

HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012
(With Independent Auditor's Report Thereon)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Table of Contents

	Page
Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Commission-wide Financial Statements:	
Statement of Net Assets – Business-Type Activities and Discretely Presented Component Units	12
Statement of Revenues, Expenses, and Changes in Net Assets – Business-Type Activities and Discretely Presented Component Units	14
Statement of Cash Flows – Business-Type Activities and Discretely Presented Component Units	15
Fund Financial Statements:	
Statement of Net Assets – Enterprise Funds	17
Statement of Revenues, Expenses, and Changes in Net Assets – Enterprise Funds	19
Statement of Cash Flows – Enterprise Funds	21
Notes to Financial Statements	24
Supplementary Information:	
Statement of Certification of Actual Modernization Costs	67



Independent Auditor's Report

Board of Commissioners
Housing Opportunities Commission of
Montgomery County, Maryland:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), a component unit of Montgomery County, Maryland, as of and for the year ended June 30, 2012, which along with the aggregate discretely presented component units of the Commission collectively comprise the Commission's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of other auditors. The prior year partial comparative fund information has been derived from the Commission's 2011 financial statements, and in our report dated October 28, 2011, we expressed an unqualified opinion on the respective fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund, and the aggregate discretely presented component units of the Commission as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012 on our consideration of the Commission'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The certification of actual modernization costs listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The certification of actual modernization costs is the responsibility of management and was derived from and relate 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 basic 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 basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
November 2, 2012

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

As management of the Housing Opportunities Commission of Montgomery County, Maryland (the Commission), a component unit of Montgomery County, Maryland, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information furnished in the audited basic financial statements and related notes. This discussion and analysis is focused on the activities of the Commission as a primary governmental entity.

Financial Highlights

- The Commission's net assets increased by \$6.6 million (or 3.5%) from \$189.8 million at June 30, 2011 to \$196.4 million at June 30, 2012.
- The Commission's current ratio (ratio of current assets to current liabilities) increased from 1.86 at June 30, 2011 to 2.87 at June 30, 2012, due to an increase in short-term investments in the Single Family and Multifamily Bond Funds.
- The Commission issued \$32.78 million of new bonds for the Single Family Fund. Approximately \$31.04 million (94.6% of the total) was used to finance new mortgages, closing cost assistance and fund reserves under the New Issue Bond Program (NIBP), pursuant to a resolution of the Commission providing for the issuance of Single Family Housing Revenue Bonds. The Commission plans to convert the remaining \$12.38 million of NIBP bonds and to issue approximately \$12 million of market bonds in October 2012 to complete a \$25 million bond issue. All NIBP bonds must be converted or redeemed by December 25, 2012. The remaining \$1.75 million is capital accretion bonds.
- The Commission issued \$61.56 million of new bonds for the Multifamily Fund in fiscal year 2012. This included \$33.59 million of 2011 Series A tax-exempt bonds for MetroPointe Development Corporation and \$3.02 million of taxable bonds as 2011 Series B for MetroPointe Limited Partnership. These amounts refunded and redeemed \$32.29 million of 2009 Issue A bonds for MetroPointe Development Corporation and refunded \$2.92 million of taxable financing on the Line Of Credit with PNC Bank, N.A for MetroPointe for MetroPointe Limited Partnership. This bond issuance enabled the termination of the Montgomery County General Obligation support for the MetroPointe transaction and replaced it with Mortgage insurance provided by FHA pursuant to its Risk Sharing Agreement with the Commission. The total Multifamily issuance also included \$24.95 million of tax-exempt bonds, issued as 2012 Series A which refunded prior bonds for Ring House Corporation and funded a new mortgage for Scattered Site One Development Corporation. The Commission also refunded \$15.7 million of 2000 Series A bonds, redeemed \$3.77 million of 2000 Series B bonds and \$7.54 million 2011 Series A bonds.
- The Commission retired and refunded bonds in the amount of \$32 million from the Single Family Fund. The funds used to retire the bonds came from borrowers' mortgage loan payments and prepayments and a draw on the Commission's Line of Credit facility with PNC Bank, N.A., which will be paid off with proceeds from the closing of the 2009 Series C-4, Series C-5, and the 2012 Series A bond issue in October 2012.
- The Commission retired and refunded \$67.1 million of bonds from the Multifamily Bond Fund using mortgage payments and remarketing proceeds.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

- Outstanding mortgage and construction loans receivable decreased slightly from \$375.5 million at June 30, 2011 to approximately \$375.1 million at June 30, 2012.
- The amount of U.S. Department of Housing and Urban Development (HUD) Section 8 Housing Assistance Payments (HAP) administered by the Commission decreased by 1.2% from \$79 million in fiscal year 2011 to \$78 million in fiscal year 2012.
- Unrealized gains on investments totaled \$9.2 million in fiscal year 2012 compared to a \$2.2 million unrealized loss in fiscal year 2011 due to the interest rate environment.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The annual financial report is comprised of three components: management's discussion and analysis, the financial statements, and notes to the financial statements.

The financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. These statements are prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period they are earned, while expenses are recognized in the period they are incurred. Depreciation and amortization of capital and deferred assets are recognized in the statements of revenues, expenses, and changes in net assets.

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information on how the Commission's net assets changed during the fiscal year.

The statement of cash flows explains the sources and uses of cash during the fiscal year.

Fund Structure

The Commission maintains only proprietary funds. Such funds are accounted for in a manner similar to that of businesses operating in the private-sector. Proprietary funds provide both long and short-term financial information. The following is a brief description of the activity accounted for in each of the major funds.

Major Funds

General Fund – the Commission's primary operating fund. The entire administration and overhead of the Commission is maintained within this fund.

Opportunity Housing Fund – accounts for properties that provide affordable housing to low and moderate-income residents. Properties owned by the Commission make up the primary assets in this fund.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

Public Fund – accounts for grants from federal, state, and county government. These grants are used to provide Housing Assistance Payments and supportive services for residents. Activities related to Public Housing and the Housing Choice Voucher Programs are maintained in this fund.

Single Family Fund – accounts for taxable and non-taxable bonds. These bonds are used to finance mortgage loans for qualifying first-time homebuyers. The primary assets are mortgage loans receivable and restricted cash and investments.

Multifamily Fund – accounts for taxable and non-taxable bonds. These bonds are used to finance the acquisition, rehabilitation, and/or construction of affordable multifamily housing. The primary assets are mortgage loans receivable and restricted cash and investments.

Component Units

Real Estate Limited Partnerships – The Commission is the managing general partner in 16 real estate limited partnerships. Fourteen of the partnerships have calendar year ends and two have a June 30 fiscal year end. Accordingly, the amounts included for each discretely presented component unit that comprise the aggregate component unit column in the combined financial statements are as of and for the respective year ends that fall within the year ended June 30, 2012.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

Financial Analysis of the Commission as a Whole

The Commission's total net assets in fiscal year 2012 increased by 3.5%.

Capital assets, net of related debt, are 15% of the Commission's net assets. These capital assets are used primarily to provide housing to low-income residents.

Thirty-three percent of the Commission's net assets reflect cash and investments, which are restricted as to their use. The preponderance of these restricted net assets are used to finance and fund low-income housing.

Fifty-two percent of the Commission's net assets are unrestricted. These non-restricted net assets are used in the operations of the Commission.

Housing Opportunities Commission's Net Assets
(in millions of dollars)

	<u>2012</u>	<u>2011</u>	<u>Variance (\$)</u>	<u>Variance (%)</u>
Assets:				
Current and other assets	\$ 421.4	\$ 403.4	\$ 18.0	\$ 4.5%
Capital assets	334.0	337.4	(3.4)	-1.0%
Mortgage and construction loans receivable	375.1	375.5	(0.4)	-0.1%
Total assets	<u>\$ 1,130.5</u>	<u>\$ 1,116.3</u>	<u>\$ 14.2</u>	<u>\$ 1.3%</u>
Liabilities:				
Current liabilities (including current portion of long term debt and bonds payable)	\$ 90.1	\$ 131.5	\$ (41.4)	\$ -31.5%
Noncurrent liabilities:				
Bonds payable	700.2	661.7	38.5	5.8%
Other liabilities	143.8	133.3	10.5	7.9%
Total liabilities	<u>4 934.1</u>	<u>\$ 926.5</u>	<u>\$ 7.6</u>	<u>\$ 0.8%</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 28.8	\$ 30.0	\$ (1.2)	\$ -4.0%
Restricted for:				
Debt service	56.7	\$ 41.9	14.8	35.3%
Customer deposits and other	8.5	13.2	(4.7)	5.6%
Closing cost assistance program	0.6	0.9	(0.3)	-33.3%
Unrestricted	<u>101.8</u>	<u>103.8</u>	<u>(2.0)</u>	<u>-1.9%</u>
Total net assets	<u>\$ 196.4</u>	<u>\$ 189.8</u>	<u>\$ 6.6</u>	<u>\$ 3.5%</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

Total assets of the Commission increased by \$14.2 million or 1.3%, with a corresponding increase in total liabilities of \$7.6 million or 0.8% from fiscal year 2011. The primary reason for the increase is due to new bonds issued under the Single Family Fund in conjunction with the New Issue Bond Program (NIBP) resulting in an increase in cash and cash equivalents. Furthermore, the interest rate swaps for the MetroPointe bonds were added in fiscal year 2012 which contributed to the increase in the deferred outflow of resources. As required by Governmental Accounting Standards Board (GASB) No. 53, the changes in fair values of hedging derivative instruments are presented as either deferred inflows or outflows in the statement of net assets.

Net assets of the Commission increased by approximately \$6.6 million or 3.5%. Some key elements of this increase are:

Housing Opportunities Commission's Changes in Net Assets
(in millions of dollars)

	<u>2012</u>	<u>2011</u>	<u>Variance (\$)</u>	<u>Variance (%)</u>
Operating revenues:				
Intergovernmental grants	\$ 105.7	\$ 105.6	\$ 0.1	0.1%
Investment income	7.7	8.2	(0.5)	-6.1%
Unrealized gains (losses) on investments	9.2	(2.2)	11.4	-518.2%
Interest on mortgages and construction loans receivable	16.9	18.4	(1.5)	-8.2%
Dwelling rental	58.5	57.3	1.2	2.1%
Management fees and other income	9.2	8.7	0.5	5.7%
Total operating revenues	<u>\$ 207.2</u>	<u>\$ 196.0</u>	<u>\$ 11.2</u>	<u>5.7%</u>
Operating expenses:				
Housing assistance payments	\$ 84.0	\$ 79.2	\$ 4.8	6.1%
Administration	33.9	34.4	(0.5)	-1.5%
Maintenance	15.6	14.8	0.8	5.4%
Depreciation and amortization	16.6	16.1	0.5	3.3%
Utilities	6.2	6.8	(0.6)	-8.8%
Fringe benefits	8.4	7.9	0.5	6.3%
Interest expense	31.5	34.0	(2.5)	-7.4%
Other expenses	7.1	6.9	0.2	2.9%
Total operating expenses	<u>\$ 203.3</u>	<u>\$ 200.1</u>	<u>\$ 3.2</u>	<u>1.6%</u>
Operating income (loss)	\$ 3.9	\$ (4.1)	\$ 8.0	195.8%
Nonoperating revenues, net	1.4	0.8	0.6	75.0%
Income (loss) before contributions	5.3	(3.3)	8.6	-262.1%
Capital contributions and transfers	1.2	4.1	(2.9)	-70.7%
Net increase (decrease) in net assets	<u>\$ 6.5</u>	<u>\$ 0.8</u>	<u>\$ 5.7</u>	<u>683.1%</u>

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

In January 2006, HUD issued PIH Notice 2006-03 which requires that the Annual Budget Authority (ABA) that the Commission receives be reported as income in the same fiscal year regardless of the total housing assistance payments incurred. As of June 30, 2012, the Commission has recorded all ABA received as income.

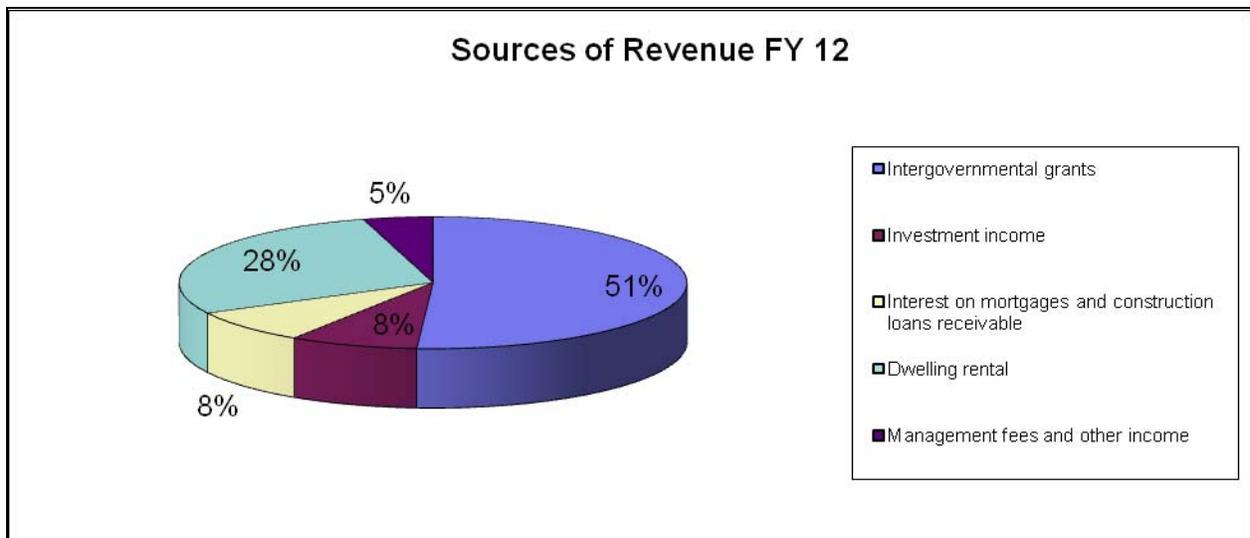
Intergovernmental grants increased by \$0.1 million as a result of an increase in County Grants partly offset by a decrease in Housing Choice Voucher funding received from HUD.

Investment interest income decreased by \$0.5 million in 2012 due to a reduction in the Multifamily Fund. Unrealized gains on investments totaled \$9.2 million as compared to unrealized losses of \$2.2 million in fiscal year 2011. The unrealized gains (losses) on investments reflect the hypothetical gains and/or losses on investments if those investments have been sold on the last day of the reporting period. The unrealized gains are attributed to the changing interest rate environment.

Dwelling rental income increased by \$1.2 million as a result of the increase in rent at several properties in the Opportunity Housing Fund.

Management fees and other income increased by \$0.5 million due to gains on sale of scattered site units.

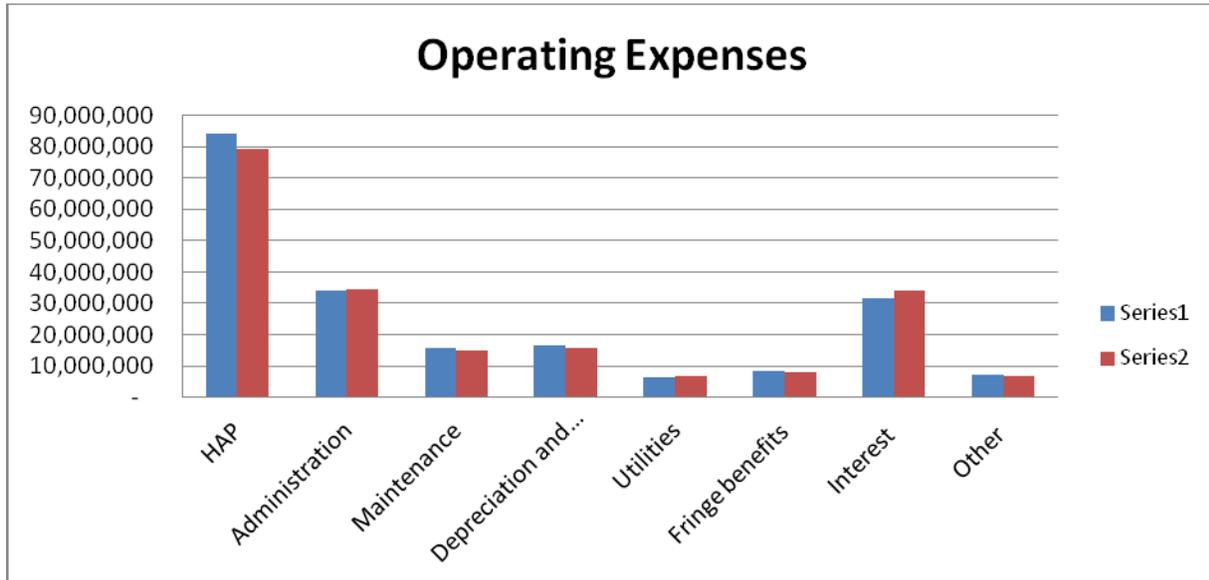
The following chart shows the Commission's sources of revenue as a percentage of total revenue. The primary sources of revenue for the Commission are grants from federal, state, and local governments, and dwelling rentals.



HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

The following is a comparison of current and prior year operating expenses:



The increase in housing assistance payments is due to an increase in housing choice voucher payments to landlords during fiscal year 2012 as a result of increased utilization and the average payment per voucher.

The increase in maintenance expenses is attributable to increases in maintenance salary expenses as well as various maintenance contracts in both Opportunity Housing Fund and Public Housing properties.

The decrease in utility expenses is a result of a decrease in water and electric consumption at several of the properties within the Opportunity Housing and Public Funds.

The decrease in interest expense is attributable to a decrease in outstanding bonds payable of approximately \$21 million (including the refunding of Burnt Mills and Somerset) as well as decrease in interest rates on variable rate debt.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

**Housing Opportunities Commission's Capital Assets
Net of Accumulated Depreciation**
(in millions of dollars)

	2012	2011	(\$) Variance	(%) Variance
Capital assets:				
Property and equipment, net of depreciation	\$ 321.0	\$ 324.0	\$ -3.0	-0.9%
Capitalized lease (net of amortization)	13	13.4	-0.4	-3.0%
Total capital assets, net	\$ 334.0	\$ 337.4	\$ -3.4	-1.0%

Real property is depreciated using a straight line method over a 40 year period. During the year, the Commission acquired assets of approximately \$7.7 million, while disposing of capital assets with a net book value of approximately \$10.7 million. Capital leases are recorded net of amortization, explaining the decrease from the prior year

During the coming year the Commission intends to acquire Moderately Priced Dwelling Units which are scattered throughout Montgomery County, Maryland. These units are intended to serve low to moderate income individuals and families.

The properties within the Commission's portfolio that are scheduled for or currently under major rehabilitation during the coming fiscal year are Tanglewood/Sligo Apartments, Greenhills, Southbridge (formerly Aspen Court).

Note 4 (Capital Assets) provides detailed information about capital asset activity.

Outstanding Debt

Housing Opportunities Commission's Outstanding Debt
(in millions of dollars)

	2012	2011	(\$) Variance	(%) Variance
Multifamily bonds	\$ 426.9	\$ 432.4	\$ (5.5)	-1.3%
Single Family Mortgage Purchase Program bonds	305.7	304.3	1.4	0.5%
Mortgage notes and loans payable	36.4	43.9	(7.5)	-17.1%
Capitalized lease obligation	20.5	20.7	(0.2)	-1.0%
Loans payable to Montgomery County	62.9	62.8	0.1	0.2%
Total	\$ 852.4	\$ 864.1	\$ (11.7)	-1.4%

The following are key elements of the Commission's outstanding debt as of June 30, 2012:

- \$426.9 million of multifamily mortgage bonds outstanding. Sources of payments for the bonds are multifamily mortgages receivable of \$323.1 million and cash, cash equivalents and investments of \$152.0 million.
- \$305.7 million of Single Family mortgage bonds outstanding. Sources of payment for the bonds are Single Family mortgages receivable of \$224.8 million and cash, cash equivalents and investments of \$115.4 million.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Management's Discussion and Analysis
For the year ended June 30, 2012

The outstanding debt is secured by real estate or by first mortgages on real estate. The exception is the closing cost assistance program.

Note 8 (Bonds, Mortgage Notes, and Loans Payable) provides detailed information about long-term debt activity.

Economic Outlook

The Board of the Housing Opportunities Commission (HOC), management team, and staff have factored some of the potential broad economic challenges into the fiscal year 2013 budget, including the difficult funding environments for the federal government, State of Maryland, and Montgomery County. More specifically, the continued fiscal challenges may adversely impact HOC's ability to provide assistance to families, which results in longer wait lists for housing and housing assistance. Additionally, more families and individuals are seeking assistance as the job market continues to prove difficult. On the other hand, this continues to be an incredibly low-interest rate environment, which may provide opportunities to reduce financing costs for HOC's real estate portfolio and any acquisition efforts (assuming capital sources beyond lending for real estate acquisition efforts).

With the Commission's very diverse activities – public housing authority, housing finance agency, developer, and housing management – the management believes it has a very strong economic outlook. There are some economic factors that will require constant monitoring, but with proper budgeting the potential risks should be minimal.

The Commission expects a slight increase in revenues from property related income, and real estate activity. Cash flows from federal, state and county grants are expected to hold constant or decrease slightly as compared to fiscal year 2011 as a result of HUD funding due to a projected increase in Housing Choice Voucher utilization and new voucher programs. On September 26, 2011, HUD released an advisory notice (PIH 2011-55) which will subject PHA operating subsidy to an allocation adjustment that will reduce the operating subsidy by some percentage of the PHA's excess operating reserves. The Commission submitted to HUD a request to exclude portions of their operating reserves in accordance with PIH Notice 2011-55. Overall, the Commission expects an increase in operating revenues that will be used to increase the funding of operating and replacement reserves.

Request for information

This financial report is designed to provide a general overview of the Commission's finances for interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, 10400 Detrick Avenue, Kensington, Maryland, 20895.

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Business-Type Activities and
Discretely Presented Component Units
June 30, 2012

	Business-Type Activities	Real Estate Limited Partnership Component Units
Assets		
Current assets:		
Unrestricted:		
Cash and cash equivalents	\$ 71,528,211	4,268,304
Advances to component units	22,182,146	—
Accounts receivable and other assets	8,989,428	729,116
Accrued interest receivable	5,435,660	—
Mortgage and construction loans receivable, current	9,445,171	—
Total unrestricted current assets	117,580,616	4,997,420
Restricted cash and cash equivalents and investments:		
Restricted cash and cash equivalents	90,655,793	6,540,416
Restricted short-term investments	13,116,240	—
Current bonds payable	32,883,628	—
Customer deposits	4,332,349	653,800
Total restricted cash and cash equivalents and investments	140,988,010	7,194,216
Total current assets	258,568,626	12,191,636
Noncurrent assets:		
Restricted long-term investments	140,471,213	—
Mortgage and construction loans receivable, net of current portion	365,557,453	—
Capital assets, net of depreciation	321,001,739	118,236,108
Leased property under capital lease, net of amortization	12,987,493	—
Loans receivable from component units	4,165,040	—
Deferred charges	10,583,577	2,761,801
Deferred Outflow of Resources	17,190,178	—
Total noncurrent assets	871,956,693	120,997,909
Total assets	1,130,525,319	133,189,545

HOUSING OPPORTUNITES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Business-Type Activities and
Discretely Presented Component Units
June 30, 2012

	Business-Type Activities	Real Estate Limited Partnership Component Units
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 20,154,552	3,351,628
Accrued interest payable	1,930,652	5,671,501
Advances from primary government	—	20,280,104
Loans payable to Montgomery County – current	2,844,220	250,000
Mortgage notes and loans payable – current	15,824,341	2,891,639
Capitalized lease obligations – current	169,628	—
Total current unrestricted liabilities	40,923,393	32,444,872
Current liabilities payable from restricted assets:		
Customer deposits payable	3,930,353	624,236
Accrued interest payable	12,769,058	—
Bonds payable – current	32,479,323	—
Total current liabilities payable from restricted assets	49,178,734	624,236
Total current liabilities	90,102,127	33,069,108
Noncurrent liabilities:		
Bonds payable	700,191,542	—
Mortgage notes and loans payable	20,547,968	85,603,351
Loans payable to Montgomery County	60,072,522	12,587,740
Capitalized lease obligations	20,308,586	—
Deferred revenue	21,597,853	19,935
Escrow and other deposits	4,112,218	1,421,345
Interest Rate Swap	17,190,178	—
Total noncurrent liabilities	844,020,867	99,632,371
Total liabilities	934,122,994	132,701,479
Net Assets		
Invested in capital assets, net of related debt	28,827,815	(3,376,725)
Restricted for:		
Debt service	56,670,527	6,540,416
Customer deposits and other	8,531,564	29,564
Closing cost assistance program	617,268	—
Unrestricted	101,755,151	(2,705,189)
Total net assets	\$ 196,402,325	488,066

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Revenues, Expenses and Changes in Net Assets – Business-Type Activities
and Discreetly Presented Component Units

Year ended June 30, 2012

	<u>Business-Type Activities</u>	<u>Real Estate Limited Partnership Component Units</u>
Operating revenues:		
Dwelling rental	\$ 58,531,965	16,951,251
Investment income	7,720,354	—
Unrealized gains on investments	9,190,260	—
Interest on mortgage and construction loans receivable	16,880,359	—
Management fees and other income	9,180,604	471,336
U.S. Department of Housing and Urban Development grants:		
Housing Assistance Payments (HAP)	77,868,323	—
HAP administrative fees	5,799,380	—
Other grants	11,249,981	—
State and County grants	10,831,271	—
Total operating revenues	<u>207,252,497</u>	<u>17,422,587</u>
Operating expenses:		
Housing Assistance Payments	83,980,027	—
Administration	33,932,375	2,754,010
Maintenance	15,554,691	3,599,608
Depreciation and amortization	16,607,553	5,080,418
Utilities	6,180,231	1,472,062
Fringe benefits	8,372,560	783,989
Interest expense	31,544,664	4,177,883
Other expenses	6,363,970	2,646,367
Bad debt expense	784,371	77,452
Total operating expenses	<u>203,320,442</u>	<u>20,591,789</u>
Operating income/(loss)	<u>3,932,055</u>	<u>(3,169,202)</u>
Nonoperating revenues (expenses):		
Investment income	577,972	12,415
State and County grants	765,279	—
Interest on mortgage and construction loans receivable	166,394	—
Interest expense	(115,534)	—
Other grants	41,229	51,311
Total nonoperating income	<u>1,435,340</u>	<u>63,726</u>
Income/(Loss) before contributions and transfers	5,367,395	(3,105,476)
Capital contributions/(distributions)	1,181,515	(85,249)
Transfer of Ambassador Apartments	—	533,116
Change in net assets	<u>6,548,910</u>	<u>(2,657,609)</u>
Total net assets, beginning of year	189,853,415	3,145,675
Total net assets, end of year	\$ <u>196,402,325</u>	<u>488,066</u>

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Business-Type Activities
and Discreetly Presented Component Units

Year ended June 30, 2012

	Business-Type Activities	Real Estate Limited Partnership Component Units
Cash flows from operating activities:		
Receipts from customers	\$ 68,115,223	17,398,227
Mortgage principal payments	8,986,405	—
Intergovernmental revenue	105,748,955	—
Investment income received	7,720,354	—
Mortgage interest received	17,957,684	—
Payments to suppliers	(38,331,236)	(7,552,485)
Payments to employees	(34,046,696)	(3,049,226)
Interest paid	(31,862,743)	(5,068,605)
Housing assistance payments	(83,980,027)	—
Net cash provided by operating activities	<u>20,307,919</u>	<u>1,475,911</u>
Cash flows from investing activities:		
Repayments of advances to component units	(1,116,468)	1,051,833
Investments purchased	(14,635,267)	—
Investments sold	50,932,581	—
Investment income received	577,972	12,415
Investment in mortgages receivable	(1,105,353)	—
Mortgage interest received	151,537	—
Net cash provided by investing activities	<u>34,805,002</u>	<u>1,064,248</u>
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds	94,337,313	—
Bond Repayment	(99,064,015)	—
Bond Premium received	584,508	—
Intergovernmental revenue	806,508	51,311
Net cash provided by investing activities	<u>(3,335,686)</u>	<u>51,311</u>
Cash flows from capital and related financing activities:		
Payments for property, equipment and committed financing fees	(24,449,263)	(3,724,566)
Proceeds from sale of property and equipment	11,210,900	5,024,499
Proceeds from new mortgage notes and loans payable	14,506,898	—
Payments on mortgage notes and loans payable	(22,006,832)	(4,237,894)
Proceeds from new loans payable to Montgomery County	2,598,223	—
Payments on loans payable to Montgomery County	(2,476,455)	(1,148,757)
Interest paid on mortgages	(115,534)	—
Proceeds received for FHA risk-sharing loss reserve	607,957	—
Payments on capital lease obligations	(246,437)	—
Capital contributions and transfers	1,181,515	447,867
Net cash (used in) capital and related financing activities	<u>(19,189,028)</u>	<u>(3,638,851)</u>
Net increase in cash and cash equivalents	32,588,208	(1,047,381)
Cash and cash equivalents, beginning of year	166,811,773	12,509,901
Cash and cash equivalents, end of year	<u>\$ 199,399,981</u>	<u>11,462,520</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Business-Type Activities
and Discreetly Presented Component Units, continued

Year ended June 30, 2012

	Business-Type Activities	Real Estate Limited Partnership Component Units
	<u> </u>	<u> </u>
Reconciliation of cash and cash equivalents, end of year to amounts in the statement of net assets:		
Current unrestricted cash and cash equivalents	\$ 71,528,211	4,268,304
Restricted cash and cash equivalents:		
Restricted cash and cash equivalents	90,655,793	6,540,416
Current bonds payable	32,883,628	—
Customer deposits	4,332,349	653,800
Total cash and cash equivalents	<u>\$ 199,399,981</u>	<u>11,462,520</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	3,932,055	(3,169,202)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation and amortization	16,607,553	5,080,418
Unrealized gains on investments	(9,190,260)	—
Change in assets and liabilities:		
(Increase) decrease in accounts receivable and other assets	152,137	(22,759)
(Increase) decrease in mortgage and construction loans receivables	1,501,713	—
(Increase) decrease in accrued interest receivable	920,723	—
(Increase) decrease in deferred charges	173,722	—
Increase (decrease) in accounts payable	7,190,260	531,777
Increase (decrease) in deferred revenue	(724,799)	(10,531)
Increase (decrease) in accrued interest payable	(199,828)	(890,722)
Increase (decrease) in escrow and other deposits	(55,357)	(43,070)
Net cash (used in) provided by operating activities	<u>20,307,919</u>	<u>1,475,911</u>
Noncash items:		
Interest on capital appreciation bonds	1,752,313	—

See accompanying notes to financial statements.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Enterprise Funds

June 30, 2012

(with comparative totals for June 30, 2011)

Assets	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multifamily Fund	Eliminations	Combined Totals	
							2012	2011
Current assets:								
Unrestricted:								
Cash and cash equivalents	\$ 25,428,223	25,369,768	6,425,276	13,221,815	1,083,129	—	71,528,211	76,373,882
Interfund receivable (payable)	(7,244,247)	15,315,080	(1,319,508)	(5,188,560)	(1,562,765)	—	—	—
Advances to component units	11,609,302	10,572,844	—	—	—	—	22,182,146	21,065,678
Accounts receivable and other assets	2,718,406	3,804,955	3,143,878	62,096	—	(739,907)	8,989,428	7,627,273
Accrued interest receivable	209,214	1,229,005	—	2,918,990	1,924,364	(845,913)	5,435,660	6,447,532
Mortgage and construction loans receivable, current	15,469,776	—	—	5,487,326	7,553,204	(19,065,135)	9,445,171	9,845,530
Total unrestricted current assets	<u>48,190,674</u>	<u>56,291,652</u>	<u>8,249,646</u>	<u>16,501,667</u>	<u>8,997,932</u>	<u>(20,650,955)</u>	<u>117,580,616</u>	<u>121,359,895</u>
Restricted cash and cash equivalents and investments:								
Restricted cash and cash equivalents	199,209	15,660,058	8,168,186	35,045,702	31,582,638	—	90,655,793	61,354,998
Restricted short-term investments	—	—	—	12,416,465	699,775	—	13,116,240	33,443,562
Current bonds payable	—	—	—	16,049,448	16,834,180	—	32,883,628	25,032,424
Customer deposits	—	1,923,461	2,408,888	—	—	—	4,332,349	4,050,469
Total restricted cash and cash equivalents and investments	<u>199,209</u>	<u>17,583,519</u>	<u>10,577,074</u>	<u>63,511,615</u>	<u>49,116,593</u>	<u>—</u>	<u>140,988,010</u>	<u>123,881,453</u>
Total current assets	<u>48,389,883</u>	<u>73,875,171</u>	<u>18,826,720</u>	<u>80,013,282</u>	<u>58,114,525</u>	<u>(20,650,955)</u>	<u>258,568,626</u>	<u>245,241,348</u>
Noncurrent assets:								
Restricted long-term investments	—	—	—	38,652,975	101,818,238	—	140,471,213	147,250,949
Mortgage and construction loans receivable, net of current portion	4,096,682	16,300,615	—	219,299,373	315,486,679	(189,625,896)	365,557,453	365,653,681
Capital assets, net of depreciation	7,428,260	259,031,588	63,168,555	—	—	(8,626,664)	321,001,739	323,965,665
Leased property under capital lease, net of amortization	495,119	12,492,374	—	—	—	—	12,987,493	13,392,757
Loans receivable from component units	4,165,040	—	—	—	—	—	4,165,040	4,165,040
Deferred charges	—	4,914,959	3,025	4,880,451	811,916	(26,774)	10,583,577	10,657,072
Deferred Outflow of Resources	—	—	—	5,304,183	11,885,995	—	17,190,178	5,982,025
Total noncurrent assets	<u>16,185,101</u>	<u>292,739,536</u>	<u>63,171,580</u>	<u>268,136,982</u>	<u>430,002,828</u>	<u>(198,279,334)</u>	<u>871,956,693</u>	<u>871,067,189</u>
Total assets	<u>\$ 64,574,984</u>	<u>366,614,707</u>	<u>81,998,300</u>	<u>348,150,264</u>	<u>488,117,353</u>	<u>(218,930,289)</u>	<u>1,130,525,319</u>	<u>1,116,308,537</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Net Assets – Enterprise Funds, continued

June 30, 2012

(with comparative totals for June 30, 2011)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multifamily Fund	Eliminations	Combined Totals	
							2012	2011
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 2,550,980	5,903,809	1,921,154	484,244	10,034,272	(739,907)	20,154,552	11,450,001
Accrued interest payable		2,776,565	—	—	—	(845,913)	1,930,652	1,713,673
Loans payable to Montgomery County – current		2,844,220	—	—	—	—	2,844,220	2,741,835
Mortgage notes and loans payable – current	15,735,967	16,513,509	—	—	—	(16,425,135)	15,824,341	23,250,555
Capitalized lease obligations – current	166,738	2,890	—	—	—	—	169,628	246,438
Total current unrestricted liabilities	18,453,685	28,040,993	1,921,154	484,244	10,034,272	(18,010,955)	40,923,393	39,402,502
Current liabilities payable from restricted assets:								
Customer deposits payable	—	1,802,725	2,127,628	—	—	—	3,930,353	3,717,142
Mortgage notes and loans payable – current	—	—	—	2,640,000	—	(2,640,000)	—	—
Accrued interest payable	—	—	—	4,654,497	8,114,561	—	12,769,058	13,411,172
Bonds payable – current	—	—	—	23,759,704	8,719,619	—	32,479,323	74,977,121
Total current liabilities payable from restricted assets	—	1,802,725	2,127,628	31,054,201	16,834,180	(2,640,000)	49,178,734	92,105,435
Total current liabilities	18,453,685	29,843,718	4,048,782	31,538,445	26,868,452	(20,650,955)	90,102,127	131,507,937
Noncurrent liabilities:								
Bonds payable	—	—	—	281,936,823	418,254,719	—	700,191,542	661,716,639
Mortgage notes and loans payable	371,503	208,107,593	1,694,768	—	—	(189,625,896)	20,547,968	20,621,688
Loans payable to Montgomery County	4,549,409	55,523,113	—	—	—	—	60,072,522	60,053,139
Capitalized lease obligations	348,696	19,959,890	—	—	—	—	20,308,586	20,478,213
Deferred revenue	16,983,824	2,478,295	1,111,139	—	1,051,369	(26,774)	21,597,853	21,714,695
Escrow and other deposits	—	—	—	—	4,112,218	—	4,112,218	4,380,786
Interest Rate Swap	—	—	—	5,304,183	11,885,995	—	17,190,178	5,982,025
Total noncurrent liabilities	22,253,432	286,068,891	2,805,907	287,241,006	435,304,301	(189,652,670)	844,020,867	794,947,185
Total liabilities	40,707,117	315,912,609	6,854,689	318,779,451	462,172,753	(210,303,625)	934,122,994	926,455,122
Net Assets								
Invested in capital assets, net of related debt	7,407,945	(31,427,253)	61,473,787	—	—	(8,626,664)	28,827,815	29,990,548
Restricted for:								
Debt service	—	15,660,058	—	16,148,998	24,861,471	—	56,670,527	41,898,876
Customer deposits and other	—	120,736	8,410,828	—	—	—	8,531,564	13,162,312
Closing cost assistance program	617,268	—	—	—	—	—	617,268	996,159
Unrestricted (deficit)	15,842,654	66,348,557	5,258,996	13,221,815	1,083,129	—	101,755,151	103,805,520
Total net assets	\$ 23,867,867	50,702,098	75,143,611	29,370,813	25,944,600	(8,626,664)	196,402,325	189,853,415

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Revenues, Expenses, and Changes in Net Assets – Enterprise Funds

Year ended June 30, 2012

(with comparative totals for June 30, 2011)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multifamily Fund	Eliminations	Combined Totals	
							2012	2011
Operating revenues:								
Dwelling rental	\$ 704,171	52,340,356	5,487,438	—	—	—	58,531,965	57,304,024
Investment income	—	—	—	1,903,021	5,817,333	—	7,720,354	8,169,267
Unrealized gains (losses) on investments	—	—	—	5,089,127	4,101,133	—	9,190,260	(2,183,851)
Interest on mortgage and construction loans receivable	—	—	—	10,889,297	16,647,020	(10,655,958)	16,880,359	18,438,510
Management fees and other income	14,068,042	3,140,800	1,469,805	—	564,690	(10,062,733)	9,180,604	8,712,644
U.S. Department of Housing and Urban Development grants:								
Housing Assistance Payments (HAP)	—	—	77,868,323	—	—	—	77,868,323	78,529,266
HAP administrative fees	—	—	5,799,380	—	—	—	5,799,380	6,091,862
Other grants	—	—	11,249,981	—	—	—	11,249,981	10,889,692
State and County grants	—	—	10,831,271	—	—	—	10,831,271	10,069,139
Total operating revenues	<u>14,772,213</u>	<u>55,481,156</u>	<u>112,706,198</u>	<u>17,881,445</u>	<u>27,130,176</u>	<u>(20,718,691)</u>	<u>207,252,497</u>	<u>196,020,553</u>
Operating expenses:								
Housing Assistance Payments	—	—	83,980,027	—	—	—	83,980,027	79,201,987
Administration	9,867,926	9,094,236	16,625,030	2,732,021	2,254,384	(6,641,222)	33,932,375	34,412,838
Maintenance	936,361	10,221,904	4,396,426	—	—	—	15,554,691	14,834,381
Depreciation and amortization	889,613	10,759,453	4,958,487	—	—	—	16,607,553	16,075,783
Utilities	232,095	4,020,674	1,927,462	—	—	—	6,180,231	6,804,381
Fringe benefits	3,541,762	794,187	4,036,611	—	—	—	8,372,560	7,845,250
Interest expense	—	13,269,819	—	10,814,459	18,116,344	(10,655,958)	31,544,664	34,009,553
Other expenses	674,027	6,396,105	2,486,405	228,944	—	(3,421,511)	6,363,970	6,546,617
Bad debt expense	—	250,853	102,454	431,064	—	—	784,371	361,871
Total operating expenses	<u>16,141,784</u>	<u>54,807,231</u>	<u>118,512,902</u>	<u>14,206,488</u>	<u>20,370,728</u>	<u>(20,718,691)</u>	<u>203,320,442</u>	<u>200,092,661</u>
Operating income (loss)	\$ <u>(1,369,571)</u>	<u>673,925</u>	<u>(5,806,704)</u>	<u>3,674,957</u>	<u>6,759,448</u>	<u>—</u>	<u>3,932,055</u>	<u>(4,072,108)</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Revenues, Expenses, and Changes in Net Assets – Enterprise Funds, continued

Year ended June 30, 2012

(with comparative totals for June 30, 2011)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multifamily Fund	Eliminations	Combined Totals	
							2012	2011
Nonoperating revenues (expenses):								
Investment income	\$ 539,907	20,989	17,076	—	—	—	577,972	609,386
Interest on mortgage and construction loans receivable	126,867	39,527	—	—	—	—	166,394	187,259
Interest expense	(115,534)	—	—	—	—	—	(115,534)	(138,314)
Other grants	—	41,229	—	—	—	—	41,229	37,219
State and County grants	—	765,279	—	—	—	—	765,279	131,020
Total nonoperating income	<u>551,240</u>	<u>867,024</u>	<u>17,076</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,435,340</u>	<u>826,570</u>
Income (loss) before contributions and transfers	(818,331)	1,540,949	(5,789,628)	3,674,957	6,759,448	—	5,367,395	(3,245,538)
Capital contributions	—	—	1,181,515	—	—	—	1,181,515	3,283,006
Operating transfers in (out)	1,894,722	(52,809)	162	—	(1,842,075)	—	—	—
Transfer of MHLP II & Ambassador Apartments	—	—	—	—	—	—	—	736,869
Changes in net assets	1,076,391	1,488,140	(4,607,951)	3,674,957	4,917,373	—	6,548,910	774,337
Total net assets, beginning of year	22,791,476	49,213,958	79,751,562	25,695,856	21,027,227	(8,626,664)	189,853,415	189,079,078
Total net assets, end of year	\$ <u>23,867,867</u>	<u>50,702,098</u>	<u>75,143,611</u>	<u>29,370,813</u>	<u>25,944,600</u>	<u>(8,626,664)</u>	<u>196,402,325</u>	<u>189,853,415</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Enterprise Funds

Year ended June 30, 2012

(with comparative totals for June 30, 2011)

	General Fund	Opportunity Housing Fund	Public Fund	Single Family Fund	Multifamily Fund	Eliminations	Combined Totals	
							2012	2011
Cash flows from operating activities:								
Receipts from customers	\$ 14,248,607	56,063,215	6,607,160	—	564,690	(9,368,449)	68,115,223	78,068,164
Mortgage principle payments/receipts	—	—	—	6,212,757	5,271,637	(2,497,989)	8,986,405	(11,502,070)
Intergovernmental principal payments received	—	—	105,748,955	—	—	—	105,748,955	105,579,959
Investment income received	—	—	—	1,903,021	5,817,333	—	7,720,354	8,169,267
Mortgage interest received	—	—	—	11,799,937	16,754,579	(10,596,832)	17,957,684	17,244,142
Receipts from interfund services provided	—	4,219,319	—	87,856	—	—	4,307,175	4,556,043
Payments to suppliers	(4,308,586)	(23,975,612)	(14,974,282)	(2,658,165)	(1,783,040)	9,368,449	(38,331,236)	(41,387,765)
Payments to employees	(11,365,434)	(6,668,440)	(14,472,738)	(1,012,099)	(527,985)	—	(34,046,696)	(34,170,387)
Interest paid	(1,564)	(13,004,396)	—	(10,540,636)	(18,912,979)	10,596,832	(31,862,743)	(32,244,000)
Housing assistance payments	—	—	(83,980,027)	—	—	—	(83,980,027)	(79,201,987)
Payments to interfund services used	(1,554,103)	—	(795,512)	—	(1,957,560)	—	(4,307,175)	(4,556,043)
Net cash provided by (used in) operating activities	(2,981,080)	16,634,086	(1,866,444)	5,792,671	5,226,675	(2,497,989)	20,307,919	10,555,323
Cash flows from investing activities:								
Repayments of advances from (to) component units	(193,409)	(923,059)	—	—	—	—	(1,116,468)	(95,256)
Repayments of advances by component units	—	—	—	—	—	—	—	1,244,266
Investments purchased	—	—	—	(18,172)	(14,617,095)	—	(14,635,267)	(45,785,653)
Investments sold	—	—	—	18,660,656	32,271,926	—	50,932,581	81,289,690
Investment income received	539,907	20,989	17,076	—	—	—	577,972	609,386
Investment in mortgages receivable	169,481	(1,274,834)	—	—	—	—	(1,105,353)	(6,863,387)
Mortgage interest received	112,010	39,527	—	—	—	—	151,537	116,499
Net cash provided by (used in) investing activities	627,989	(2,137,377)	17,076	18,642,484	17,654,831	—	34,805,002	30,515,545
Cash flows from noncapital financing activities:								
Proceeds from sale of bonds	—	—	—	32,784,209	61,553,104	—	94,337,313	134,706,572
Bond repayments	—	—	—	(31,969,015)	(67,095,000)	—	(99,064,015)	(165,519,175)
Bond premium received	—	—	—	584,508	—	—	584,508	—
Intergovernmental revenue	—	806,508	—	—	—	—	806,508	168,239
Net cash provided by (used in) noncapital financing activities	\$ —	806,508	—	1,399,702	(5,541,896)	—	(3,335,686)	(30,644,364)

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Enterprise Funds, continued

Year ended June 30, 2012

(with comparative totals for June 30, 2011)

	<u>General Fund</u>	<u>Opportunity Housing Fund</u>	<u>Public Fund</u>	<u>Single Family Fund</u>	<u>Multifamily Fund</u>	<u>Eliminations</u>	<u>Combined Totals</u>	
							2012	2011
Cash flows from capital and related financing activities:								
Payments for property, equipment and capital financing fees	\$ (819,672)	(13,673,977)	(9,955,614)	—	—	—	(24,449,263)	(48,050,632)
Proceeds from sale of property and equipment	50	5,544,469	5,666,381	—	—	—	11,210,900	26,553,770
Proceeds from new mortgage notes and loans payable	10,940,943	84,913	469,000	2,640,000	—	372,042	14,506,898	3,600,263
Payments on mortgage notes and loans payable	(11,743,325)	(2,570,175)	—	(6,890,000)	(2,929,279)	2,125,947	(22,006,832)	(196,337)
Proceeds from new loans payable to Montgomery County	93,567	2,504,656	—	—	—	—	2,598,223	9,424,580
Payments on loans payable to Montgomery County	(28,041)	(2,448,414)	—	—	—	—	(2,476,455)	(3,481,244)
Interest paid on mortgages	(115,534)	—	—	—	—	—	(115,534)	(138,314)
Proceeds received for FHA risk-sharing losses reserve	607,957	—	—	—	—	—	607,957	554,865
Payment of principal on capital lease obligations	(243,757)	(2,680)	—	—	—	—	(246,437)	515,830
Capital contributions and transfers	—	—	1,181,515	—	—	—	1,181,515	4,019,875
Net cash provided by (used in) capital and related financing activities	<u>(1,307,812)</u>	<u>(10,561,208)</u>	<u>(2,638,718)</u>	<u>(4,250,000)</u>	<u>(2,929,279)</u>	<u>2,497,989</u>	<u>(19,189,028)</u>	<u>(7,197,344)</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,660,903)</u>	4,742,009	<u>(4,488,086)</u>	21,584,857	14,410,331	—	32,588,208	3,229,160
Cash and cash equivalents, beginning of year	29,288,335	38,211,278	21,490,436	42,732,108	35,089,616	—	166,811,773	163,582,613
Cash and cash equivalents, end of year	\$ <u>25,627,432</u>	<u>49,953,287</u>	<u>17,002,350</u>	<u>64,316,965</u>	<u>49,499,947</u>	<u>—</u>	<u>199,399,981</u>	<u>166,811,773</u>
Reconciliation of cash and cash equivalents, end of year to amounts in the statement of net assets:								
Current unrestricted cash and cash equivalents	\$ 25,428,223	25,369,768	6,425,276	13,221,815	1,083,129	—	71,528,211	76,373,882
Restricted cash and cash equivalents	199,209	15,660,058	8,168,186	35,045,702	31,582,638	—	90,655,793	61,354,998
Current bonds payable	—	—	—	16,049,448	16,834,180	—	32,883,628	25,032,424
Customer deposits	—	1,923,461	2,408,888	—	—	—	4,332,349	4,050,469
Total cash and cash equivalents	\$ <u>25,627,432</u>	<u>42,953,287</u>	<u>17,002,350</u>	<u>64,316,965</u>	<u>49,499,947</u>	<u>—</u>	<u>199,399,981</u>	<u>166,811,773</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Cash Flows – Enterprise Funds, continued

Year ended June 30, 2012

(with comparative totals for June 30, 2011)

	<u>General Fund</u>	<u>Opportunity Housing Fund</u>	<u>Public Fund</u>	<u>Single Family Fund</u>	<u>Multifamily Fund</u>	<u>Eliminations</u>	<u>Combined Totals</u>	
							2012	2011
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	\$ (1,369,571)	673,925	(5,806,704)	3,674,957	6,759,448	—	3,932,055	(4,072,108)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	889,613	10,759,453	4,958,487	—	—	—	16,607,553	16,075,783
Unrealized losses (gains) on investments	—	—	—	(3,240,398)	(4,101,133)	—	(7,341,531)	2,183,851
Change in assets and liabilities:								
Decrease (increase) in accounts receivable and other assets	(492,112)	495,817	(910,983)	(302,269)	—	757,146	152,137	10,584,612
Decrease (increase) in mortgage and construction loans receivable	—	—	—	6,235,711	(2,236,009)	(2,497,989)	1,501,713	(5,678,172)
Decrease (increase) in accrued interest receivable	—	(38,350)	—	910,640	107,559	(59,126)	920,723	(927,050)
Decrease (increase) in deferred charges	—	76,113	(3,025)	(325,223)	417,866	7,991	173,722	(43,991)
Decrease (increase) in interfund receivable	(1,554,103)	4,219,319	(795,512)	87,856	(1,957,560)	—	—	—
(Decrease) increase in accounts payable	(421,847)	133,907	127,368	(278,234)	8,386,212	(757,146)	7,199,260	(9,755,264)
(Decrease) increase in deferred revenue	(31,496)	8,566	390,627	—	(1,084,505)	(7,991)	(724,799)	598,042
(Decrease) increase in accrued interest payable	(1,564)	265,423	—	273,822	(796,635)	59,126	(199,828)	1,765,806
(Decrease) increase in escrow and other deposits	—	39,913	173,298	—	(268,568)	—	(55,357)	(176,186)
Net cash provided by (used in) operating activities	\$ (2,981,080)	16,634,086	(1,866,444)	7,641,400	5,226,675	(2,497,989)	22,156,648	10,555,323

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(1) Organization and Summary of Significant Accounting Policies

(a) Description of the Commission

The Housing Opportunities Commission of Montgomery County, Maryland (a component unit of Montgomery County, Maryland) (the Commission) is a public body corporate and politic duly organized under Division II of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, known as the Housing Authorities Law. In addition, Chapter 41 of the laws of Montgomery County, Maryland, known as the Housing Opportunities Act, permits Montgomery County (the County) to authorize the Commission to perform various housing functions either through a contract with the County or by local law.

Specific powers of the Commission include:

- Acquiring land,
- Utilizing federal/state housing subsidies,
- Making mortgage loans and rent subsidy payments,
- Making construction loans,
- Providing permanent mortgage financing,
- Purchasing mortgages, and
- Issuing Bonds.

Housing activities sponsored by the Commission include:

- The Public Housing Rental Program, which provides housing for low- and moderate-income families and elderly and disabled individuals who pay either a flat rent or 30% of their adjusted gross income for rent;
- Home-Ownership Program, whereby families pay a minimum of 30% of their adjusted gross income each month to the Commission. A portion of this monthly payment is placed in an earned home-payment account, and another sum is placed in a non-routine maintenance reserve. Once a family's income is high enough to secure a mortgage, these reserve accounts can be used for the down payment and/or closing costs. Title to the home is then transferred to the family, and they assume ownership of the home along with all rights and responsibilities of home ownership;

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

- Housing Choice Voucher Program, sponsored by the U.S. Department of Housing and Urban Development (HUD), through which eligible persons may seek housing in the private marketplace. The Housing Choice Voucher program allows eligible families to obtain adequate rental housing while paying a minimum of 30% of their monthly income for rent;
- Opportunity Housing Program, which is a local program administered by the Commission for families of eligible income, and includes both sales and rental housing; and
- Tax Credit Partnerships, which provide rental housing for low and moderate income households. The Commission manages these properties and is a 1% or less general partner.

The above activities are supported by a network of tenant services. Funding for these services is provided by federal, state and county government agencies.

Bonds issued by the Commission include Single Family Mortgage Revenue Bonds and Multifamily Housing Revenue Bonds. Single Family Mortgage Revenue Bonds provide below-market interest rate mortgage loans for the purchase of single-family homes for low- to moderate-income families on an equal opportunity basis. The Multifamily Housing Revenue Bonds provide below-market rental units within multifamily developments for low- to moderate-income families.

Except as noted below, neither the Single Family Mortgage Revenue Bonds nor the Multifamily Housing Revenue Bonds constitute a liability or obligation, either direct or indirect, of Montgomery County, the State of Maryland (the State) or any political subdivision thereof and are not backed by the full faith and credit of the Commission, the State or any political subdivision thereof, but are limited obligations of the Commission payable solely from the revenue and other assets of the Commission pursuant to individual Bond Resolutions. The Multifamily Housing Revenue Bonds, 1998 Issue A and 2009 Issue A, are guaranteed as general obligation bonds of Montgomery County.

Management of the Commission and Montgomery County has determined that the Commission is a component unit of the County. Accordingly, the County is required to report the Commission's financial activity, together with all other component units, in its basic financial statements.

(b) *Financial Reporting Entity*

As required by accounting principles generally accepted in the United States of America (GAAP) these financial statements present the Commission and the following component units, which are entities for which the primary government is considered financially accountable:

Development Corporations. The Development Corporations (the Corporations) operate exclusively for non-profit purposes and were created to assist in carrying out housing projects for persons of eligible income. Housing projects undertaken, financed, or assisted by the Corporations and their related expenditures must be approved by the Commission. The Corporations are legally separate from the Commission, and are included in the Opportunity Housing Fund as blended component units, since the Commission can significantly influence the programs, projects, or activities of, or the level of service performed by the Corporations, and their boards of directors are substantially the same as the Commission.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Real Estate Limited Partnerships. The Commission is the managing general partner in 16 real estate limited partnerships. The limited partnership interests are held by third parties unrelated to the Commission. As managing general partner, the Commission has certain rights and responsibilities, which enable it to impose its will on the limited partnerships. Additionally, the Commission is financially accountable for the limited partnerships as the Commission is legally obligated to fund operating deficits in accordance with the terms of the partnership agreements. Fourteen of the partnerships have calendar year ends and two have a June 30 fiscal year end. Accordingly, the amounts included for each discretely presented component unit that comprise the aggregate component units column in the combined financial statements are as of and for the respective year ends that fall within the year ended June 30, 2012. Separate financial statements for the individual limited partnerships can be obtained from the Commission.

(c) ***Basis of Accounting***

The financial activities of the Commission are recorded in five proprietary enterprise funds. A brief description of each of the Commission's enterprise funds follows:

- *General Fund* – Includes all operations with the exception of public-funded programs, opportunity housing programs and bond-funded activities. This fund also includes any private grants received and the development costs of tax credit partnerships.
- *Opportunity Housing Fund* – Includes all operating, capital improvements and capital development related to the Commission's opportunity housing portfolio.
- *Public Fund* – Includes all funds the Commission receives from federal, state and local government agencies, and related activities.
- *Multifamily Fund* – Used to account for the proceeds of Multifamily Housing Revenue Bonds, the debt service requirements on the bonds, investments held pursuant to the indenture authorizing the issuance of the bonds and the related mortgage-loan financing for newly constructed or rehabilitated Multi-Family rental housing in the County.
- *Single Family Fund* – Used to account for the proceeds of Single Family Mortgage Revenue Bonds, the debt service requirements on the bonds, investments held pursuant to the indenture authorizing the issuance of the bonds and debt service collected from mortgage loans purchased for the financing of owner-occupied, single-family residences in the County.

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

Commission financial statements distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a fund's principal ongoing operations. The principal operating revenues of the General and Opportunity Housing Funds are dwelling rentals, management fees and other income. The principal operating revenues of the Public Fund are intergovernmental grants. The principal operating revenues of the Single Family and Multifamily Funds are investment interest and interest on mortgage and construction loans receivable. Operating expenses for the General, Opportunity Housing and Public Funds include

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

administrative, maintenance, depreciation and amortization, utilities, and other expenses. Interest expense is included as an operating expense of the Opportunity Housing Fund. Housing assistance payments are considered operating expenses of the Public Fund. The principal operating expenses of the Single Family and Multifamily Funds are interest and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The effect of interfund activity has been eliminated from the combined financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* allows governments to choose not to implement, in proprietary fund types, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, provided that this is applied on a consistent basis, or to continue to follow FASB standards. The Commission has elected not to implement FASB pronouncements issued after that date.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(d) Investments

Investments of the General Fund, the Public Fund, and the Opportunity Housing Fund consist of those permitted by the investment policy including obligations of the U.S. Government and federal agencies, bankers' acceptances, repurchase agreements, certificates of deposit, money market mutual funds, investments in the Maryland Local Government Investment Pool, commercial paper, and investments in the Montgomery County investment pool. Investments of the Multifamily Program Fund and the Single Family Mortgage Purchase Program Fund consist of those permitted by the respective bond trust indentures adopted by the Commission providing for the issuance of bonds. Investments are recorded at fair value. Fair value is based upon quoted market prices. The Commission classifies its investments as current or non-current based on the maturity dates. Short-term investments have maturities within one year.

(e) Mortgage and Construction Loans Receivable

Mortgage and construction loans are carried at amounts advanced, net of collections and reserves for loan losses, if any. As of June 30, 2012, there were no reserves for loan losses however, the Commission has experienced an increase in loan foreclosures. Note 3, Mortgage and Construction Loans Receivable, provides detailed information about loans in foreclosure and Real Estate Owned (REO) status. Loans that become past due as to principal and interest are evaluated for collectability. Generally, loans are placed on non-accrual status when the mortgage insurance claim has settled. The Commission continually monitors the collectability of all loans in foreclosure and REO status against the sales proceeds and mortgage insurance held by the Commission in determining the need for an

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

allowance for loan loss. Additionally, the Commission has an active loan mitigation procedure in place which ensures that servicer activities are monitored and losses to the Commission are minimized. Historically, the Commission's loan losses have been insignificant. Generally, loans are placed on non-accrual status when the mortgage insurance claim has settled.

(f) *Mortgage Risk-Sharing Agreement*

The Commission participates in a mortgage risk-sharing agreement with HUD to provide for full mortgage insurance through the Federal Housing Administration (FHA) of loans for affordable housing. The Commission was approved by HUD as both a Level I and Level II participant. Level I participants assume 50% or more, in 10% increments of the risk of loss from mortgage default and Level II participants assume either 25% or 10% of the risk of loss from mortgage default.

Upon default of a mortgage and the filing of a claim with FHA by the Commission, HUD will pay the claim in full, so the Commission can redeem the bonds. Upon receipt of the cash payment from FHA, the Commission will execute a debenture with HUD for the full amount of the claim within 30 calendar days of the initial claim payment. The instrument will be dated as of the date that the initial claim payment is issued. The debenture shall have a term of 5 years. The Commission will agree to reimburse HUD the full amount of the debenture upon maturity. The Commission must pay annual interest on the debenture at HUD's published debenture rate as of the earlier of the initial endorsement date or the final endorsement date. Upon the sale of the project and settlement of the claim, the Commission will assume a portion of the loss based on the proportion of risk borne by the Commission. The Commission's maximum potential risk of loss as of June 30, 2012 is \$110,837,415 which is collateralized primarily by the underlying properties. Management has established what it deems to be an adequate reserve of \$8,337,582 against this potential loss in excess of the value of the real estate securing the notes.

(g) *Grants/Contributions from Governmental Agencies*

The Commission receives reimbursement from federal, state and county governmental agencies for the cost of sponsored projects, including administrative costs. Revenue is recognized to the extent of reimbursable costs incurred subject to limitations in the agreements with the sponsoring governmental agencies.

(h) *Capital Assets*

Capital assets include property held for and under development, operating properties, and fixed assets used in operations that cost \$5,000 or more and have an estimated useful life of at least two years.

The Commission capitalizes costs associated with properties held for and under development, including interest costs during the construction period. The carrying amount of such properties does not exceed the estimated net realizable value.

Operating properties are carried at cost and are depreciated on a straight-line basis. Estimated useful lives are 40 years for buildings and 3 to 15 years for building improvements, site improvements and furniture and equipment.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

The Commission is exempt from county property taxes under specific payment-in-lieu of taxes (PILOT) agreements for all Public Housing and Opportunity Housing properties.

(i) *Loan Origination, Commitment, and Monitoring Fees*

The Commission charges commitment and financing fees to developers within the Multifamily Fund. Loan origination and commitment fees are deferred and recognized over the life of the related loan as an adjustment of yield. Net deferred fees are amortized to income in a manner approximating the effective interest method. The Commission also incurs cost of issuance expenses for the Single Family bond issues which are deferred and amortized over the life of the bonds. Net deferred fees amounted to \$5,592,140 at June 30, 2012 and are included in deferred charges on the statement of net assets. The Commission also annually receives loan monitoring fees for the ongoing costs of monitoring mortgages and bonds for compliance under the Multifamily Fund. These fees are recognized as earned and are included in management fees and other income in the accompanying statement of revenues, expenses and changes in net assets.

(j) *Bond Discounts and Premiums*

Bond discounts and premiums are amortized using a method which approximates the effective interest method.

(k) *Bond Accretion*

Interest expense on capital appreciation bonds is not paid in cash during the term of the bonds, but is added to the principal balance. Accretion is computed using the effective interest method and is included in bond interest expense in the accompanying statement of revenues, expenses and changes in net assets.

(l) *Cash Equivalents*

For purposes of the statements of cash flows, the Commission considers all highly liquid investments with maturities of twelve months or less when purchased to be cash equivalents.

(m) *Compensated Absences and Severance*

The Commission's policy provides for the accrual of annual leave only. The accrual is based on the employee's current leave balance and the current hourly rate of pay. The maximum number of hours per employee is 240. The outstanding annual leave accrual as of June 30, 2012 amounted to \$1,931,712 and is included in accounts payable and accrued liabilities in the accompanying statement of net assets.

In July 2006, the Commission adopted a personnel policy for senior executive staff which provides for a severance package including payments up to thirty-six weeks of wages and other benefits. The outstanding annual leave accrual includes the severance package accruals for senior executive staff up to thirty-six weeks as appropriate.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(n) Prior-Period Comparative Financial Information

The basic financial statements include certain prior-year partial comparative information that is not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Commission’s financial statements for the year ended June 30, 2012, from which the partial information was derived.

(2) Cash, Cash Equivalents, and Investments

Business-Type Activities

A. Cash

The Commission’s cash balances as of June 30, 2012 were entirely insured or collateralized with securities held by the Commission’s agent in the Commission’s name.

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Cash:		
General Fund	\$ 9,955,465	9,951,615
Opportunity Housing Fund	31,161,486	31,152,010
Public Fund	<u>9,197,091</u>	<u>9,195,591</u>
Total cash	<u>\$ 50,314,042</u>	<u>50,299,216</u>

B. Cash Equivalents & Investments

The General Fund cash and cash equivalents balance at June 30, 2012 includes \$199,209 of cash and cash equivalents restricted for closing cost programs. The Opportunity Housing Fund cash and cash equivalents balance at June 30, 2012 includes \$17,583,519 of cash and cash equivalents restricted in accordance with various loan agreements with agencies of the State of Maryland and Montgomery County, in bond indentures and security deposits. The Public Fund cash and cash equivalent balance includes \$10,577,074 as of June 30, 2012, of security deposits, housing choice voucher funding and home ownership reserves restricted in accordance with the HUD regulations.

The Commission and its discretely presented component unit’s investments are subject to interest rate, credit and custodial risk as described below:

Interest Rate Risk. The Commission’s investment policy which applies to the General Fund, Public Fund and the Opportunity Housing Fund requires that the majority of the investments of the Commission must be on a short-term basis (less than one year); however, a portion of the portfolio may be invested in investments with longer maturities (up to two years). The investment requirements for the Multifamily Fund and Single Family Fund are specified within each of the bond trust indentures. The bond trustee is required to invest money in obligations with the objective that sufficient money will be available to pay the

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

interest due on the Bonds and will mature or be subject to redemption with the objective that sufficient money will be available for the purposes intended in accordance with the Indenture.

Credit Risk. The Commission's investment policy for the General Fund, Public Fund and the Opportunity Housing Fund permits the following investment types: U.S. Government and federal agencies; repurchase agreements; banker's acceptances; money market mutual funds; Maryland Local Government Investment Pool; Montgomery County Local Government Investment Pool; certificate of deposits and time deposits; and commercial paper. Bankers Acceptances of domestic banks and commercial paper must maintain the highest rating from one of the Nationally Recognized Statistical Rating Organizations (NRSRO) as designated by the SEC or State Treasurer. Repurchase agreements require collateralization at 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities provided the collateral is held by a custodian, other than the seller. Certificates of deposit or time deposits must be collateralized at 102% of the market value and held by a custodian other than the seller.

The Commission invests in the Maryland Local Government Investment Pool (MLGIP). The pool is not subject to regulatory oversight by the SEC. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by PNC Bank. The pool has a AAAM rating from Standard and Poors and maintains a \$1.00 per share value. An MLGIP Advisory Committee of current participants was formed to review, on a semi-annual basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair market value of the pool is the same as the value of the pool shares. The MLGIP issues a publicly available financial report that includes financial statements and required supplementary information for the MLGIP. This report can be obtained by writing: PNC Bank, Maryland Local Government Investment Pool, Mr. David Rommel, 2 Hopkins Plaza, 5th Floor, Baltimore, Maryland 21201; or by calling 1-800-492-5160.

The Single Family and Multifamily Funds require that the Trustee invest moneys on deposit under the Indenture in Investment Obligations as defined by the respective Bond Indenture Agreements. Investment Obligations are defined as the following: (i) Government obligations; (ii) bond debentures or other obligation issued by government agencies or corporations; (iii) time deposits or certificate of deposits insured by the Federal Deposit Insurance Corporation; (iv) repurchase agreements backed by obligations described in (i) and (ii) above; (v) investment agreements; (vi) tax exempt obligations; and (vii) money market funds.

Custodial Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Amounts held in trust accounts and other demand accounts within the General Fund, the Opportunity Housing Fund and the Public Fund are covered by federal depository insurance, or collateralized at a level of at least 102% of market value of principal and accrued interest. The collateral is held by the bank's agent in the Commission's name with the exception of the repurchase agreement collateral for the MLGIP which is segregated and held in the name of PNC Bank's Safe Deposit and Trust's account at the Federal Reserve Bank. The cash and cash equivalents held by PNC Bank for the General Fund, Opportunity Housing Fund and Public Fund are in bank money market accounts and interest bearing accounts. These accounts are not rated by an independent rating agency. The Moody's rating for PNC Bank short-term deposits as of June 30, 2012 was P-1.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Amounts held in money market funds and investment agreements within the Multifamily and Single Family Funds are typically collateralized at 102% by either U.S. Treasuries or other government guaranteed securities. The Bond Indenture agreements permit investments in funds that contain agency debt which are not collateralized by U.S. Treasuries or other guaranteed government securities. As of June 30, 2012, the Commission held investments in agency securities which were not collateralized but were rated A, AA, Aa2, and AAA.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

As of June 30, 2012 the Commission had the following cash, cash equivalents, investments and maturities:

<u>Cash Equivalents</u>	<u>Fair Value</u>	<u>Ratings</u>
Cash equivalents:		
General Fund		
<i>Money Market Accounts</i>	\$ 15,671,967	N/A
Opportunity Housing Fund		
<i>Investment in Maryland Local</i>		
<i>Government Investment Pool</i>	307,067	AAAm
<i>Money Market Accounts</i>	11,484,734	N/A
Public Fund		
<i>Investment in Maryland Local</i>		
<i>Government Investment Pool</i>	3,981,927	AAAm
<i>Money Market Accounts</i>	3,823,332	N/A
Multifamily Fund		
<i>Money Market Accounts</i>	49,499,947	AAA
Single Family Fund		
<i>Money Market Accounts</i>	64,316,965	AAA
<i>Total cash equivalents</i>	\$ <u>149,085,939</u>	
Short-term Investments:		
Multifamily Fund		
<i>GNMA Pool</i>	699,775	AAA
Single Family Fund		
<i>USG GSE Global Escrow Agreement</i>	12,416,465	N/A
<i>Total short-term investments</i>	\$ <u>13,116,240</u>	

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

As of June 30, 2012, the Commission had the following cash, cash equivalents, investments and maturities:

<u>Long Term Investments</u>	<u>Fair Value</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>Greater than 10 years</u>	<u>Rating</u>
Long-term Investments:					
Multifamily Fund					
<i>US Treasuries</i>	\$ 2,706,028	-	1,773,782	932,246	AAA
<i>Fannie Mae</i>	4,619,685	-	-	4,619,685	AAA
<i>Freddie Mac</i>	1,843,062	-	-	1,843,062	AAA
<i>GNMA Pool</i>	90,149,694	37,452,457	-	52,697,237	AAA
<i>Bank One Investment Agreement</i>	591,525	-	-	591,525	AA/Aa2
<i>Federal Farms</i>	1,908,244	-	-	1,908,244	AAA
Single Family Fund					
<i>Federal Farm Credit Banks</i>	7,226,840	-	-	7,226,840	AAA
<i>Federal Home Loan Banks</i>	11,382,132	-	-	11,382,132	AAA
<i>Fannie Mae</i>	1,085,318	-	-	1,085,318	AAA
<i>US Treasuries</i>	9,508,520	2,801,987	5,271,203	1,435,330	AAA
<i>Solomon Repurchase Agreement</i>	2,345,800	2,345,800	-	-	A
<i>Tennessee Valley Authority</i>	7,104,365	-	2,730,863	4,373,502	AAA
Total long-term investments	<u>140,471,213</u>	<u>42,600,244</u>	<u>9,775,848</u>	<u>88,095,121</u>	
<i>Cash balances</i>	<u>50,314,042</u>				
	<u>\$ 352,987,434</u>				
Reconciliation of cash, cash equivalents and investments to amounts in the statement of net assets:					
Current unrestricted cash and cash equivalents	\$ 71,528,211				
Restricted cash and cash equivalents	90,655,793				
Restricted short-term investments	13,116,240				
Restricted cash and cash equivalents for current liabilities	37,215,977				
Noncurrent restricted assets	140,471,213				
	<u>\$ 352,987,434</u>				

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

C. Real Estate Limited Partnership Component Units

The Real Estate Limited Partnership Component unit cash and cash equivalents balance as of December 31, 2011 were as follows:

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Cash	\$ 5,898,810	\$ 5,896,646
Cash Equivalents	<u>Fair Value</u>	<u>Rating</u>
<i>Investment in Maryland Local Government Investment Pool</i>	\$ 1,478,003	AAAm
<i>Money Market Accounts</i>	<u>4,085,707</u>	N/A
	5,563,710	
Total Cash, Cash Equivalents and Investments	\$ <u><u>11,462,520</u></u>	
Reconciliation of cash and cash equivalents to amounts in the statement of net assets:		
Current unrestricted cash and cash equivalents	\$ 4,268,304	
Restricted cash and cash equivalents for current liabilities	653,800	
Restricted cash and cash equivalents	<u>6,540,416</u>	
	\$ <u><u>11,462,520</u></u>	

All cash equivalents have maturities of one year or less. The Real Estate Limited Partnership Component Units follow the Commission's investment policy.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(3) Mortgage and Construction Loans Receivable

Mortgage and construction loans receivable are secured by deeds of trust evidencing first mortgage liens on applicable real property and are either insured by private mortgage insurance, the U.S. Federal Housing Administration or the Maryland Housing Fund or are guaranteed by the U.S. Department of Veterans Affairs. Mortgage and construction loans receivable as of June 30, 2012 consisted of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Balance</u>
General Fund		
Closing Cost Assistance Loans	5.00% \$	<u>2,683,403</u>
		<u>2,683,403</u>
Opportunity Housing Fund		
Home-Ownership Assistance Loan Fund (HALF)	4.500 to 6.500%	35,237
Rental Assistance Security Deposit Loan	—	9,879
Metropolitan of Bethesda Limited Partnership	—	1,142,000
Strathmore Court Associates Limited Partnership	—	1,000,000
Barclay One LP & Development Corporation	—	5,347,969
Spring Garden One Associates Limited Partnership	—	<u>3,259,698</u>
		<u>10,794,783</u>
Multifamily Fund		
Landings Edge	4.95%	5,515,882
Strathmore Court at White Flint - B	7.62%	4,217,961
Manchester	5.20%	1,881,835
Shady Grove	5.20%	6,247,088
Willows	5.20%	4,088,419
Stewartown	6.20%	3,372,260
Tax Credit X	6.20%	3,207,804
Georgian Court	6.20%	4,410,565
Dirng's Reach	6.02%	6,143,889
Forest Oak	4.93%	16,547,227
Silver Spring House	6.35%	1,926,813
Tax Credit 9 Poond Ridge	6.30%	1,674,983

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Tax Credit 9 MPDUs	6.30%	2,858,350
Charter House	6.02%	12,751,594
Rockville Housing	5.21%	3,641,445
Barclay	4.55%	6,079,891
Spring Gardens	4.55%	6,158,135
Metropolitan Tax Credit	6.38%	6,442,594
Argent - A-2	3.92%	8,040,000
Argent - A-2	0.85%	4,795,000
MetroPointe LP	6.50%	2,910,472
MPDU scattered sites	3.95%	9,200,000
Ring House	6.10%	14,725,759
		136,837,966
Less deferred commitment fees		<u>(100,227)</u>
		136,737,739
Single Family Fund		
Mortgage loans receivable, net	4.000 to 13.445%	<u>224,786,699</u>
Total		<u><u>\$ 375,002,624</u></u>

As of June 30, 2012, the amounts available or committed for additional advances or new loans are \$9,939,907 and \$10,714,935 for the Multifamily Fund and the Single Family Fund, respectively.

Included in the mortgage and construction loans receivable balance of the General Fund at June 30, 2012 are interfund mortgage loans receivable from the Opportunity Housing Fund, the Public Fund, the Single Family Fund and the Multifamily Bond Fund amounting to \$16,883,055 which has been eliminated in the accompanying financial statements. The related interest revenue, amounting to \$309,614 for the year ended June 30, 2012 has also been eliminated.

Included in the mortgage and construction loans receivable balance of the Opportunity Housing Fund at June 30, 2012 are interfund mortgage loans receivables from the OHRF Fund (internal capital fund) amounting to \$5,505,832, which has been eliminated in the accompanying financial statements.

Included in the mortgage and construction loans receivable balance of the Multifamily Fund are interfund mortgage loans receivable from the Opportunity Housing Fund amounting to \$186,302,144 as of June 30, 2012, which have been eliminated. The related interest revenue, amounting to \$10,346,344 for the year ended June 30, 2012 has also been eliminated.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Construction loans in the Opportunity Housing and Multifamily Funds generally have maturities of less than one year. Mortgage loans receivable in the Single Family Fund and the Multifamily Fund have maturities extending up to 40 years.

Single Family Fund

Currently the Commission has conventional and FHA single family mortgage loans in its portfolio. FHA mortgage loans are insured 100% by HUD. Conventional mortgage loans with a loan to value greater than 80% are insured with primary mortgage insurance. All conventional loans are insured with pool insurance. Three of the mortgage pool insurance policies carry a 1% deductible against losses. The amount of each deductible is 1% of the bond issue. Each of the three deductible amounts is approximately \$300,000. The Commission absorbs losses up to the 1% amount for each individual pool policy before the pool insurance begins to pay on claims. The deductible does not apply to the primary insurance on the conventional loans.

During fiscal year 2012, the Commission experienced an increase in the number of Single Family mortgage loans in foreclosure and Real Estate Owned (REO) status. As of June 30, 2012, approximately \$9.4 million Single Family mortgage loans were in various stages of the loan foreclosure status. An additional, \$5.5 million were in REO status. During fiscal year 2012, the Commission incurred approximately \$431,064 in loan losses as a result of Single Family mortgage loan disposition.

Management takes into consideration the potential for loan losses based on the number of loans in foreclosure and REO status against the sale proceeds from properties sold as well as the mortgage insurance received in determining if an allowance for loan losses is necessary. It employs an active loss mitigation process to ensure that servicer activities are monitored and losses to the Commission are minimized. Based on the history of loan losses and the potential exposure to the Commission after sales proceeds and mortgage insurance receipts the Commission does not believe that an allowance for loan losses is necessary at this time. Further, based on prior analysis, losses are not expected to reach a material threshold for establishing an allowance at this time. The following table provides a breakdown of foreclosures and REO's by type of mortgage loan as of June 30, 2012.

<u>Status</u>	<u>Principal FHA</u>	<u>Interest Receivable</u>	<u>Principal Conventional</u>	<u>Interest Receivable</u>	<u>Total</u>
Foreclosure	\$ 2,073,255	\$ 103,179	\$ 6,687,689	\$ 494,246	\$ 9,358,369
REO	1,117,083	106,793	3,995,852	309,752	5,529,480
Total	<u>3,190,338</u>	<u>209,972</u>	<u>10,683,541</u>	<u>803,998</u>	<u>14,887,849</u>

Total Single Family Mortgage loans outstanding as of June 30, 2012					\$ 224,786,699
Percentage of loans in Foreclosure & REO status to outstanding mortgage loans		1.51%		5.11%	6.62%

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(4) Capital Assets

(a) Capital Assets by Proprietary Fund

The Commission's capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions/ Transfer</u>	<u>Ending Balance</u>
Land:				
General Fund	\$ 3,447,287	-	-	3,447,287
Opportunity Housing Fund	34,189,143	-	107,948	34,081,195
Public Fund	16,175,151	-	3,754	16,171,397
Total land	<u>53,811,581</u>	<u>-</u>	<u>111,702</u>	<u>53,699,879</u>
Site improvements				
Public Fund	2,945,910			2,945,910
Accumulated depreciation	(2,926,125)	(3,824)		(2,929,949)
Total site improvements, net	<u>19,785</u>	<u>(3,824)</u>	<u>-</u>	<u>15,961</u>
Building and improvements:				
General Fund	5,002,241	162,661	-	5,164,902
Accumulated depreciation	(2,378,402)	(190,381)	-	(2,568,783)
Opportunity Housing Fund	310,228,143	7,299,850	2,387,616	315,140,377
Accumulated depreciation	(98,051,711)	(9,329,687)	(466,908)	(106,914,490)
Public Fund	99,338,259	5,592,346	62,767	104,867,838
Accumulated depreciation	(62,114,543)	(4,888,070)	(20,392)	(66,982,221)
Total building and improvements, net	<u>252,023,987</u>	<u>(1,353,281)</u>	<u>1,963,083</u>	<u>248,707,623</u>
Furniture and equipment:				
General Fund	8,181,249	283,342	50	8,464,541
Accumulated depreciation	(6,710,209)	(426,644)	-	(7,136,853)
Opportunity Housing Fund	9,773,892	815,691	38,944	10,550,639
Accumulated depreciation	(5,332,604)	(621,807)	(41,713)	(5,912,698)
Public Fund	3,570,232	-	26,475	3,543,757
Accumulated depreciation	(3,413,087)	(25,590)		(3,438,677)
Total furniture and equipments, net	<u>6,069,473</u>	<u>24,992</u>	<u>23,756</u>	<u>6,070,709</u>
Construction in progress:				
Opportunity Housing Fund	1,728,311	4,741,551	3,009,961	3,459,901
Public Fund	10,262,012	4,301,873	5,573,385	8,990,500
General Fund	50,516	6,650	-	57,166
Total construction in progress	<u>12,040,839</u>	<u>9,050,074</u>	<u>8,583,346</u>	<u>12,507,567</u>
Total capital assets, net	\$ <u>323,965,665</u>	<u>7,717,961</u>	<u>10,681,887</u>	<u>321,001,739</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Included in operating properties for the Opportunity Housing Fund is an interfund elimination for interest paid to the Multifamily Bond Fund amounting to \$8,626,664 as of June 30, 2012, which was capitalized during construction of the property.

Commission capital assets not being depreciated include land and construction in progress.

(b) Capital Lease

In September 2010, the Commission entered into a Master Equipment Lease Purchase Agreement with Banc of America Public Capital Corp with an interest rate of 2.99%. The lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is for a 5 year term, with an option to purchase the equipment upon expiration of the lease for \$1.00. The Commission has the following General Fund capital lease obligation as of June 30, 2012.

Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
\$ <u>677,297</u>		<u>161,863</u>	<u>515,434</u>	<u>166,738</u>

Year ending June 30,	Future minimum payments
2013	180,913
2014	180,913
2015	<u>180,913</u>
Total payments	542,739
Less interest	<u>(27,305)</u>
	515,434
Less: current portion	<u>(166,738)</u>
Long-term portion	<u>\$ 348,696.00</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

In July 2006, the Commission entered into a lease purchase agreement with Bank of America for equipment with an interest rate of 4.0209%. The lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is for a 5 year term, with an option to purchase the equipment upon expiration of the lease for \$1.00. The Commission has the following General Fund capital lease obligation as of June 30, 2012.

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
\$	<u>81,894</u>	<u>-</u>	<u>81,894</u>	<u>-</u>	<u>-</u>

In August 1997, the Commission entered into a lease agreement for building and land with an interest rate of 7.50%. The lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is for a 99-year-term, with an option to purchase the land and building after 20 years for approximately \$20,000,000. The Commission has the following Opportunity Housing Fund capital lease obligation as of June 30, 2012.

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
\$	<u>19,965,460</u>	<u>—</u>	<u>2,680</u>	<u>19,962,780</u>	<u>2,890</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Future minimum rentals under the lease are as follows:

Year ending June 30,	<u>Future minimum rentals</u>
2013	1,789,578
2014	1,789,578
2015	1,789,578
2016	1,789,578
2017	1,789,578
2018-2022	8,947,892
2023-2027	8,947,892
2028-2032	8,947,892
2033-2037	8,947,892
2038-2042	8,947,892
2043-2047	8,947,892
2048-2052	8,947,892
2053-2057	8,947,892
2058-2062	8,947,892
2063-2067	8,947,892
2068-2072	8,947,892
2073-2077	8,947,892
2078-2082	8,947,892
2083-2087	8,947,892
2088-2092	8,947,892
2093-2097	7,307,446
Total Payments	150,473,725
Less interest	(130,510,945)
	<u>19,962,780</u>
Less: current portion	(2,890)
Long-term portion	<u><u>19,959,890</u></u>

The following is an analysis of the leased property under capital lease:

Westwood Towers	\$ 19,987,798
Less accumulated amortization	<u>(7,495,424)</u>
	<u><u>\$ 12,492,374</u></u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

The Commission's capital lease activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Fund:				
<i>General Fund</i>				
Furniture and equipment	\$ 1,495,595	312,550	-	1,808,145
Accumulated amortization	<u>(1,094,907)</u>	<u>(218,119)</u>	-	<u>(1,313,026)</u>
Total furniture and equipment - General Fund	400,688	94,431	-	495,119
<i>Opportunity Housing Fund</i>				
Building and improvements	19,987,798	-	-	19,987,798
Accumulated amortization	<u>(6,995,729)</u>	<u>(499,695)</u>	-	<u>(7,495,424)</u>
Total Building and improvements - Opportunity Housing Fund	<u>12,992,069</u>	<u>(499,695)</u>	-	<u>12,492,374</u>
Total capital leases, net	\$ <u>13,392,757</u>	<u>(405,264)</u>	-	<u>12,987,493</u>

(c) Component Unit Capital Assets

<u>Real estate limited partnerships component units</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 19,279,933	26,200	840,555	18,465,578
Building and improvements	148,748,973	3,472,945	6,747,655	145,474,263
Furniture and equipment	5,012,099	211,953	534,200	4,689,852
Total accumulated depreciation	<u>(48,740,035)</u>	<u>(4,922,877)</u>	<u>(3,269,327)</u>	<u>(50,393,585)</u>
Net component unit capital assets	\$ <u>124,300,970</u>	<u>(1,211,779)</u>	<u>4,853,083</u>	<u>118,236,108</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(5) Advances to Real Estate Partnership Component Units

Advances to component units represent additional funds provided by the Commission to facilitate the purchase of the rental Moderately Priced Dwelling Units (MPDUs) and to fund operating deficits incurred by the Partnerships. The purchases of the rental MPDUs are collateralized by certain notes receivable of the Partnerships due from the limited partners in connection with the purchase of their limited partnership interests. The Partnerships' agreements:

- Include ground rent to be paid by the Partnerships to the Commission's General Fund. Ground rent for the year ended June 30, 2012, amounted to \$704,171.
- Extend from 45 to 65 years, and call for annual ground rent payments with fixed and variable upward adjustments on January 1 of each calendar year.
- Include management fees of 6.0% of monthly rental collections. Management fees paid to the Commission for the year ended June 30, 2012, amounted to \$96,453.

Due to differences in fiscal year ends, Advances to Component Units differ from Advances from the Primary Government at June 30, 2012.

(6) Accounts Receivable and Other Assets

Accounts receivable consists of grants and loans due from HUD and Montgomery County, tenant rents receivable, and amounts due from property managers. All amounts are deemed to be collectible within one year. Accounts receivable and other assets consisted of the following as of June 30, 2012:

	<u>General Fund</u>	<u>Opportunity Housing Fund</u>	<u>Public Fund</u>	<u>Single Family Fund</u>	<u>Multi family Fund</u>	<u>Total</u>
Accounts receivable:						
U.S. Department of Housing and Urban Development \$	—	—	522,884	—	—	522,884
Montgomery County, Maryland	—	327,527	1,202,301	—	—	1,529,828
Other	2,447,213	1,635,631	1,418,693	13,581	—	5,515,118
Other assets	<u>271,193</u>	<u>1,841,797</u>	<u>—</u>	<u>48,515</u>	<u>—</u>	<u>2,161,505</u>
	<u>\$ 2,718,406</u>	<u>3,804,955</u>	<u>3,143,878</u>	<u>62,096</u>	<u>—</u>	<u>9,729,335</u>

Included in the accounts receivable and other assets balance of the Opportunity Housing Fund are interfund accounts receivable from the Multifamily Fund amounting to \$739,907 as of June 30, 2012, which have been eliminated upon consolidation.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(7) Interfund Receivables, Payables, and Transfers

Interfund receivables and payables result from cash collections and disbursements for all funds being processed through the General Fund. All amounts are expected to be repaid within one year. The composition of interfund balances as of June 30, 2012, is as follows:

Due to / from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Opportunity Housing Fund	General Fund	\$ 15,315,080
General Fund	Public Fund	(1,319,508)
General Fund	Multifamily Fund	(1,562,765)
General Fund	Single Family Fund	(5,188,560)
		<u>\$ 7,244,247</u>

Due to / from primary government and component units:

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>
Primary government – General Fund	Component units - tax credit limited partnerships	\$ 15,774,342
Opportunity Housing Fund	Component units - tax credit limited partnerships	<u>10,572,844</u>
		<u>\$ 26,347,186</u>

Interfund transfers were made during the fiscal year to reduce interfund receivables and payables. The transfers occur routinely and are approved by the Board of Commissioners.

Interfund transfers:

	<u>Transfer in General Fund</u>
Transfer (in) out:	
Opportunity Housing Fund	\$ (52,809)
Public Fund	162
Multifamily Fund	<u>(1,842,075)</u>
Net transfers in: General Fund	<u>\$ (1,894,722)</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(8) Bonds, Mortgage Notes, and Loans Payable – Primary Government

Bonds and mortgage notes have been issued to provide financing for the Commission's housing programs and are collateralized as follows:

- Mortgage loans receivable made on the related developments or single-family residential mortgage loans purchased.
- Substantially all revenue, mortgage payments and recovery payments received by the Commission from mortgage loans made on the related developments.
- Certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

Interest rates on bonds payable ranged from 0.25% to 11.26% as of June 30, 2012.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(a) Bonds Payable

The Commission has the following bonds payable outstanding as of June 30, 2012:

	Outstanding Beginning of Year	Issued This Year	Retired This Year	Outstanding end of Year	Amount due within one year
Single Family Fund::					
1998 Series A - Accretions	\$ 28,794,435	1,562,113	1,774,015	28,582,533	—
2001 Series A	1,015,000	—	140,000	875,000	415,000
2002 Series A	2,125,000	—	220,000	1,905,000	310,000
2002 Series B - Accretions	2,957,798	177,096	—	3,134,894	119,704
2002 Series C	16,890,000	—	—	16,890,000	—
2004 Series A	10,045,000	—	325,000	9,720,000	670,000
2004 Series B	685,000	—	335,000	350,000	40,000
2005 Series A	11,850,000	—	570,000	11,280,000	710,000
2005 Series B	1,270,000	—	270,000	1,000,000	255,000
2005 Series C	7,505,000	—	470,000	7,035,000	580,000
2005 Series D	7,900,000	—	320,000	7,580,000	655,000
2006 Series A	12,830,000	—	630,000	12,200,000	815,000
2006 Series B	7,230,000	—	465,000	6,765,000	760,000
2007 Series A	11,165,000	—	570,000	10,595,000	1,050,000
2007 Series B	14,935,000	—	295,000	14,640,000	605,000
2007 Series C	1,000,000	—	—	1,000,000	—
2007 Series D	15,285,000	—	655,000	14,630,000	405,000
2007 Series E	13,000,000	—	4,685,000	8,315,000	—
2007 Series F	10,000,000	—	—	10,000,000	—
2008 Series A	7,460,000	—	450,000	7,010,000	615,000
2008 Series B	2,985,000	—	320,000	2,665,000	115,000
2008 Series C	8,450,000	—	—	8,450,000	—
2008 Series D	17,200,000	—	—	17,200,000	—
2009 Series A	18,850,000	—	400,000	18,450,000	825,000
NIBP 2009 Series A	9,665,000	—	175,000	9,490,000	630,000
NIBP 2009 Series B	14,980,000	—	—	14,980,000	200,000
NIBP 2009 Series C	31,000,000	—	18,620,000	12,380,000	12,380,000
NIBP 2009 Series C-1	9,000,000	—	—	9,000,000	120,000
NiBP 2010 Series A	6,000,000	—	280,000	5,720,000	380,000
2011 Series A	—	12,425,000	—	12,425,000	835,000
2009 Series C-2	—	16,170,000	—	16,170,000	240,000
2009 Series C-3	—	2,450,000	—	2,450,000	30,000
	<u>302,072,234</u>	<u>32,784,209</u>	<u>31,969,015</u>	<u>302,887,428</u>	<u>23,759,704</u>
Less: Unamortized premium	2,224,593			2,809,099	
	<u>\$ 304,296,827</u>			<u>\$ 305,696,527</u>	

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

	Outstanding Beginning of Year	Issued This Year	Retired/ Refunded This Year	Outstanding end of Year	Amount due within one year
Multi Family Fund Bonds:					
2009 Issue A	\$ 32,295,000	—	32,295,000	—	—
1998 Issue A	9,825,000	—	355,000	9,470,000	370,000
2002 Series A	21,090,000	—	480,000	20,610,000	505,000
2002 Series C	12,965,000	—	—	12,965,000	—
2008 Series A	13,355,000	—	—	13,355,000	—
1992 Series C	2,465,000	—	120,000	2,345,000	130,000
1995 Series A	2,745,000	—	145,000	2,600,000	155,000
1996 Series A	2,645,000	—	100,000	2,545,000	110,000
1984 Series A - Accretions	113,279	13,104	—	126,383	14,619
1998 Series A	9,525,000	—	280,000	9,245,000	295,000
1998 Series B	13,920,000	—	585,000	13,335,000	610,000
2000 Series A	16,140,000	—	16,140,000	—	—
2000 Series B	23,820,000	—	4,445,000	19,375,000	700,000
2001 Series A	7,630,000	—	7,630,000	—	—
2002 Series A	7,180,000	—	185,000	6,995,000	190,000
2002 Series B	28,760,000	—	490,000	28,270,000	480,000
2003 Series A	17,390,000	—	445,000	16,945,000	460,000
2003 Series B	17,025,000	—	210,000	16,815,000	215,000
2007 Series A	18,040,000	—	365,000	17,675,000	375,000
2007 Series B-1	22,085,000	—	530,000	21,555,000	535,000
2007 Series B-2	3,020,000	—	75,000	2,945,000	80,000
2007 Series C-1	5,110,000	—	230,000	4,880,000	240,000
2007 Series C-2	2,190,000	—	95,000	2,095,000	100,000
2004 Series A	12,935,000	—	265,000	12,670,000	270,000
2004 Series B	3,865,000	—	45,000	3,820,000	45,000
2004 Series C	17,705,000	—	430,000	17,275,000	445,000
2004 Series D	12,855,000	—	305,000	12,550,000	320,000
2005 Series B	5,440,000	—	160,000	5,280,000	160,000
2005 Series C	28,630,000	—	690,000	27,940,000	690,000
2009 Series A-1	38,450,000	—	—	38,450,000	—
2009 Series A-2	8,040,000	—	—	8,040,000	—
2010 Series A	4,860,000	—	—	4,860,000	140,000
2010 Series A	12,375,000	—	—	12,375,000	245,000
2011 Series A	—	33,585,000	—	33,585,000	365,000
2011 Series B	—	3,020,000	—	3,020,000	30,000
2012 Series A	—	24,935,000	—	24,935,000	445,000
	<u>434,488,279</u>	<u>61,553,104</u>	<u>67,095,000</u>	<u>428,946,383</u>	<u>8,719,619</u>
Less: Unamortized discount	<u>(2,091,346)</u>			<u>(1,972,045)</u>	
	<u>\$ 432,396,933</u>			<u>\$ 426,974,338</u>	

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

b) Mortgage Notes and Loans Payable

The Commission has the following Opportunity Housing Fund and General Fund mortgage notes and loans payable as of June 30, 2012:

	Outstanding beginning of year	Issued this year	Retired this year	Outstanding end of year	Amount due within one year
Opportunity Housing Fund:					
Paint Branch Townhouses	\$ 107,790	—	107,790	—	—
State Partnership Rental Programs	8,795,567	—	—	8,795,567	—
State Partnership VII	4,712,864	—	—	4,712,864	—
Diamond Square	2,000,000	—	—	2,000,000	—
The Glen	1,211,707	—	—	1,211,707	—
Tanglewood	77,500	—	7,500	70,000	7,500
Paddington Square	6,735,419	—	6,735,419	—	—
Dale Drive	600,000	—	—	600,000	—
Montgomery Arms	127,858	—	3,806	124,052	3,921
CDBG-9611 McAlpine	—	84,913	—	84,913	—
Barclay Development Corp.	2,456,567	—	—	2,456,567	—
Ambassador Apartments	604,122	—	73,950	530,172	76,953
	<u>27,429,394</u>	<u>84,913</u>	<u>6,928,465</u>	<u>20,585,842</u>	<u>88,374</u>
General Fund:					
Line of Credit with PNC Bank	16,392,349	11,086,943	11,743,325	15,735,967	15,735,967
Tax Credit IX	50,500	—	—	50,500	—
	<u>16,442,849</u>	<u>11,086,943</u>	<u>11,743,325</u>	<u>15,786,467</u>	<u>15,735,967</u>
Total mortgage notes and loans payable	\$ <u>43,872,243</u>	<u>11,171,856</u>	<u>18,671,790</u>	<u>36,372,309</u>	<u>15,824,341</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Interest rates on mortgage notes and loans payable ranged from Libor plus 90 basis points to 7.67% as of June 30, 2012.

Included in the mortgage notes and loans payable balance of the Opportunity Housing Fund at June 30, 2012 are interfund mortgage loans payable to the Multi-Family Fund amounting to \$186,302,144 which have been eliminated in the accompanying financial statements. The related interest expense, amounting to \$10,346,344 for the year ended June 30, 2012 have also been eliminated.

Included in the mortgage notes and loans payable balance of the Opportunity Housing Fund at June 30, 2012 are interfund mortgage loans payable to the General Fund amounting to \$12,548,288, which have been eliminated in the accompanying financial statements. The related interest expense, amounting to \$290,102 for the year ended June 30, 2012 have also been eliminated.

Included in the mortgage notes and loans payable balance of the Opportunity Housing Fund at June 30, 2012 are interfund mortgage loans payable to the Opportunity Housing Fund (OHRF) Fund amounting to \$5,184,830, which have been eliminated in the accompanying financial statements.

Included in the mortgage notes and loans payable balance of the General Fund at June 30, 2012 are interfund mortgage loans payable to the Opportunity Housing Fund amounting to \$321,003, which have been eliminated in the accompanying financial statements. Included in the mortgage notes and loans payable balance of the Public Fund at June 30, 2012 are interfund mortgage loans payable to the General Fund amounting to \$1,694,767, which have been eliminated in the accompanying financial statements.

Included in the mortgage notes and loans payable balance of the Single Family Fund are interfund mortgage notes and loans payable to the General Fund amounting to \$2,640,000, which have been eliminated in the accompanying financial statements. The interfund mortgage notes and loans payable of Multifamily Fund to the General Fund have been fully paid in fiscal year 2012 and the related interest expense, amounting to \$19,512 for the years ended June 30, 2011 have been eliminated.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

In December 2011, the Commission remarketed Multifamily Housing Development Bonds 2004 Series C (Non-AMT) for \$17,490,000 and 2004 Series D (AMT) for \$12,705,000. The Credit and Liquidity Facility supporting the Remarketed Bonds, originally provided by the U.S. Department of Treasury through its Temporary Credit and Liquid Program was replaced by a TD Bank Letter of Credit.

On October 20, 2011 the Commission converted to long-term securities \$18,620,000 Single Family Housing Revenue Bonds that were issued in escrow pursuant to the New Issue Bond Program (NIBP). The bonds were issued as 2009 Series C-2 and C-3, the proceeds of which along with the sale of \$12,425,000 in market bonds were made money available to purchase new mortgage loans.

In December 2011, the Commission remarketed Single Family Revenue Bonds 2002 Series C (Non-AMT) for \$16,890,000, 2007 Series E (Federally Taxable) for \$8,315,000, 2007 Series F (AMT) for \$10,000,000, 2008 Series C (AMT) for \$8,450,000 and 2008 Series D (Federally Taxable) for \$17,200,000. The Credit and Liquidity Facility securing the Remarketed Bonds, originally provided by the U.S. Treasury Department, was replaced by the Letters of Credit issued by PNC Bank, N.A.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(c) *Maturities*

Bonds, mortgage notes, and loans payable mature in the years and in the principal and interest amounts as follows:

	Principal				Combined
	General Fund Notes Payable	Opportunity Housing Fund Notes Payable	Multifamily Fund Bonds & Notes Payable	Single Family Fund Notes Payable	
Years ending June 30,					
2013	15,735,967	88,384	8,719,619	23,759,704	48,303,674
2014	50,500	91,639	9,421,304	9,960,000	19,523,443
2015	—	95,025	10,183,199	11,200,000	21,478,224
2016	—	98,548	11,485,300	11,275,000	22,858,848
2017	—	102,213	11,932,645	11,500,000	23,534,858
2018-2022	—	169,397	59,844,143	29,015,000	89,028,540
2023-2027	—	113,026	70,905,173	31,420,000	102,438,199
2028-2032	—	32,655	78,265,000	67,957,535	146,255,190
2033-2037	—	18,256	78,755,000	37,810,189	116,583,445
2038-2042	—	—	49,810,000	68,990,000	118,800,000
2043-2047	—	—	27,730,000	—	27,730,000
2048-2052	—	—	11,895,000	—	11,895,000
2053-2057	—	—	—	—	—
Upon sale of property		17,320,138		—	—
	<u>15,786,467</u>	<u>15,786,467</u>	<u>18,129,281</u>	<u>428,946,383</u>	<u>302,887,428</u>
Less unamortized bond discount			(1,972,045)	(1,972,045)	837,054
	<u>15,786,467</u>	<u>18,129,281</u>	<u>426,974,338</u>	<u>426,974,338</u>	<u>305,696,527</u>
	Interest				
	General Fund Notes Payable	Opportunity Housing Fund Notes Payable	Multifamily Fund Bonds & Notes Payable	Single Family Fund Notes Payable	Combined
Years ending June 30,					
2013	122,255	24,403	14,667,172	7,547,978	22,361,808
2014	—	21,148	14,667,177	7,156,306	21,844,631
2015	—	17,762	14,397,013	6,775,275	21,190,050
2016	—	14,239	14,108,665	6,377,352	20,500,256
2017	—	10,574	13,738,358	5,944,985	19,693,917
2018-2022	—	21,294	62,912,493	25,672,955	88,606,742
2023-2027	—	12,620	51,465,347	20,643,046	72,121,013
2028-2032	—	5,289	37,309,407	13,597,945	50,912,641
2033-2037	—	738	23,080,080	10,260,485	33,341,303
2038-2042	—	—	13,178,945	2,573,478	15,752,423
2043-2047	—	—	4,458,237	—	4,458,237
2048-2052	—	—	795,564	—	795,564
2053-2057	—	—	—	—	—
	<u>122,255</u>	<u>128,067</u>	<u>264,778,458</u>	<u>106,549,805</u>	<u>371,578,585</u>

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(d) Derivative Instruments

At June 30, 2012, the Commission had several derivative instruments outstanding as noted in the table below. The Commission used the synthetic instrument method to evaluate the hedge effectiveness of the interest rate swaps. This method evaluates effectiveness by combining the cash flows on the derivative with the cash flows on the hedged item to create a new instrument. The synthetic rate on the cash flows is calculated based on the combination of all the cash flows and is compared against the fixed rate on the derivative. A potential hedging derivative instrument is effective if the actual synthetic rate is within a range of 90-111 percent of the fixed rate of the potential hedging derivative instrument to be substantially fixed. At June 30, 2012, all hedging derivative instruments shown on the next page met the criteria for effectiveness.

Objective of the interest rate swaps. In order to protect against the potential of rising interest rates, the Commission entered into seven separate pay-fixed, receive variable interest rate swaps. The net interest paid on the swaps and variable rate debt is anticipated to be less than the interest paid had the Commission issued fixed-rate debt.

Terms. The notional amounts of the swaps match the principal amounts of the associated variable rate debt. Except as discussed under rollover risk, the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated "bonds payable" category during the period that the bonds are hedged. The Commission may terminate the swap at market value at any time.

Fair value. The termination value of all swaps had a negative fair value as of June 30, 2012 as a result of low interest rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

<u>Associated Bond Issue</u>	<u>Notional Amounts</u>	<u>Trade Date</u>	<u>Terms</u>	<u>Fair Values</u>	<u>Swap Termination Date</u>	<u>Counterparty/Credit Rating</u>
Single Family 2002 Series C	\$ 16,890,000	12/12/2002	Receive SIFMA pay 3.63%	\$ (580,571)	1/1/2013	MLCS, A2* /A/A+*-
Multifamily 2004 Series C	\$ 17,275,000	11/5/2004	Receive 63.3% LIBOR + 0.19%, pay 3.653%	\$ (1,493,970)	7/1/2036	MLCS, Aa3 /A/AA-
Multifamily 2004 Series D	\$ 12,550,000	11/5/2004	Receive 63.3% LIBOR + 0.29%, pay 3.76%	\$ (1,087,864)	7/1/2036	MLCS, Aa3 /A/AA-
Single Family 2007 Series F	\$ 10,000,000	10/17/2007	Receive 64.0% LIBOR + 0.30%, pay 4.111%	\$ (1,756,710)	7/1/2038	MLCS, A2* /A/A+*-
Single Family 2008 Series C	\$ 8,450,000	6/10/2008	Receive 63.6% LIBOR + 0.31%, pay 3.865%	\$ (2,966,902)	7/1/2039	MLDP, Aa3/AAA/ NR
Multifamily 2011 Series A	\$ 32,415,000	4/3/2006	Receive 64.0% LIBOR + 0.19%, pay 4.02%	\$ (8,171,017)	1/1/2049	MLCS, Aa3 /A/AA-
Multifamily 2011 Series B	\$ 2,880,000	4/3/2006	Receive 100% LIBOR + 0.10%, pay 6.067%	\$ (1,133,144)	1/1/2049	MLCS, Aa3 /A/AA-
Total	<u>\$ 100,460,000</u>			<u>\$(17,190,178)</u>		

Credit risk. The Commission's counterparties may become unable to meet their obligations under the swap agreement. The counterparty for the Commission's swaps is Merrill Lynch Capital Services (MLCS) and Merrill Lynch Derivative Products AG (MLDP). Under the 2004 Series C, 2004 Series D, 2009 Issue A, Note Payable (previously called 2006 Issue A) and 2007 Series F swap agreements, Merrill Lynch Derivative Products (MLDP), a Aaa rated structured entity, guarantees termination payment. As of June 30, 2012, the Commission was not exposed to credit risk with respect to termination payments as all of its swap agreements had negative fair value on this date. However, should interest rates change such that the fair value of the swap becomes positive, the Commission would be exposed to credit risk in the amount of the swap's fair value. The swap agreements do not contain any collateral agreements with the counterparties.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Termination Risk. The Commission or the counterparties may terminate the swap at market value if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Commission would be liable to the counterparty for a payment equal to the swap's fair value.

Interest Rate Risk. The Commission is exposed to interest rate risk on its pay-fixed, receive variable interest rate swaps as the Commission's net payment increases as the LIBOR or the SIFMA swap index decreases.

Basis Risk. The Commission is exposed to basis risk on its pay-fixed interest rate swaps because the variable rate payments received on these derivative instruments are based on a rate or index other than interest rates the Commission pays on its hedged variable-rate debt, which is remarketed every 7 days. Should the relationship between the floating rate received on the swap and the floating rate paid on the bonds diverge from historical relationships, the Commission pays more interest than originally anticipated. The Commission considered basis risk when it structured its interest rate swaps and has experienced little basis risk over time.

Rollover Risk. The Commission is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature prior to the maturity of the associated debt. The Single Family 2002 Series C derivative instrument exposes the Commission to rollover risk in that the debt maturity date is July 1, 2033 while the swap termination date is January 1, 2013.

Market-access Risk. The objectives of the hedging derivative instruments do not involve any plans to issue or refund bonds, so the Commission is not exposed to market-access risk.

Foreign Currency Risk. The Commission is not exposed to foreign currency risk on its hedging derivative instruments.

The interest rate swap outstanding related to the Multifamily 2009 Issue A bonds for MetroPointe has been added in fiscal year 2012. The underlying debt was refinanced in new bonds under the Multifamily 2011 Series A without the need for guarantee by Montgomery County.

(9) Long-Term Debt – Component Units

The long-term debt of the component units are primarily non-recourse debt of each of the limited partnerships, which is collateralized by the land, structures, and equipment of each limited partnership and have varying repayment terms and interest rates ranging from 4.55% to 7.85%.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

The annual maturities of the component units' long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30,		
2013	2,891,639	3,985,297
2014	2,459,474	3,807,347
2015	2,616,410	3,653,115
2016	2,783,757	3,488,617
2017	2,964,490	3,313,068
2018-2022	14,194,421	14,119,952
2023-2027	17,343,438	9,574,979
2028-2032	13,289,534	5,091,133
2033-2037	11,026,026	2,102,248
2038-2042	942,985	485,735
2043-2047	776,415	266,869
2048-2052	2,935,531	29,173
Upon sale of property	14,270,870	29,173
	<u>88,494,990</u>	<u>49,946,706</u>

(10) Long-Term Debt – Compensated Absences

\A summary of changes in compensated absences is as follows

	<u>Outstanding Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding End Of Year</u>	<u>Amount Due Within One Year</u>
Compensated Absences	\$ 2,069,487	1,393,072	1,530,847	1,931,712	1,931,712

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(11) Loans Payable to Montgomery County

The County advances funds to the Commission and the real estate limited partnership component units (component units) through two Capital Improvement Program Funds. The Commission and the component units use County funds to purchase or construct various housing developments in expectation that permanent financing will be provided through a combination of state, county or federal grants or that loans or bonds will be issued by the Commission or the component units. If the development is funded from another source, the Commission or the component units repay the County. If no alternative funding is found for a development, the County may agree to forgive the Commission's or the component unit's debt. The Commission and the component units paid no interest on funds received from the County for the year ended June 30, 2012. There is no set maturity date or repayment term on borrowings from the County for the projects. The Commission has the following Opportunity Housing Fund, General Fund and component unit loans payable to Montgomery County as of June 30, 2012:

	<u>Outstanding beginning of year</u>	<u>Issued this year</u>	<u>Retired this year</u>	<u>Outstanding end of year</u>	<u>Amount due within one year</u>
Opportunity Housing Fund	\$ 58,311,091	2,504,656	2,448,414	58,367,333	2,844,220
General fund	4,483,883	93,567	28,041	4,549,409	—
	<u>\$ 62,794,974</u>	<u>2,598,223</u>	<u>2,476,455</u>	<u>62,916,742</u>	<u>2,844,220</u>
Real estate limited partnership component units	\$ 13,986,497	851,243	2,000,000	12,837,740	250,000

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(12) Operating Lease Commitments

The Commission has six leases for its offices in Montgomery County. During fiscal year 2008 the Commission entered into two additional office leases for Customer Service Centers within Montgomery County. The Customer Service Centers contain office space and client walk-in and meeting facilities. On November 21, 2007, the Commission signed a ten year lease with Professional Equity Limited Partnership for the first customer service center located in Gaithersburg, Maryland. The base annual rent is \$189,774 with an annual adjustment to base annual rent of 3%. On January 28, 2008, the Commission signed a ten year lease with Thayer Avenue Limited Partnership for the second Customer Service Center in Silver Spring, Maryland. The base annual rent is \$151,110 with an annual adjustment of 3% per year of the minimum rent in the previous lease year.

Lease expense for the year ended June 30, 2012 for all office space was \$551,059. Future minimum lease obligations under these leases are as follows:

Year ending June 30,	
2013	522,041
2014	536,714
2015	442,205
2016	419,960
2017	432,559
2018 - 2019	419,459
	\$ 2,772,938
	\$ 2,772,938

(13) Restricted Net Assets

Restricted net assets represent the portion of total net assets restricted by the requirements of the various bond indentures, for the loan closing cost program, for capital projects and as required by federal programs such as remaining HAP equity for the Housing Choice Voucher Program. All restricted amounts are net of related liabilities.

A certain portion of the unrestricted net assets has been reserved or committed by the Commission for specific purposes and are therefore not available for general operating purposes. This non-spendable fund balance is comprised of the Opportunity Housing Reserve Fund (OHRF) and the FHA Risk Sharing Fund.

OHRF

The Commission established the OHRF in 1980 initially to address the use of revenues generated from the sale of bonds under the Single Family Mortgage Purchase Program. The OHRF is now a repository of proceeds from various activities of the agency. The Commission makes the final decisions about how funds from the OHRF are spent by a resolution of the Board of Commissioners. By policy, the Commission has chosen to use the OHRF primarily for future affordable housing production.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

As of June 30, 2012, the Commission committed the following OHRF obligations by resolutions of the Board of Commissioners:

Tanglewood/Sligo Pre-development	\$1,419,894
Scattered Site Pre-development/Relocation/Renovation	2,699,741
Paddington Square Loan and Contribution	680,202
MetroPointe Equity Contribution	517,144
Real Estate Division Personnel Expenses	393,854
Ambassador/Greenhills Pre-development Loan	57,864
Montgomery Consultants	<u>14,155</u>
	<u>\$5,783,499</u>
	=====

In September, 2012, the Commission exercised its right of first refusal to acquire Glenmont Crossing Apartments. In order to finance the acquisition, the Commission issued a commitment of \$3.5 million from the OHRF.

Finally, in March, 2012, the Commission received approval to convert 669 Scattered Site Public Housing units to Housing Choice Vouchers. In October, 2012, the Commission committed \$700,000 from the OHRF to be used for tenant relocation, counseling and legal expenses

FHA Risk Sharing

In September, 2012, the Commission issued a commitment to finance Tanglewood and Sligo LP. using \$9.6 million from HOC’s Risk Sharing mortgage insurance premium. (See Subsequent Events, Note (19) Other Financing.

(14) Pension Plan and Postretirement Health Care Benefits

(a) Pension Plan

All the Commission’s full-time employees hired before October 1, 1994, participate in the Employees’ Retirement System of Montgomery County (the System), a cost-sharing multiple-employer defined benefit pension plan. The System was established under Chapter 33 of the Montgomery County Code, 1965, as amended. The payroll from Commission employees covered by the System for the year ended June 30, 2012 was \$4,487,874; the Commission’s total payroll was \$23,501,635.

Participation in the System is mandatory for employees hired before October 1, 1994, and provides normal retirement benefits equivalent to 2% of the average final earnings multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits. The benefit may be adjusted for cost of living annually. The average final earnings would be equal to the average earnings for the 36 months immediately preceding retirement or any consecutive 36-month period during employment, whichever is greater. Benefits fully vest on reaching five years of service. Vested employees may retire at or after age 45 and receive reduced retirement benefits.

During the fiscal year 2012, covered employees contributed between 4% to 6% of their salary to the system. The Commission is required by the same statute to contribute the remaining amounts necessary

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

to pay benefits when due. The contribution requirements for the three years ended June 30, 2012 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Commission contribution	\$ 1,116,040	1,360,983	1,272,127
Employee contribution	223,078	213,520	219,304
Total contribution requirement	\$ <u>1,339,118</u>	<u>1,574,503</u>	<u>1,491,431</u>
Contribution requirements as a percentage of covered payroll:			
Commission	24.87%	25.85%	23.50%
Employees	4.97%	4.05%	4.05%

In July 2009 a new retirement option, the Guaranteed Retirement Income Plan (GRIP), was implemented for employees hired after October 1, 1994. During fiscal year 2009, employees participating in the Retirement Savings Plan (RSP) were provided a one-time irrevocable election opportunity to transfer from the RSP to the GRIP effective July 1, 2009. New employees hired after July 1, 2009 have the option to participate in RSP or GRIP. The one time irrevocable election must be made within 150 days of date of hire.

GRIP is a tax-deferred cash balance defined benefit retirement plan under IRS Code Section 401(a). As part of the Employees' Retirement System, the GRIP is a multiple-employer plan of Montgomery County. Participant account balances are determined by credited interest rate, and members must have 3 years participation to become vested in employer contributions. Normal retirement is age 62. Loans and hardship withdrawals are not permitted.

The GRIP plan requires all participants to contribute 4% of their salary. Participants earning salaries exceeding the Social Security wage base must contribute 8% of the excess over the wage base. The Commission contributed 5.69% of each participant's annual salary in fiscal year 2012.

	<u>2012</u>	<u>2011</u>
Commission contribution	\$ 195,212	222,220
Employee contribution	151,041	142,866
Total contribution requirement	\$ <u>346,253</u>	<u>365,086</u>
Contribution requirements as a percentage of covered payroll:		
Commission	5.69%	6.53%
Employees	4.40%	4.09%

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's financial statements as of and for the year ended June 30, 2012. A publicly available annual report that includes financial statements and required supplementary information for the System and the Defined Contribution Plan can be obtained by writing the Board of Investment Trustees, Montgomery County Government, 101 Monroe Street, Rockville, Maryland, 20850.

(b) *Defined Contribution Plan*

All full-time employees of the Commission hired after October 1, 1994 participate in the Montgomery County Government Employees' Retirement Savings Plan (RSP), a cost sharing multiple-employer defined contribution plan. The Plan was established by Montgomery County under Chapter 33 of the Montgomery County Code. Part-time employees of the Commission hired after October 1, 1994 may also participate in the plan.

The plan requires all participants to contribute 4% of their salaries. Participants earning salaries exceeding the Social Security wage base, which approximated \$110,100 at June 30, 2012, must contribute 8% of the excess over the wage base. The plan provides that the Commission must contribute 8% of each participant's annual salary. The County amended the employer contribution from 8% to 6% for fiscal year 2012 only. In addition to a 4% mandatory contribution, participating employees were granted the option to contribute 2% of the after tax salary for fiscal year 2012 only. Employee and employer contributions must remain in the participant's account until retirement or termination of employment. No loans are allowed.

Payroll from the Commission covered by the plan for the year ended June 30, 2012 totaled \$12,432,072. Commission and employee contributions to the plan totaled \$755,541 and \$522,379, respectively, for the year ended June 30, 2012.

(c) *Other Postemployment Benefits (OPEB)*

Plan Description: The Commission is a component unit of Montgomery County, Maryland and a participant in the cost-sharing multiple-employer defined healthcare plan sponsored by the County. The Commission provides postretirement health care benefits, in accordance with County statutes, to all employees who retire after achieving age and years of service requirements. Postemployment benefit provisions and eligibility requirements for retirees are described under the Montgomery County Group Insurance Summary Plan. Postemployment benefits include medical, life, dental, vision and prescription coverage. Currently, 96 retirees meet those eligibility requirements.

Funding Policy: The Commission pays 50% to 80% of the group medical and life insurance premiums of those retirees, depending on years of service in the plan. Expenditures for postretirement health care benefits are recognized as the County bills the Commission on a quarterly basis. The annual pay-as-you-go expenditures amounted to \$450,135 during fiscal year 2012. The Commission paid the annual required contribution to the (ARC) in fiscal year 2012 of \$1,020,300 which represents 50% of the Commission's required obligation. The County has waived the remaining \$1,020,300 contribution

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

requirement. In fiscal year 2009, the annual required contribution period changed from five years to eight years.

Annual OPEB cost and Net OPEB Obligation: The ARC, or annual OPEB cost (AOC) for fiscal year 2012 was based on the actuarial valuation as of July 1, 2010 presented to Montgomery County on March 18, 2011.

Actuarial Methods and Assumptions: The actuarial valuation for fiscal year projected 2012 was performed by AON Hewitt with a valuation date of July 1, 2010. The actuarial method used was the Projected Unit Credit Actuarial Cost Method. The estimated cost to the Commission to fund the fiscal year 2013 ARC is \$2,340,000.

(15) Contingencies

(a) *Litigation*

On April 11, 2012, a lawsuit was filed in the Circuit Court for Montgomery County against the Commission by a former tenant in its public housing program charging negligence, breach of lease, retaliatory actions and discriminatory housing practices. The claim for damages, including a request for punitive damages, was \$31,287,127.72. A portion of the claims made by the former tenant would be covered by insurance. An investigation by the Maryland Commission on Civil Rights found no probable cause to believe that discrimination on any covered basis had occurred. The former tenant's original complaint was stricken after a motion to dismiss was filed on behalf of the Commission. An amended complaint (the "Amended Complaint") was filed and the Commission then filed a motion to dismiss the Amended Complaint. On October 10, 2012, the Amended Complaint was dismissed by the Circuit Court, without leave to amend. The former tenant has filed a motion requesting that the Circuit Court permit further amendment of the Complaint which is now pending. The Commission will vigorously defend the matter and has significant defenses to any claim by the former tenant. There is no other litigation pending regarding the Commission, which is not covered by insurance.

(b) *HUD Program Grants*

The Commission participates in a number of Federal, State and County assisted grant programs, principal of which are the Department of Housing and Urban Development Housing Assistance Payments (Housing Choice Voucher), Low Rent Public Housing, Comprehensive Grants, Lower Income Housing Assistance Program (Housing Choice Voucher Moderate Rehabilitation), Public Housing Capital Fund and Supportive Housing. These programs are subject to financial and compliance audits by grantors or their representatives. The audits of most of these programs for, or including, the year ended June 30, 2012, have not yet been completed. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management does not believe disallowed amounts, if any, would be material.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(16) Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in Montgomery County's self-insurance fund or purchases insurance to address such exposures. The County fund is maintained for general liability and property coverages under which participants share the costs of workers' compensation, comprehensive general, automobile and professional liability, fire and theft, the liability for errors, omissions, and other selected areas which require coverage. Commercial insurance is purchased for claims in excess of coverage by the self-insurance fund and for other risks not covered by the fund. The Commission's liability for claims is limited to insurance premiums paid to the self-insurance fund. During the year, there were no significant reductions in commercial insurance coverage. For the past five years, no insurance settlements exceeded commercial insurance coverage.

(17) Conduit Debt Obligations

Conduit debt obligations refer to certain limited-obligation revenue bonds or similar debt instruments issued by the Commission for the purpose of providing capital financing for a third party that is not part of the Commission's reporting entity. The Commission has issued a number of individual bonds for financing for Multifamily developments for which the Commission has no legal liability for repayment or administration. The Commission participates in such issuances in order to increase the availability of affordable housing in the County. The bonds are secured by the facilities financed and are payable from revenues or monies made available to the Commission for such purpose. The bonds do not constitute a debt or charge against the general credit of the Commission, the County, the State or a political subdivision thereof. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The bonds outstanding at June 30, 2012 are summarized below:

Bonds outstanding, beginning of year	\$ 249,286,857
Redemptions during the year	<u>(57,324,667)</u>
Bonds outstanding, end of year	<u>\$ 191,962,190</u>

(18) Arbitrage

The Internal Revenue Code of 1986 placed significant restrictions regarding arbitrage on housing finance agencies throughout the United States. Arbitrage occurs when investments of bond proceeds not used to purchase mortgage loans earn more than the interest rate on the bonds or when the housing finance agency has net earnings of more than 1.125% on mortgages purchased with bond proceeds. Under the Internal Revenue Service (IRS) regulations, payment of any positive arbitrage on a bond issue must be made no later than five years after the original issuance and every five years thereafter.

At June 30, 2012, there is a liability of \$104,587 and \$3,078 for the Single Family and Multifamily Fund Programs, respectively, which may be due in future years. The liability is included in the liabilities balance of each fund.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

(19) Subsequent Events

Single Family Bond Issue

The Commission plans to convert approximately \$12.5 million of the remaining \$13 million of escrowed Single Family NIBP bonds in October 2012, as 2009 Series C-4 and 2009 Series C-5. Approximately \$12 million of 2012 Series A bonds will also be issued which, together with the converted bonds constitutes the total \$25 million issuance of Single Family Housing Revenue Bonds. Pursuant to the NIBP requirements, all bonds must be converted by December 25, 2012 or be redeemed. The bond issuance will generate mortgage proceeds for the purchase of Qualified Mortgage Loans as well as Guaranteed Mortgage Backed Securities pursuant to the an Amended and Restated Bond Resolution.

On May 5, 2012, the Commission approved a proposal to add Mortgaged Backed Securities option to the Single Family Mortgage Purchase Program and approved U.S. Bank National Association as the Master Servicer for the program. The aforementioned bond issue, the proceeds of which will be available to purchase MBS backed by pools of qualified mortgages, will enable the implementation of the MBS program. Servicing rights and responsibilities will transfer to U.S. Bank, thereby reducing delinquency and foreclosure risks for the Commission while continuing to provide low cost mortgages to Montgomery County residents. The existing pool of whole loans will continue to be serviced by the current servicers.

Multifamily Bond Issue

On September 12, 2012, the Commission issued \$42 million of Multifamily Housing Development Bond Resolution as 2012 Series B and Series C bonds. These bonds refunded prior bonds in five bond series for nine properties in the multifamily bond portfolio. This refunding reduced the debt service on the bonds by lowering the bond yield. The underlying mortgage rate, FHA mortgage insurance, and the maturity date on the bonds remained unchanged.

On August 15, 2012, the Commission closed on the issuance of \$8.4 million of private activity bonds to provide funding for the construction of Victory Court, an 86-unit development that will serve seniors. The bonds were privately placed with Capital One bank, N.A., the sole purchaser.

The Commission plans to issue approximately \$51 million of refunding bonds to refund and redeem prior bonds issued pursuant to the Commission's 2002 Multiple Purpose Indenture (2002 Series C and 2008 Series A) and 1996 Multifamily Housing Development Bond Resolution (2003 Series A). This will allow the termination of credit support under the U.S. Treasury Department's Temporary Credit and Liquidity Program (TCLP) for the 2002 Series C Bonds and the partial termination of liquidity support from PNC Bank, N.A. for the 2008 Series A. If completed, the bonds are expected to be issued in December 2012 when the variable rate demand obligation bonds will convert to fixed rate bonds with mortgage insurance provided by FHA under its Risk Sharing program.

The refunding of the 2003 Series A Bonds (approximately \$16 million) will lower the bonds costs while leaving the mortgages and insurance unchanged for Montgomery Arms, Diamond Square and Brookside Glen apartments.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Other Financing

The Commission has issued a commitment to provide financing for the Tanglewood and Sligo LP transaction. The anticipated financing is approximately \$9.6 million which is expected to be funded from unrestricted portion of HOC's Risk Sharing mortgage insurance premium. The loan is expected to be funded at conversion from the construction loan period in early calendar year 2014, will pay interest at 5.50% based on a 30-year amortization schedule, and be for a term of 15 years.

Status Change of 669 Scattered Site Public Housing Units

In September 2010, staff introduced the Commission to a potential initiative that would permit HOC to alter the status of its 669 Scattered Site Public Housing units while maintaining the same affordability. In June 2011, an application was submitted to HUD requesting the disposition of these units and on March 8, 2012, HUD approved the Agency's application for the disposition of 669 Public Housing Units.

In the application, it was stated that no Public Housing unit would be disposed of without receipt of a replacement voucher. In April 2012, the Agency submitted two Conversion Voucher Funding Applications. The first application requested that the Agency receive funding for 200 vouchers for the remaining calendar year 2012. The second application requested the Agency receive funding for 469 vouchers for the calendar year 2013. In May 2012, funding for the first 50 vouchers was received and on October 1, 2012, funding for the next 150 vouchers was received.

Also in the application, it was stated the units would be acquired by two development corporations, VPC One Corporation and VPC Two Corporation, for a fee of \$1.00 per unit. On July 25, 2012, the Articles of Incorporation were filed and recorded for the creation of VPC One Corporation. During the Commission's September 5, 2012 meeting, the Commission authorized the Executive Director to execute all documents necessary to record the sale of each unit and the acquisition by VPC One Corporation of each unit. If voucher funding continues to be available, the Agency will continue to sell units to the newly created VPC One Corporation and the yet to be created VPC Two Corporation.

Development Plan for MHLP II to VI and MPDU 2007

On August 3, 2011, the Commission approved the development plan for the refinancing of the scattered site units in eight separate ownership entities: Montgomery Homes Limited Partnership (MHLP) II, III, IV, V, VI-a and Moderately Priced Dwelling Unit (MPDU) 2007. Under the plan, the Commission proposed to sell 30 units and to transfer 190 units into a new ownership entity called Scattered Site One Development Corporation. The 190 units are being refinanced from tax-exempt multifamily bonds issued as 2012 Series A.

On July 1, 2012, the Commission sold 190 scattered site units from MHLP II, III, IV, V, VI-a and MPDU 2007 to Scattered Site One Development Corporation for \$5,849,769.

Employees Retirement System

Effective July 1, 2012, employees participating in the Employees' Retirement System (ERS) will pay an additional 1% of covered salary toward the cost of the plan for fiscal year 2013, increasing the employee payroll contribution, up to the Social Security Taxable Wage Base, from 5% to 6%. The employee contributions above the Social Security Wage base will increase from 7% to 8%.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND
(A Component Unit of Montgomery County, Maryland)

Notes to Financial Statements

June 30, 2012

Retirement Savings Plan

Effective July 1, 2012, the employer match for employees participating in the Retirement Savings Plan is restored to 8% for fiscal year 2013. The employer match was reduced to 6% from 8% for fiscal year 2012 only. In addition, participating employees were provided the opportunity to contribute an additional 2% of their base salary on a post-tax basis in fiscal year 2012. The post tax contribution was only for fiscal year 2012 and was discontinued in fiscal year 2013.

Guaranteed Retirement Income Plan (GRIP)

Effective July 1, 2012, the employer match for employees participating in the Guaranteed Retirement Income Plan is restored to 8% for fiscal year 2013. The employer match was reduced to 6% from 8% for fiscal year 2012 only. In addition, participating employees were provided the opportunity to contribute an additional 2% of their base salary on a post-tax basis in fiscal year 2012. The post tax contribution was only for fiscal year 2012 and was discontinued in fiscal year 2013.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Certification of Actual Modernization Costs

Modernization Project Number MD 39-P004-501-08

From Inception through June 30, 2012

Management improvements	111,774
Operations	300,000
Administration	199,577
Fees and costs	476,147
Site improvements	180,976
Dwelling structures	1,003,023
Dwelling equipment-nonexpendable	717
Debt service	59,450
Total development costs	\$ <u>2,331,664</u>

The total amount of modernization costs at June 30, 2012, as shown above, is in agreement with the Annual Performance and Evaluation Form submitted to HUD on October 31, 2011.

See accompanying independent auditor's report.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Certification of Actual Modernization Costs

Modernization Project Number MD 0045-1140209E

From Inception through June 30, 2012

Fees and costs	45,601
Site improvements	25,841
Dwelling structures	20,539
Dwelling equipment-nonexpendable	3,000
Non-dwelling structures	311,019
Total development costs	\$ <u>406,000</u>

The total amount of modernization costs at June 30, 2012, as shown above, is in agreement with the Annual Performance and Evaluation Form submitted to HUD on September 30, 2011.

See accompanying independent auditor's report.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Certification of Actual Modernization Costs

Modernization Project Number MD 0045-1140209E

From Inception through June 30, 2012

Fees and costs	17,007
Dwelling structures	61,769
Non-dwelling structures	<u>297,424</u>
Total development costs	\$ <u>376,200</u>

The total amount of modernization costs at June 30, 2012, as shown above, is in agreement with the Annual Performance and Evaluation Form submitted to HUD on September 30, 2011

See accompanying independent auditor's report.

HOUSING OPPORTUNITIES COMMISSION OF MONTGOMERY COUNTY, MARYLAND

(A Component Unit of Montgomery County, Maryland)

Statement of Certification of Actual Modernization Costs

Modernization Project Number MD 0045-1140209E

From Inception through June 30, 2012

Fees and costs	64,013
Site improvements	162,629
Dwelling structures	136,308
Dwelling Equipment-Nonexpendable	1,600
Non-dwelling structures	<u>517,150</u>
Total development costs	\$ <u>881,700</u>

The total amount of modernization costs at June 30, 2012, as shown above, is in agreement with the Annual Performance and Evaluation Form submitted to HUD on September 30, 2011

See accompanying independent auditor's report.