

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2023 AND 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

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**MONTGOMERY ARMS DEVELOPMENT CORPORATION
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YEARS ENDED JUNE 30, 2023 AND 2022**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Montgomery Arms Development Corporation (the Organization), a nonprofit organization and a component unit of the Housing Opportunities Commission of Montgomery County, Kensington, Maryland, which comprise the statement of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

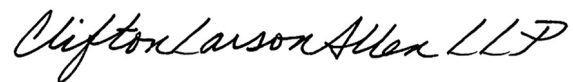
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining,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

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

Commissioners
Housing Opportunities Commission
of Montgomery County, Maryland

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
March 12, 2024

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 304,265	\$ 291,176
Advance Due from HOC	817,277	829,633
Accounts Receivable and Other Assets, Net	75,686	69,376
Total Current Assets	1,197,228	1,190,185
RESTRICTED CASH AND CASH EQUIVALENTS		
Restricted Deposits and Funded Reserves	332,672	297,667
Tenant Deposits	70,736	69,405
Total Restricted Cash and Cash Equivalents	403,408	367,072
NONCURRENT ASSETS		
Property and Equipment, Net of Depreciation	7,583,606	7,899,139
Deferred Charges, Net	123,932	134,787
Total Noncurrent Assets	7,707,538	8,033,926
Total Assets	\$ 9,308,174	\$ 9,591,183
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 123,265	\$ 55,170
Accrued Interest Payable	1,213,639	1,097,103
Note and Mortgage Payable - Current	392,452	374,747
Total Current Liabilities	1,729,356	1,527,020
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Tenant Security Deposits Payable	60,559	64,205
NONCURRENT LIABILITIES		
Notes and Mortgage Payable - Noncurrent, Net	6,546,284	6,924,096
Note Payable to Montgomery County - Noncurrent	1,699,307	1,699,307
Total Noncurrent Liabilities	8,245,591	8,623,403
Total Liabilities	10,035,506	10,214,628
NET DEFICIT		
Without Donor Restrictions	(727,332)	(623,445)
Total Liabilities and Net Deficit	\$ 9,308,174	\$ 9,591,183

See accompanying Notes to Financial Statements.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022

	Without Donor Restrictions 2023	Without Donor Restrictions 2022
	<u>2023</u>	<u>2022</u>
REVENUE AND SUPPORT		
Dwelling Rental	\$ 1,878,016	\$ 1,893,460
Other Grants	42,000	44,859
Other Income	13,275	17,053
Total Revenue and Support	<u>1,933,291</u>	<u>1,955,372</u>
EXPENSES		
Program Services:	1,771,141	1,751,068
Supporting Services		
Management and General	266,037	321,212
Total Expenses	<u>2,037,178</u>	<u>2,072,280</u>
CHANGE IN NET DEFICIT	(103,887)	(116,908)
Net Deficit - Beginning of Year	<u>(623,445)</u>	<u>(506,537)</u>
NET DEFICIT - END OF YEAR	<u><u>\$ (727,332)</u></u>	<u><u>\$ (623,445)</u></u>

See accompanying Notes to Financial Statements.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023			2022		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Maintenance	\$ 311,031	\$ -	\$ 311,031	\$ 367,193	\$ -	\$ 367,193
Depreciation	332,185	-	332,185	338,735	-	338,735
Utilities	166,317	-	166,317	142,526	-	142,526
Interest Expense	419,243	-	419,243	423,308	-	423,308
Other Expenses	514,106	-	514,106	413,941	-	413,941
Bad Debt Expense	28,259	-	28,259	65,365	-	65,365
Administration	-	218,080	218,080	-	250,124	250,124
Fringe Benefits	-	47,957	47,957	-	71,088	71,088
Total Expenses by Function	<u>\$ 1,771,141</u>	<u>\$ 266,037</u>	<u>\$ 2,037,178</u>	<u>\$ 1,751,068</u>	<u>\$ 321,212</u>	<u>\$ 2,072,280</u>

See accompanying Notes to Financial Statements.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (103,887)	\$ (116,908)
Adjustment to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	332,185	338,735
Amortization of Mortgage Issuance Costs	14,647	14,647
Decrease in Negative Arbitrage (a Component of Interest Expense)	10,855	10,856
Bad Debt Expense	28,259	65,365
Increase in Accounts Receivable and Other Assets	(34,569)	(59,915)
Advances to HOC	12,356	(1,867)
Increase in Accounts Payable and Accrued Liabilities	51,443	(3,847)
Increase in Tenant Security Deposits	(3,646)	(4,369)
Increase in Accrued Interest Payable	116,536	103,631
Net Cash Provided by Operating Activities	424,179	346,328
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Mortgage Payable	(374,754)	(357,726)
Net Cash Used by Financing Activities	(374,754)	(357,726)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	49,425	(11,398)
 Cash and Cash Equivalents - Beginning of Year	658,248	669,646
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 707,673	\$ 658,248
 RECONCILIATION OF CASH AND RESTRICTED DEPOSITS - END OF YEAR PER THE CASH FLOW STATEMENT TO CASH PER THE BALANCE SHEET		
Cash	\$ 304,265	\$ 291,176
Funded Reserves	403,408	367,072
Total	\$ 707,673	\$ 658,248
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 335,958	\$ 335,958

See accompanying Notes to Financial Statements.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Montgomery Arms Development Corporation (the Organization) is a nonprofit organization that owns 132 units for residential rental operation. The 129 rented units as of June 30, 2023 and 2022 are divided into various rental groupings. (See Note 9, Commitments and Contingencies, for additional information.) The facility is located in Silver Spring, Maryland.

Edgewood Management Corporation has been contracted to manage the property.

Cash and Cash Equivalents

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

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

Reporting Entity

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

Rental Property

Rental property and equipment are carried at cost. Buildings, which include building improvements, are depreciated over their estimated useful lives of 10 to 40 years using the straight-line method. Site improvements and furniture and equipment are depreciated over their estimated useful lives of 10 years using the straight-line method. Depreciation expense for the years ended June 30, 2023 and 2022, was \$332,185 and \$338,735, respectively.

Net Assets

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

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

**MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

Revenue Recognition

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

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

A portion of the Organization's revenue is the product of cost reimbursement government grants to cover housing subsidies for eligible low-income residents. Therefore, the Organization recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred. Amounts received prior to incurring qualifying expenditures are reported as deferred revenues in the Statement of Financial Position. As of June 30, 2023, the Organization does not have any conditional grants that have not been recognized as revenue in the Statement of Activities because conditions have not been met.

Tenant Receivables

Tenant receivables are recorded at estimated net realizable value. The allowance for uncollectible accounts is equal to the amount of receivables greater than 90 days outstanding. Receivables are charged off against the allowance when they are determined to be no longer collectible by management. As of June 30, 2023 and 2022, the allowance for uncollectible accounts was \$36,118 and \$45,383, respectively.

Estimates

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

MONTGOMERY ARMS DEVELOPMENT CORPORATION
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OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Revenue from lease payments is recognized under the accrual method. Lease payments include subsidy payments and are included in income as rents become due. Lease payments received in advance are deferred until earned. At the commencement of an operating lease, no revenue is recognized; subsequently, lease payments received by the Corporation are recognized as income on the straight-line basis.

Rental leasing operations consist of operating leases of residential real estate expiring in various months in 2023 in which the Corporation is the lessor. Lease contracts do not include variable lease payments.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Corporation has elected to apply the practical expedient, which does not require contracts to be separated between lease and nonlease components.

The Corporation adopted the requirement of the guidance effective April 1, 2022, and has elected to apply the provisions of this standard to the beginning of the earliest comparative period presented with certain practical expedients available.

Practical Expedient Elected at Initial Adoption

The Corporation has elected to adopt the package of practical expedients available in year of adoption. The Company has elected to adopt the available practical expedient to use hindsight in determining the lease term.

Functional Allocation of Expenses

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

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 RELATED PARTY TRANSACTIONS

As of June 30, 2023 and 2022, amounts advanced to and receivable from the HOC amounted to \$817,277 and \$829,003, respectively.

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

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

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

The HOC has charged the Organization a development fee of \$243,083 and \$196,294 for the years ended June 30, 2023 and 2022, respectively, which are included in other expenses.

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

The HOC charges an asset management fee for the services for administering the assets. The costs of these services were \$177,850 and \$138,020 for the years ended June 30, 2023 and 2022, respectively, and are included in other expenses.

NOTE 3 NOTE PAYABLE – MONTGOMERY COUNTY

The deed of trust note is collateralized by a second deed of trust, security agreement, and assignment of rents on the rental property (see Note 9, Commitments and Contingencies) in Montgomery County, Maryland. The note bears interest at the rate of 3% commencing after June 30, 2009, with the first payment commencing on July 1, 2010 and annually on the same date thereafter. Payment is required to the extent there is net cash flow and if the net cash flow is insufficient, the insufficiency shall accrue and be due at the end of the term. The note becomes due and payable on July 1, 2033. The outstanding balance as of June 30, 2023 and 2022 was \$1,699,307.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 MORTGAGE PAYABLE

The HOC provided \$10,400,000 of financing through the issuance of multi-family housing development bonds. These bonds are secured by a deed of trust, security agreement, and assignment of rents. The note provides for a 4.65% interest rate and monthly payments of \$53,626 through maturity in November 2034. The outstanding balance as of June 30, 2023 and 2022 was \$5,692,189 and \$6,061,651, respectively.

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

<u>Year Ending June 30,</u>	<u>Principal</u>
2024	\$ 387,012
2025	405,397
2026	424,655
2027	444,828
2028	465,959
2029 - 2033	2,683,610
2034 - 2036	880,728
Total	<u><u>\$ 5,692,189</u></u>

As of June 30, 2023 and 2022, mortgage payable, net consisted of the following:

	<u>2023</u>	<u>2022</u>
Mortgage Payable at Face	\$ 5,692,189	\$ 6,061,651
Debt Issuance Costs	<u>(167,222)</u>	<u>(181,869)</u>
Mortgage Payable, Net	<u><u>\$ 5,524,967</u></u>	<u><u>\$ 5,879,782</u></u>

Mortgage issuance costs are being amortized to interest expense over the term of the debt. For the years ended June 30, 2023 and 2022, amortization expense was \$14,647 and \$14,647, respectively.

NOTE 5 NOTE PAYABLE – STATE OF MARYLAND

Deed of Trust Note/Promissory Note from the Department of Housing and Community Development of the state of Maryland provides for a 3% interest rate over a 30-year term. Monthly payments of \$632 are required through the maturity date of November 1, 2034. The borrower agreed that households occupying the dwelling would qualify as families of limited income, and to provide the lender with information and verification of household income at least every five years if not more often. The outstanding balance as of June 30, 2023 and 2022 was \$73,732 and \$79,024, respectively.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 5 NOTE PAYABLE – STATE OF MARYLAND (CONTINUED)

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

Year Ending June 30,	Principal
2024	\$ 5,452
2025	5,617
2026	5,788
2027	5,964
2028	6,146
2029 - 2033	33,648
2034 - 2037	11,117
Total	\$ 73,732

NOTE 6 NOTE PAYABLE – DUE TO OPPORTUNITY HOUSING REVOLVING FUND (OHRF)-HOC

In accordance with Commission Resolutions dated April 9, 2003 and September 1, 2004, the OHRF — HOC advanced \$1,600,000 to the Organization to fund increased renovation costs. On July 1, 2006, the advanced funds were secured by a third deed of trust and deed of trust note with a 5% interest rate and a 15-year term, making the note due and payable on July 1, 2021. Payments of the lesser of the net cash flow (as defined in the Deed of Trust Note) or the amortization payment (the amount which when applied first to interest and then principal shall amortize the loan over its remaining term) are due annually beginning July 1, 2007. The annual payment is applied first to interest and then to principal. The outstanding balance as of both June 30, 2023 and 2022 was \$1,340,037.

NOTE 7 RESTRICTED DEPOSITS AND FUNDED RESERVES

Under paragraph 9c(iii) of the deed of trust and paragraph 4 of the regulatory agreement, the Organization is required to make an initial deposit of \$130,000 into a replacement reserve account, with monthly deposits of \$3,850 commencing with the first installment of principal and interest. At June 30, 2023 and 2022, the replacement reserve had a balance of \$100,643 and \$72,299, respectively, and is included in restricted deposits and funded reserves on the balance sheet.

In addition, under the terms of the mortgage agreement with the HOC, the Organization is required to maintain a mortgage and renovation escrow. At June 30, 2023 and 2022, the mortgage escrow had a balance of \$136,610 and \$131,738, respectively. As of June 30, 2023 and 2022, the renovation escrow had a balance of \$95,419 and \$93,630, respectively. Both escrows are included in restricted deposits and funded reserves on the balance sheet.

**MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 CONCENTRATION OF CREDIT RISK

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

NOTE 9 COMMITMENTS AND CONTINGENCIES

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

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

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

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

NOTE 10 REAL ESTATE TAXES

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

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 11 PROPERTY AND EQUIPMENT

As of June 30, 2023 and 2022, property and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,193,259	\$ 1,193,259
Buildings and Building Improvements	13,444,636	13,444,636
Site Improvements	38,674	38,674
Furniture and Equipment	<u>251,206</u>	<u>234,554</u>
Total Capital Assets	14,927,775	14,911,123
Accumulated Depreciation	<u>(7,344,169)</u>	<u>(7,011,984)</u>
Total Property and Equipment	<u><u>\$ 7,583,606</u></u>	<u><u>\$ 7,899,139</u></u>

NOTE 12 LIQUIDITY AND AVAILABILITY OF RESOURCES

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

The following reflects the Organization's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date.

	<u>2023</u>	<u>2022</u>
Cash	\$ 304,265	\$ 291,176
Accounts Receivable, Net	<u>892,963</u>	<u>899,009</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 1,197,228</u></u>	<u><u>\$ 1,190,185</u></u>

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

NOTE 13 SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through March 12, 2024, the date the financial statements were available to be issued.

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
SELECTED LINE ITEM DETAIL
JUNE 30, 2023 AND 2022
(SEE INDEPENDENT AUDITORS' REPORT)

	2023	2022
CASH AND CASH EQUIVALENTS		
Operating Cash	\$ 304,265	\$ 291,176
Petty Cash	-	-
Total Cash and Cash Equivalents	\$ 304,265	\$ 291,176
 ACCOUNTS RECEIVABLE AND OTHER ASSETS, NET		
Tenant Rent Receivables (Net of Allowance)	\$ 26,261	\$ 32,516
Other Receivables	36,157	22,873
Prepaid Expenses	13,268	13,987
Total Accounts Receivable and Other Assets, Net	\$ 75,686	\$ 69,376
 RESTRICTED CASH AND CASH EQUIVALENTS		
Mortgage Escrow	\$ 136,610	\$ 131,738
Replacement Reserves	100,643	72,299
Renovation Escrow	95,419	93,630
Tenant Deposits	70,736	69,405
Total Restricted Cash and Cash Equivalents	\$ 403,408	\$ 367,072
 PROPERTY AND EQUIPMENT		
Land	\$ 1,193,259	\$ 1,193,259
Buildings and Building Improvements	13,444,636	13,444,636
Site Improvements	38,674	38,674
Furniture and Equipment	251,206	234,554
Total Property and Equipment	14,927,775	14,911,123
Less: Accumulated Depreciation	(7,344,169)	(7,011,984)
Total Property and Equipment, Net of Depreciation	\$ 7,583,606	\$ 7,899,139
 CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 42,729	\$ 19,195
Accrued Salaries	7,908	6,271
Prepaid Tenant Rent	64,721	23,305
Accrued Other	7,907	6,399
Total Accounts Payable and Accrued Liabilities	\$ 123,265	\$ 55,170
Tenant Security Deposits Payable:		
Tenant Security Deposits	\$ 53,345	\$ 57,426
Interest Payable - Security Deposits	7,214	6,779
Total Tenant Security Deposits Payable	\$ 60,559	\$ 64,205

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
SELECTED LINE ITEM DETAIL (CONTINUED)
JUNE 30, 2023 AND 2022
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2023</u>	<u>2022</u>
NONCURRENT LIABILITIES		
Note Payable - State of Maryland	\$ 68,281	\$ 73,733
Mortgage Payable	5,305,188	5,692,195
Note Payable - HOC	1,340,037	1,340,037
Note Payable - Montgomery County	1,699,307	1,699,307
Debt Issuance Costs, Net	(167,222)	(181,869)
Total Noncurrent Liabilities	<u>\$ 8,245,591</u>	<u>\$ 8,623,403</u>
DWELLING RENTAL		
Rent - Current Residents	\$ 1,620,105	\$ 1,613,548
Rent - Subsidies	303,754	323,478
Rent - COVID-19 Deferral Plan	-	(2,291)
Vacancy Loss	(54,386)	(32,883)
Concessions	(18,309)	(37,221)
Other Rent Fees	6,714	5,575
Laundry Income	19,962	22,052
Late Fees / NSF	176	1,202
Total Dwelling Rental	<u>\$ 1,878,016</u>	<u>\$ 1,893,460</u>
OTHER INCOME		
User Fees	\$ -	\$ 1,859
Rental License	6,063	6,063
Misc Income	-	8,997
Total Other Income	<u>\$ 6,063</u>	<u>\$ 16,919</u>
OPERATING EXPENSES		
Other Expenses:		
Security Contract	\$ 8,014	\$ 3,717
Insurance	51,690	39,917
Asset Management Fees	177,850	138,020
Development Corporation Fee	243,083	196,294
Mortgage Insurance	29,304	31,113
Other Taxes	-	879
Solid Waste Tax	2,300	2,230
Water Quality Protect Charge	1,865	1,771
Total Other Expenses	<u>\$ 514,106</u>	<u>\$ 413,941</u>

MONTGOMERY ARMS DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE HOUSING OPPORTUNITIES COMMISSION
OF MONTGOMERY COUNTY, MARYLAND)
NET CASH FLOW COMPUTATION
YEAR ENDED JUNE 30, 2023
(SEE INDEPENDENT AUDITORS' REPORT)

Net Cash Provided by Operating Activities	\$	424,179
Less: Operating Disbursements Not Included in Net Cash:		
Mortgage Principal Payments		369,456
State Principal Payments		5,298
Total Subtractions		<u>374,754</u>
Net Cash Flow	\$	<u>49,425</u>
Payment to HOC:		
Montgomery County Amortization Payment (Principal & Interest)	\$	<u>49,245</u>
Montgomery County Minimum Payment	\$	<u>-</u>
HOC Loan Amortization Payment (Interest and Principal)	\$	<u>-</u>
HOC Minimum Payment	\$	<u>-</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montgomery Arms Development Corporation (the Organization), a component unit of the Housing Opportunities Commission of Montgomery County, Maryland, Kensington, Maryland, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated March 12, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

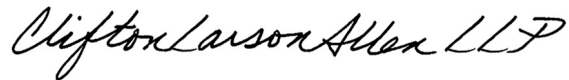
Commissioners
Housing Opportunities Commission
of Montgomery County, Maryland

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland
March 12, 2024