

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Financial Statements
With Independent Auditors' Reports

June 30, 2019 and 2018

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Financial Statements
With Independent Auditors' Reports
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TABLE OF CONTENTS	Page
Independent Auditors' Report	
FINANCIAL STATEMENTS	
Statements of Financial Position	3-4
Statements of Activities	5
Statements of Change in Net Position	6
Statements of Cash Flows	7
Notes to Financial Statements	8-13
SUPPLEMENTARY SCHEDULES	
Selected Line Item Detail	14-16
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>	

Independent Auditors' Report

The Commissioners
Housing Opportunities Commission
Montgomery County, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Strathmore Court at White Flint (a Segment of Housing Opportunities Commission of Montgomery County, Maryland) (the "Property") which comprise the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities, change in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Property as of June 30, 2019 and 2018, and the change in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 14 through 16 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019 on our consideration of the Property'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 Property'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 Property's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Bethesda, Maryland
November 18, 2019

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Statements of Financial Position

	June 30,	
	2019	2018
ASSETS		
Current Assets		
Cash	\$ 950,191	\$ 377,098
Accounts receivable and other assets	7,173	40,869
Accrued interest receivable	14,896	15,321
Total Current Assets	972,260	433,288
Restricted Cash		
Tenant deposits	65,938	69,648
Restricted deposits	1,380,396	1,377,054
Total Restricted Cash	1,446,334	1,446,702
Fixed and Non-Current Assets		
Property and equipment, net	9,556,308	9,839,415
Note receivable	2,330,478	2,397,067
Bond interest fund	274,278	274,278
Advances to limited partnership	5,034,974	4,584,478
Total Fixed and Non-Current Assets	17,196,038	17,095,238
TOTAL ASSETS	\$ 19,614,632	\$ 18,975,228

See notes to financial statements

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Statements of Financial Position *(continued)*

	June 30,	
	2019	2018
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable and accrued liabilities	66,410	\$ 87,012
Accrued interest payable	56,742	58,661
Mortgage payable, current	513,030	492,713
Prepaid rent	24,168	12,680
Total Current Liabilities	660,350	651,066
Restricted Current Liabilities Payable		
Tenant deposits payable	63,761	68,701
Non-Current Liabilities		
Mortgage payable, net	12,405,886	12,904,324
Interfund payable	732,491	527,217
Deferred revenue	755	1,510
Total Non-Current Liabilities	13,139,132	13,433,051
Total Liabilities	13,863,243	14,152,818
Net Position		
Investment in capital assets, net of related debt	(3,548,657)	(3,758,263)
Restricted net Position	1,382,573	1,378,001
Unrestricted net Position	7,917,473	7,202,672
Total Net Position	5,751,389	4,822,410
TOTAL LIABILITIES AND NET POSITION	\$ 19,614,632	\$ 18,975,228

See notes to financial statements

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Statements of Activities

	Year Ended	
	June 30,	
	<u>2019</u>	<u>2018</u>
REVENUE		
Dwelling rental revenue	\$ 3,476,906	\$ 3,418,460
Other income	<u>8,969</u>	<u>9,124</u>
Total Revenue	<u>3,485,875</u>	<u>3,427,584</u>
EXPENSES		
Administrative	475,126	470,861
Utilities	181,996	180,366
Maintenance	366,013	464,600
Other expenses	292,133	311,569
Depreciation	405,599	392,720
Fringe benefits	61,980	70,242
Interest expense	706,130	728,902
Bad debt expense	<u>2,605</u>	<u>-</u>
Total Expenses	<u>2,491,582</u>	<u>2,619,260</u>
Change in Net Position before Non-operating Changes	<u>994,293</u>	<u>808,324</u>
Non-Operating Income (Expense)		
Interest income	181,121	186,054
Investment expense, net	<u>24,383</u>	<u>11,551</u>
Change in Net Position	<u>\$ 1,199,797</u>	<u>\$ 1,005,929</u>

See notes to financial statements

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Statements of Change in Net Position
Year Ended June 30, 2019

	Investment in Capital Assets, Net of Related Debt	Restricted Net Position	Unrestricted Net Position	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at July 1, 2017	\$ (3,957,457)	\$ 1,314,827	\$ 6,802,108	\$ 4,159,478
Transfer to Housing Opportunities Commission of Montgomery County, Maryland	-	-	(342,997)	(342,997)
Change in net position	<u>199,194</u>	<u>63,174</u>	<u>743,561</u>	<u>1,005,929</u>
Balance at June 30, 2018	(3,758,263)	1,378,001	7,202,672	4,822,410
Transfer to Housing Opportunities Commission of Montgomery County, Maryland	-	-	(270,818)	(270,818)
Change in net position	<u>209,606</u>	<u>4,572</u>	<u>985,619</u>	<u>1,199,797</u>
Balance at June 30, 2019	<u><u>\$ (3,548,657)</u></u>	<u><u>\$ 1,382,573</u></u>	<u><u>\$ 7,917,473</u></u>	<u><u>\$ 5,751,389</u></u>

See notes to financial statements

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Statements of Cash Flows

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net position	\$ 1,199,797	\$ 1,005,929
Adjustments to reconcile change in net position to net cash from operating activities		
Depreciation	405,599	392,720
Amortization of debt issuance costs	14,592	14,592
Bad debt expense	2,605	-
Changes in operating assets and liabilities		
Accounts receivable and other assets	31,091	2,144
Accrued interest receivable	425	395
Prepaid expenses	-	(288)
Tenant deposits	3,710	(7,506)
Accrued liabilities	(20,602)	29,580
Accrued interest payable	(1,919)	(1,872)
Deferred revenue	(755)	(755)
Prepaid rent	11,488	(5,616)
Tenant deposits payable	(4,940)	10,566
Net Cash from Operating Activities	1,641,091	1,439,889
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in progress	101,592	(101,592)
Equipment purchases	(224,084)	(15,713)
Notes receivable	66,589	61,688
Deposit to operating reserves, net	(25,218)	(12,454)
Deposit to replacement reserves, net	21,876	(53,780)
Net Cash from Investing Activities	(59,245)	(121,851)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfers to HOC	(270,818)	(342,997)
Mortgage principal payments	(492,713)	(474,609)
Advances from HOC	205,274	(9,942)
Advances to limited partnership	(450,496)	(521,187)
Net Cash from Financing Activities	(1,008,753)	(1,348,735)
Net Change in Cash	573,093	(30,697)
CASH		
Beginning of year	377,098	407,795
End of year	\$ 950,191	\$ 377,098
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 693,457	\$ 716,182

See notes to financial statements

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization

Strathmore Court at White Flint (a Segment of Housing Opportunities Commission of Montgomery County, Maryland) (the "Property"), was developed by The Housing Opportunities Commission ("HOC") of Montgomery County, Maryland as a mixed use rental housing complex. The Property consists of 75 units that are market-rate and 76 affordable units for tenants with annual income of no more than 100% area median income. Certain project expenses are allocated between the Property and Strathmore Court Associates Limited Partnership ("Strathmore LP") which is part of the same complex.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require 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 statement and reported amounts of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates. Some of the more significant estimates required to be made by management include allowance for doubtful accounts, impairment loss, and depreciation expense.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

As a component unit of HOC, the Property has adopted presentation features of the Governmental Accounting Standards Board.

The Property uses the accrual method of accounting, whereby expenses are recognized when a liability is incurred, and revenue is recognized when earned.

Restricted net position represents the portion of the total net assets restricted for capital projects and tenant security deposits. All restricted amounts are net of related liabilities.

Tenant Accounts Receivable

The Property employs the allowance method as prescribed by U.S. GAAP.

Allowance for Doubtful Accounts

All tenant receivables that are ninety or more days past due are charged to this account. At June 30, 2019 and 2018 no allowance for doubtful accounts has been deemed necessary.

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Capitalization and Depreciation

Property and equipment are recorded at cost. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using the straight line method. Costs incurred in relation to development of the project for interest, property taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Improvements are capitalized if they extend an assets life by at least one year, while expenditures for maintenance and repairs are charged to expense as incurred.

The estimated service life of the assets for depreciation purposes is as follows:

Building	40 years
Building renovations	10 years
Site improvements	15 years
Furniture and equipment	5-10 years

Investment in Real Estate

The Property reviews its investment in real estate for impairment annually and whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the rental property, undiscounted and without interest charges, are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. The determination of undiscounted cash flows requires significant estimates by management.

Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. There was no impairment loss recognized during the years ended June 30, 2019 and 2018.

Rental Income and Prepaid Rent

Rental income is recognized as it becomes due. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Property and the tenants of the property are operating leases and are no longer than one year in duration.

Income Taxes

The Property is a component unit of HOC, a component unit of Montgomery County, Maryland and is therefore exempt from income taxation. No provision for income taxes has been included in these financial statements and there are no other tax positions which must be considered for disclosure.

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (*continued*)

Advertising

Advertising costs are charged to operations when incurred. Advertising costs for the year ended June 30, 2019 and 2018 were \$62,195 and \$65,611.

Debt Issuance Costs

Debt issuance costs are reported on the statements of financial position as a direct deduction from the face amount of the debt. The debt issuance costs are being amortized over the term of the debt on a method that approximates the interest method. The Property reflects amortization of debt issuance costs within interest expense.

Evaluation of Subsequent Events by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 18, 2019.

3. Restricted Deposits

Reserve for Replacement

The Deed of Trust requires an annual minimum deposit to the reserve for replacement of \$22,650. Commencing January 1, 1997, the annual deposit will be increased 4% per year. The Property will deposit the greater of the pre-audited monthly deposits or one-twelfth of 1.35 times the annual gross revenue.

Operating Reserve

The operating reserve account consists of US Treasury money market funds. The reserve was established to segregate funds from operations to be used for operating deficits as deemed appropriate by HOC.

All restricted deposits are held in cash and have been deposited into separate Federal Deposit Insurance Corporation ("FDIC") accounts. All withdrawals from the reserves must be approved by HOC.

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Notes to Financial Statements
June 30, 2019 and 2018

3. Restricted Deposits (continued)

The activity in these funds for the years ended and June 30, 2019 and 2018 is as follows:

	<u>Reserve for Replacement</u>	<u>Operating Reserve</u>	<u>Total</u>
Beginning balance	\$ 93,241	\$ 1,283,813	\$ 1,377,054
Interest earned	28	25,218	25,246
Withdrawals	(183,220)	-	(183,220)
Deposits	<u>161,316</u>	<u>-</u>	<u>161,316</u>
Ending Balance	<u>\$ 71,365</u>	<u>\$ 1,309,031</u>	<u>\$ 1,380,396</u>

	<u>Reserve for Replacement</u>	<u>Operating Reserve</u>	<u>Total</u>
Beginning balance	\$ 39,461	\$ 1,271,359	\$ 1,310,820
Interest earned	22	12,454	12,476
Withdrawals	(14)	-	(14)
Deposits	<u>53,772</u>	<u>-</u>	<u>53,772</u>
Ending Balance	<u>\$ 93,241</u>	<u>\$ 1,283,813</u>	<u>\$ 1,377,054</u>

4. Fixed Assets

Fixed assets consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,000,000	\$ 3,000,000
Building	14,464,108	14,464,108
Building renovations	1,373,059	1,173,140
Site improvements	3,581	3,581
Furniture and equipment	205,290	181,125
Construction in Progress	-	101,592
Accumulated depreciation	<u>(9,489,730)</u>	<u>(9,084,131)</u>
	<u>\$ 9,556,308</u>	<u>\$ 9,839,415</u>

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Notes to Financial Statements
June 30, 2019 and 2018

5. Mortgage Payable

The deed of trust and an amended deed of trust notes were assumed from HOC and collateralized by a Leasehold Deed of Trust, Security Agreement and Assignment of Rents, for \$16,953,900 at an interest rate of 5.17% maturing on June 1, 2033. There is a single leasehold deed of trust covering both Strathmore Court Associates Limited Partnership and the Property notes, which provides that a default on either note is a default on both notes. The amended note specified principal and interest are payable in monthly installments of \$101,040 through June 1, 2012, after which monthly payments decline on an annual basis as Strathmore Court Associates Limited Partnership's payments escalate. Beginning July 1, 2027, the balance will be repaid by monthly payments of \$138,346 until June 1, 2033. The liability of the organization under the mortgage note is limited to the underlying value of the real estate collateral, which includes assignment of rents and leases plus other amounts deposited with the lender. Interest expense for the years ended June 30, 2019 and 2018 is \$691,538 and \$714,310. Accrued interest at June 30, 2019 and 2018 is \$56,742 and \$58,661.

Principal payments as of June 30, 2019 for the next five years and thereafter are payable as follows:

2020	\$ 513,030
2021	532,369
2022	553,009
2023	573,898
2024	596,360
2025-2029	4,403,900
2030-2033	<u>5,932,399</u>
	<u>\$ 13,104,965</u>

Debt issuance costs are being shown net of the mortgage loan balance as follows:

	<u>2019</u>	<u>2018</u>
Mortgage payable	\$ 13,104,965	\$ 13,597,678
Debt issuance costs	<u>(186,049)</u>	<u>(200,641)</u>
	<u>\$ 12,918,916</u>	<u>\$ 13,397,037</u>

6. Management Fees

The Property is managed by Bozzuto Management for a flat rate of \$65 and \$63 per unit per month for the years ended June 30, 2019 and 2018. Management fees charged to operations for the years ended June 30, 2019 and 2018 are \$118,396 and \$114,953.

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Notes to Financial Statements
June 30, 2019 and 2018

7. Related Party Transactions

Asset Management Fee

An annual fee is to be paid to HOC for the services rendered in providing advice regarding administering the assets of the Property. The asset management fee incurred and paid for the years ended June 30, 2019 and 2018 is \$170,720 and \$162,590.

Interfund Amounts

During the compliance period of Strathmore Court Associates Limited Partnership, the Property was required to fund operating deficits through non-interest bearing operating deficit loans. The Property has continued to fund operating deficits after the compliance period. In addition, HOC and the Property will advance funds to each other as deemed appropriate by management. The advances to the limited partnership at June 30, 2019 and 2018 totaled \$5,034,974 and \$4,584,478. The advances from HOC at June 30, 2019 and 2018 are \$732,491 and \$527,217.

Note Receivable

A note receivable in the original amount of \$1,000,000 is due from Strathmore Court Associates Limited Partnership. The loan bears interest of 7.67% per annum and repayment began on March 1, 2016, at which time the accrued interest of \$1,534,000 was capitalized into the principal balance. The note matures in 2036. As of June 30, 2019 and 2018, the note receivable balance is \$2,330,478 and \$2,397,067, and the interest receivable totals \$14,896 and \$15,321.

8. Concentrations

Financial instruments that potentially subject the Property to concentrations of credit risk consist principally of cash. The Property places its cash with various financial institutions. At times, the cash balances may be in excess of the FDIC insurance limits.

9. Commitments and Contingencies

An amount of no less than 75 units in will be leased at market-rate rent levels based on the rent levels in similar developments in Montgomery County and will be available to households at all income levels that can afford the rental payment; and 76 units will be at rent levels which are affordable to households at an average of 100% Washington Metropolitan Statistical Area median income as determined from time to time by the U.S. Department of Housing and Urban Development, ("HUD") and such units must be initially occupied by households with incomes at or below 100% of the Washington Metropolitan Statistical Area median income.

10. Operating Risk

The Property's primary asset is 151 units of rental housing. The Property's operations are concentrated in the multifamily real estate market.

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Supplementary Schedules
June 30, 2019 and 2018

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Selected Line Item Detail

	June 30,	
	2019	2018
Accounts Receivable and Other Assets		
Resident receivables	\$ 7,173	\$ 19
Prepaid insurance	-	40,850
Total Accounts Receivable and Other Assets	\$ 7,173	\$ 40,869
Restricted Deposits		
Operating reserve	\$ 1,309,031	\$ 1,283,813
Replacement reserve	71,365	93,241
Total Restricted Deposits	\$ 1,380,396	\$ 1,377,054
Accrued Liabilities		
Accrued salaries and benefits	\$ 763	\$ 21,294
Accrued expenses	65,647	65,718
Total Accrued Liabilities	\$ 66,410	\$ 87,012
Tenant Deposits Payable		
Tenant deposits	\$ 60,088	\$ 63,796
Accrued interest on tenant deposits	3,673	4,905
Total Tenant Deposits Payable	\$ 63,761	\$ 68,701

See independent auditors' report

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Selected Line Item Detail *(continued)*

	Year Ended June 30,	
	2019	2018
Dwelling Rental Revenue		
Gross potential tenant rent	\$ 3,586,724	\$ 3,539,384
Tenant charges	36,498	37,975
Vacancy	(146,316)	(157,710)
Concessions	-	(1,189)
	\$ 3,476,906	\$ 3,418,460
Administrative		
Salaries	\$ 156,080	\$ 167,770
Telephone	18,599	17,704
Office supplies and expenses	72,465	71,743
Professional fees	772	1,171
Accounting and auditing fees	27,421	14,110
Property management fees	118,396	114,953
Advertising	62,195	65,611
Licenses and fees	7,139	7,643
Miscellaneous administrative expenses	12,059	10,156
	\$ 475,126	\$ 470,861
Utilities		
Water	\$ 85,086	\$ 80,996
Electricity	68,775	83,098
Gas	10,200	2,402
Trash removal	17,935	13,870
	\$ 181,996	\$ 180,366
Maintenance		
Salaries and related expenses	\$ 92,267	\$ 100,507
Repair and grounds contracts	200,731	275,660
Appliances	19,908	23,185
Repairs materials and supplies	53,107	65,248
	\$ 366,013	\$ 464,600

See independent auditors' report

**Strathmore Court at White Flint
(A Segment of Housing Opportunities
Commission of Montgomery County, Maryland)**

Selected Line Item Detail *(continued)*

	Year Ended June 30,	
	2019	2018
Other Expenses		
Security	\$ 75,543	\$ 70,814
Insurance - property	42,829	75,157
Other taxes and fees	3,041	3,008
Asset management fee	170,720	162,590
	\$ 292,133	\$ 311,569

**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***

Independent Auditors' Report

**The Commissioners
Housing Opportunities Commission**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Strathmore Court at White Flint (A Segment of Housing Opportunities Commission of Montgomery County, Maryland) (the "Property") which comprise the statement of financial position as of June 30, 2019 and the related statements of activities, change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2019.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Property'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 entity'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 entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Bethesda, Maryland
November 18, 2019