development Corporation Fee	196,294	334,491
Mortgage Insurance	31,113	32,840
Other Taxes	879	-
Solid Waste Tax	2,230	2,096
Water Quality Protect Charge	1,771	1,679
Total Other Expenses	<u>\$ 413,941</u>	<u>\$ 546,717</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, 2022
(SEE INDEPENDENT AUDITORS' REPORT)

Net Cash Provided by Operating Activities	\$	346,328
Less: Operating Disbursements Not Included in Net Cash:		
Mortgage Principal Payments		352,706
State Principal Payments		5,020
Total Subtractions		<u>357,726</u>
Net Cash Flow	\$	<u>(11,398)</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, 2022, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated February 23, 2023.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
February 23, 2023