

**RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT
COMPLEXES OWNED BY THE HOUSING
OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2019 AND 2018

**RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

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KOZAK, POLLEKOFF & GOLDMAN, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Commissioners and Board of Directors
RAD 6 Development Corporation
Montgomery County, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of RAD 6 Development Corporation (a residential rental apartment complex owned by the Housing Opportunities of Montgomery County, Maryland), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RAD 6 Development Corporation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 17 through 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019 on our consideration of RAD 6 Development Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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* in considering RAD 6 Development Corporation's internal control over financial reporting and compliance.



Vienna, Virginia
December 16, 2019

RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

	2019	2018
CURRENT ASSETS		
Cash	\$ 200	\$ 200
Accounts receivable, net and other assets	3,961,805	2,421,899
Total current assets	3,962,005	2,422,099
RESTRICTED CASH AND CASH EQUIVALENTS		
AVAILABLE FOR CURRENT LIABILITIES		
Customer deposits - tenant security deposits	113,293	112,038
Restricted cash and cash equivalents	1,045,723	1,014,118
Total restricted cash and cash equivalents for current liabilities	1,159,016	1,126,156
NON-CURRENT ASSETS		
Property and equipment, net of depreciation	28,118,476	28,690,106
TOTAL ASSETS	\$ 33,239,497	\$ 32,238,361

See notes to financial statements

**RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
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STATEMENTS OF FINANCIAL POSITION - Continued

JUNE 30,

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 219,314	\$ 118,577
Accrued interest payable	77,790	77,790
Interfund payable	5,424,455	3,667,313
Mortgage note payable-current	471,153	452,146
Total current liabilities	6,192,712	4,315,826
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposit payable - tenant security deposits	89,004	89,678
NON-CURRENT LIABILITIES		
Mortgage note payable, net of current maturities	22,158,648	22,629,801
Less debt issuance costs	(316,300)	(328,087)
Mortgage note payable, net of current maturities and debt issuance costs	21,842,348	22,301,714
Total liabilities	28,124,064	26,707,218
NET ASSETS		
Investment in capital assets net of related debt	5,488,675	5,608,159
Restricted net assets	1,070,012	1,036,478
Unrestricted net assets	(1,443,254)	(1,113,494)
Total net assets	5,115,433	5,531,143
TOTAL LIABILITIES AND NET ASSETS	\$ 33,239,497	\$ 32,238,361

See notes to financial statements

RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
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STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30,

	2019	2018
OPERATING REVENUES		
Dwelling rental	\$ 3,369,744	\$ 3,151,015
Other income	242,655	595,914
Total operating revenues	3,612,399	3,746,929
OPERATING EXPENSES		
Administration	675,528	671,176
Maintenance	814,692	623,824
Depreciation	803,130	794,376
Utilities	338,314	284,709
Fringe benefits	181,089	168,138
Interest	981,721	996,916
Other	216,734	216,804
Bad debts	23,817	219,227
Total operating expenses	4,035,025	3,975,170
Net operating loss	(422,626)	(228,241)
Investment income	6,916	3,016
Change in net assets	\$ (415,710)	\$ (225,225)

See notes to financial statements

**RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
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**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	Investment in Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
Balances - June 30, 2017	\$ 5,572,428	\$ 819,008	\$ (290,715)	\$ 6,100,721
Changes in net assets	35,731	217,470	(478,426)	(225,225)
General fund contribution/distribution (OPEB)	-	-	(344,353)	(344,353)
Balances - June 30, 2018	5,608,159	1,036,478	(1,113,494)	5,531,143
Changes in net assets	(119,484)	33,534	(329,760)	(415,710)
General fund contribution/distribution (OPEB)	-	-	-	-
Balances - June 30, 2019	<u>\$ 5,488,675</u>	<u>\$ 1,070,012</u>	<u>\$ (1,443,254)</u>	<u>\$ 5,115,433</u>

See notes to financial statements

RAD 6 DEVELOPMENT CORPORATION
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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (415,710)	\$ (225,225)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	803,130	794,376
Amortization of debt issuance costs	11,788	11,788
Effects of changes in operating assets and liabilities		
Accounts receivable and other assets	(1,539,906)	(256,930)
Interfund payable	1,757,142	1,384,853
Customer deposits account - net	(1,929)	(178)
Prepaid rent	4,981	(904)
Accounts payable and accrued liabilities	95,756	(312,982)
Interest payable	-	(3,046)
Net cash provided by operating activities	715,252	1,391,752
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (deposits to) withdrawals from mortgage escrows	1,184	1,932
Net (deposits to) withdrawals from renovation escrows	(2,248)	(92,105)
Net (deposits to) withdrawals from replacement reserve	(30,541)	(127,119)
Improvements and additions to rental property	(231,501)	(606,839)
Net cash used in investing activities	(263,106)	(824,131)
CASH FLOW FROM FINANCING ACTIVITIES		
General fund contribution/distribution (OPEB)	-	(344,353)
Principal payments on mortgage note	(452,146)	(223,268)
Net cash used in financing activities	(452,146)	(567,621)
Net increase (decrease) in cash	-	-
Cash , beginning	200	200
Cash, ending	\$ 200	\$ 200
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 969,933	\$ 988,402

See notes to financial statements

**RAD 6 DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

1. ORGANIZATION

RAD 6 Development Corporation (the "Corporation") was incorporated under the laws of the State of Maryland on June 10, 2014 as a not-for-profit non-stock corporation for the purpose of acquiring, rehabilitating, operating, maintaining and leasing 268 apartment units to be operated as a housing project for persons of eligible income under the Annotated Code of Maryland. The housing projects consists of six multifamily housing facilities known as Ken-Gar Apartments (19 units), Towne Centre Place (49 units), Parkway Woods (24 units), Washington Square (50 units), Sandy Spring Meadow (55 units) and Seneca Ridge (71 units). The units are located in various areas of Montgomery County, Maryland. These units were acquired from the public housing stock of the Housing Opportunities Commission of Montgomery County, Maryland ("HOC") through the Rental Assistance Demonstration program ("RAD") issued by HUD.

Housing projects undertaken, financed, or assisted by the Corporation and the projects related expenditures must be approved by the Corporation's Board of Directors. The Corporation is legally separate from HOC, but the Corporation's financial statements are included in the Opportunity Housing Fund of HOC as a blended component unit. The Corporation's directors must be commissioners of HOC and, therefore, HOC can significantly influence the projects, programs, activities and services performed by the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Method of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred. The accounting policies conform to accounting principles generally accepted in the United States of America.

b) Use of estimates

The preparation of the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Accounts Receivable

Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Accounts Receivable (continued)

Management periodically evaluates the need for an allowance for doubtful accounts by considering the Corporation's past receivables loss experience, known and inherent risks in the accounts receivable population, adverse situations that may affect a debtor's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debt expense and decreased by charge offs of the account receivable balances. Accounts receivable are considered uncollectible if they are outstanding over 90 days.

The allowance for doubtful accounts as of June 30, 2019 and 2018 was \$105,868 and \$138,132, respectively.

d) Intercompany Receivable and Payable

The Corporation has numerous transactions with HOC to finance operations and provide services. To the extent that funds to finance certain transactions of the Corporation had not been paid or collected as of year-end, interfund payables and receivables are recorded.

e) Restricted cash and cash equivalents

Under the regulatory agreement, the Corporation is required to set aside amounts for the replacement of property and other project expenditures approved by HOC. Written approval is required from HOC for any disbursements from these funds. Monthly required deposits to the replacement reserve of \$10,208 are to be made in accordance with the regulatory agreement and the leasehold deed of trust notes. An initial funding of \$300,000 into the replacement reserve has been made in accordance with the regulatory agreement. The Corporation has also established a renovation escrow. At June 30, 2019 and 2018 the balance in the replacement reserve was \$703,573 and \$673,032, respectively. The balance at June 30, 2019 and 2018 in the renovation escrow was \$206,530 and \$204,282, respectively.

f) Property, equipment and depreciation

Land, building and equipment, including major improvements, replacements and betterments are capitalized and stated at cost. The assets are depreciated using the estimated useful lives of the respective assets, ranging from 5 to 40 years, on a straight-line basis. Cost of maintenance and repairs are charged to expense when incurred. For income tax purposes, accelerated lives and methods are used.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, equipment and depreciation (continued)

The Corporation is in the process of rehabilitating the apartment facilities. The hard and soft costs associated with the rehabilitation are reflected in construction in progress. The construction in progress will be transferred to building and improvements when completed and placed in service.

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

g) Debt issuance costs and amortization

Debt issuance costs, net of amortization, are reported as a direct deduction from the face amount of the mortgage note payable to which such costs relate. Amortization of the debt issuance costs is reported as a component of interest expense and is computed using the straight-line method which approximates the effective yield method. The amortization period is over the term of the related mortgage note payable.

For both years ended June 30, 2019 and 2018, \$11,788 of amortization expense was recorded as a component of interest expense in the statements of activities. Accumulated amortization at June 30, 2019 and 2018 was \$37,327 and \$25,540, respectively.

h) Revenue Recognition

The financial statements are reported in accordance with accounting principles generally accepted in the United States of America. Dwelling rental revenue is recognized in the month the apartment units are provided to residential tenants, pursuant to lease agreements. Dwelling rental revenue consists of amounts paid by tenants.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Income taxes

No provision or benefit for income taxes has been included in these financial statements. The Corporation is not subject to tax under Internal Revenue Code Section 115 as a component unit of The Housing Opportunities Commission of Montgomery County, Maryland. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. Management has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. The federal income tax returns for 2016, 2017, and 2018 remain subject to examination.

j) Risks and Uncertainties

The Corporation's operations are concentrated in the multifamily real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of Federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Housing and Urban Development (HUD). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

k) Cash and cash equivalents

Cash and cash equivalents include demand deposits and money market funds with original maturities of 90 days or less. At times the Corporation's cash and cash equivalents balance with financial institutions may exceed federally insurable limits. The Corporation mitigates this risk by depositing funds with major financial institutions. The Company has not experienced any losses on its cash deposits.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Advertising costs

The Corporation's policy is to expense advertising costs when incurred. Advertising costs were \$1,070 and \$1,787 for the years ended June 30, 2019 and 2018, respectively, and is included in administration expense in the statements of activities.

m) Reclassifications

Certain prior year amounts in these financial statements have been reclassified to conform to the current year presentation with no impact to change in net assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019 and 2018:

	2019	2018
Land	\$ 3,348,715	\$ 3,348,715
Buildings and improvements	27,412,923	27,181,422
Site improvements	15,886	15,886
Total at cost	30,777,524	30,546,023
Less: accumulated depreciation	(2,659,048)	(1,855,917)
Total property and equipment, net	\$ 28,118,476	\$ 28,690,106

For the years ended June 30, 2019 and 2018, the Corporation recognized depreciation expense of \$803,130 and \$794,376, respectively.

4. MORTGAGE PAYABLE

The Corporation entered into a mortgage payable with HOC's Multifamily fund in December 2014. The mortgage loan is provided from Multifamily Housing Development Bonds 2014 Series A issued by HOC to provide funding for the rehabilitation and permanent financing of the 6 multifamily rental facilities. The original note amount is for \$24,000,000. The note bears a fixed interest rate of 4.125% per annum and matures on March 1, 2046. The note was interest only through March 30, 2016. Principal and interest monthly payments of \$116,316 commenced on April 1, 2016.

The liability under the deed of trust note is limited to the underlying value of the real estate and assignment of rents.

The mortgage payable is insured by FHA pursuant to a risk sharing agreement.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

4. MORTGAGE PAYABLE (CONTINUED)

Aggregate maturities of the mortgage payable for the five years following June 30, 2019 and thereafter are as follows:

2020	471,154
2021	490,960
2022	511,600
2023	533,107
2024	555,518
2025-2029	3,148,154
2030-2034	3,867,904
2035-2039	4,752,206
2040-2044	5,838,684
2045-2046	2,460,514
	\$ 22,629,801

5. RELATED PARTY TRANSACTIONS

The Housing Opportunities Commission Corporation of Montgomery County, Maryland charged a Management fee of \$254,899 and \$254,900 for the periods ended June 30, 2019 and 2018, respectively.

The Interfund relationship between the Housing Opportunities Commission, of Montgomery County, Maryland and RAD 6 Development Corporation at June 30, 2019 and 2018 was a payable of \$5,424,455 and \$3,667,313, respectively.

On December 1, 2014, the Corporation acquired the six residential apartment facilities from HOC's public housing for the net book value of \$11,281,371. The purchase price is comprised of two elements, a capital reimbursement of \$7,448,947 to seller and a capital contribution in the amount of \$3,832,424. The additional transfer of \$324,856 was after closing which made a net capital contribution of \$3,504,568. No capital contributions were made in 2019 and 2018.

6. REAL PROPERTY TAXES

The Corporation has entered into an agreement with Montgomery County, Maryland, to make a payment in lieu of taxes (PILOT).

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

7. CONTINGENCY

The regulatory agreement requires the rental units are to be leased to eligible low income families as required per the Rental Assistance Demonstration (RAD) for Conversion of Public Housing to Project-Based Section 8 Program by the Department of Housing and Urban Development (HUD).

8. PROPERTY ASSISTANCE CONTRACT FEE

The Housing Opportunities Commission has entered into a property assistance contract with Edgewood Management Company to provide assistance in managing five of the ten HUBs containing HOC managed properties. Edgewood Management Company in that capacity provides marketing, leasing, tenant issues, oversight of the daily maintenance issues and other operational concerns. The allocated overhead charges for the assisted properties was reduced by one-half of the difference between the amount calculated for a typical multifamily contract managed property and the amount calculated for a typical multifamily HOC managed property.

The amount charged to administrative expense in the statement of activities for June 30, 2019 and 2018 was \$89,283 and \$74,436, respectively.

9. CONTRIBUTIONS/DISTRIBUTIONS-OPEG

Montgomery County, Maryland and the Consolidated Retiree Health Benefits Trust have adopted Government Accounting Standards Board (GASB) Statements No. 74 and 75, relating to accounting and financial reporting for post-employment benefits other than pensions (OPEG). Statement No. 74 was effective for fiscal year end June 30, 2017. The County allocated the Housing Opportunities Commission \$2,191,034 of OPEG expense. The Commission allocated through the general fund \$344,353 to RAD 6 Development Corporation in 2018. This amount was reported as a reduction in equity during 2018. There were no amounts reported during fiscal year 2019.

10. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through December 16, 2019, which is the date the financial statements were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTARY INFORMATION

RAD 6 DEVELOPMENT CORPORATION
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SUPPLEMENTARY INFORMATION
SCHEDULES OF SELECTED LINE ITEMS
FOR THE YEARS ENDED JUNE 30,

	2019	2018
ACCOUNTS RECEIVABLE AND OTHER ASSETS		
Tenant receivables, net	\$ (122,993)	\$ (59,454)
Accounts receivable HUD	3,254,236	1,670,115
Ex resident rent receivable	824	938
Other receivable	-	-
Prepaid expenses	705,528	731,676
Prepaid mortgage insurance	60,000	60,000
Deferred revenue	64,210	18,624
	\$ 3,961,805	\$ 2,421,899
RESTRICTED CASH AND CASH EQUIVALENTS		
Mortgage escrow fund	\$ 135,620	\$ 136,804
Renovation escrow	206,530	204,282
Replacement reserve	703,573	673,032
	\$ 1,045,723	\$ 1,014,118
NON-CURRENT ASSETS		
Property and equipment, net of depreciation:		
Land	\$ 3,348,715	\$ 3,348,715
Buildings and improvements	27,412,923	27,181,422
Site improvements	15,886	15,886
	30,777,524	30,546,023
Less: accumulated depreciation	(2,659,048)	(1,855,917)
	\$ 28,118,476	\$ 28,690,106
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		
Accounts payable - other	\$ -	\$ 23,484
Accounts payable - vendors	46,931	13,413
Accrued salaries and benefits	31,431	29,070
Accrued utilities	47,683	15,922
Clearing resident refunds	5,545	5,310
Non-interest bearing deposit	300	300
Accrued expense - other	65,056	13,691
Prepaid rent	22,368	17,387
	\$ 219,314	\$ 118,577

RAD 6 DEVELOPMENT CORPORATION
(A RESIDENTIAL RENTAL APARTMENT COMPLEX
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MONTGOMERY COUNTY, MARYLAND)

DETAILED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2019	2018
REVENUES		
DWELLING RENTAL		
Rent: current residents	\$ 1,617,839	\$ 1,884,455
Rent: subsidies	2,045,384	1,702,975
Rent: tenant repayment	221	257
Concessions	(30,080)	(20,868)
Vacancy loss	(195,697)	(375,180)
Parking income	-	-
Other rent fees	1,905	620
Rent: retroactive	3,478	-
Rent: voucher loss	10,829	9,377
Voucher loss	(9,367)	(10,409)
Expense Recovery Charge	(851)	-
Loss-to-lease	-	(167)
Laundry income	609	-
Sales/services to residents	637	3,770
Late fees/NSF	6,620	14,183
Utility allowances	(82,318)	(59,359)
Ex-resident work-orders	535	1,361
Total dwelling rental	3,369,744	3,151,015
MANAGEMENT FEES & OTHER INCOME		
User fees	569	1,752
Miscellaneous income	-	1,624
Transfer between funds - rental license	11,792	11,792
Transfer between funds	230,294	580,746
Total management fees & other income	242,655	595,914
OPERATING EXPENSES		
ADMINISTRATION		
Administrative salaries - budget	8,594	6,869
Contract administrative salaries	104,164	110,046
Temp pool	5,586	1,941
Property assistance contract fee	89,283	74,436
Auditing fees	16,800	13,311
Miscellaneous operating expenses	14,545	5,571
Other office supplies	4,229	4,669
Printing/reproduction	955	1,705
Paper, pads, etc	238	1,452
Food & beverages	2,644	2,509
Donations	25	-
Postage	-	2
Flowers	-	-
Other operating professional	651	818
Advertising	1,070	1,787
Marketing/publication related services	2,858	1,251
Credit check services	1,588	10,813
Criminal record check services	416	96
Furniture and misc equipment rental	7,386	1,563

**RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

DETAILED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED JUNE 30,

	2019	2018
ADMINISTRATION - CONTINUED		
Other licenses, fees and permits	224	349
Monitoring fee	-	209
Allocated overhead	254,899	254,900
Computer software	-	49
Rental license fees	11,792	11,792
Local mileage and travel	285	443
ICC tolls	17	12
Gasoline	5,329	5,055
Vehicle repairs and maintenance	8,149	6,668
Legal services- general	11,982	5,351
Legal services- counsel	488	60
Legal services- litigation	3,922	40
Temporary agency fees - administrative	4,004	14,583
Temporary agency fees	12,086	24,569
Office equipment rent	3,496	3,517
Contractor expenses	12	12
Local phone bill	24,682	21,383
Cellular phone charges	905	(425)
Cable charges	-	106
Internet access charges	-	21
Online information services	10,725	9,570
Vehicle lease/rent	14,694	26,556
Salaries - tenant services	46,134	47,508
Resident participation	425	-
Miscellaneous program supplies	246	-
ACA compliance surcharge	-	9
Total administration	675,528	671,176
MAINTENANCE		
Salary - maintenance	261,152	218,151
Overtime/on-call	31,728	31,033
Premium pay	2,058	1,190
Temp pool - maintenace	766	-
Temp agency - maintenance	25,688	2,830
Kitchen and bath supplies	305	168
Electrical supplies	4,303	10,923
Appliance supplies	5,187	3,741
Plumbing supplies	8,409	5,110
Employee uniforms	5,027	2,154
Cleaning and janitorial supplies	5,340	6,229
Grounds and landscaping supplies	455	2,724
Health and safety materials	3,467	2,417
Locks and keys	2,612	1,343
Windows and glass	3,452	6,317
Doors	1,039	905
Floors and carpeting	(1,197)	2,121
Miscellaneous supplies	4,803	5,892
Plumbing equipment	651	177
Hardware supplies	3,457	4,577
HVAC supplies	5,846	2,805
Paint and wallcoverings	3,167	701

**RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
OWNED BY THE HOUSING OPPORTUNITIES COMMISSION OF
MONTGOMERY COUNTY, MARYLAND)**

DETAILED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED JUNE 30,

	2019	2018
MAINTENANCE - CONTINUED		
HVAC equipment	7,771	7,463
Appliance equipment	16,073	962
Tools	3,668	1,249
Maintenance equipment	2,800	2,518
Discount	(13)	-
Equipment rent	-	-
Appliance contracts	164	-
Miscellaneous equipment	-	-
Electrical contracts	7,150	2,399
Plumbing contracts	10,135	5,412
Cleaning and janitorial contracts	19,691	18,630
Grounds and landscaping contracts	86,026	79,807
Windows and glass contacts	2,480	2,159
Roofing and gutter contracts	5,685	450
HVAC contracts	188	5,403
Flooring and carpeting contracts	9,003	1,280
Paint/wallcoverings int. contracts	59,209	68,853
Paint/wallcoverings ext contracts	3,473	1,741
Exterminating contracts	33,875	16,548
Snow removal contracts	55,102	29,544
Fencing contracts	2,425	450
Asphalt and concrete contracts	-	-
Miscellaneous contracts	12,011	2,096
Kithchen and bath supplies - capital	(190)	552
Electrical supplies - capital	209	21
Appliance supplies - capital	11	11
Plumbing supplies - capital	429	395
Locks and keys - capital	-	-
Windows and glass - capital	390	(30)
Doors -capital	705	-
HVAC supplies - capital	206	(371)
Hardware supplies - capital	113	(288)
Plumbing equipment - capital	785	-
Miscellaneous supplies - capital	125	421
Electrical equipment - capital	-	-
Flooring and carpeting - capital	6,725	(1,577)
Appliance equipment - capital	26,147	15,791
Electrical contracts - capital	575	1,765
Appliance contracts - capital	-	-
HVAC equipment - capital	2,935	1,572
Tools - Capital	-	-
Plumbing contracts - capital	13,000	3,675
Grounds/landscaping - capital	-	-
Roofing/gutter contracts - capital	700	-
Flooring/carpet contracts - capital	47,401	35,084
Snow removal contracts - capital	-	3,276
Paint/wallcoverings int. contracts - capital	(855)	1,280
Asphalt/concrete contracts - capital	650	3,775
Miscellaneous contracts - capital	-	-
Total maintenance	814,692	623,824

RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
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MONTGOMERY COUNTY, MARYLAND)

DETAILED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED JUNE 30,

	2019	2018
UTILITIES		
Water bill	178,448	140,841
Electric bill	113,948	106,446
Natural gas	14,091	15,740
Trash collection	25,642	20,381
Trash collection - bulk	6,185	1,301
Total Utilities	338,314	284,709
FRINGE BENEFITS		
Accrued leave	5,374	458
FICA	1,026	607
Unemployment	40	46
Workers compensation	210	2,243
Health insurance	4,027	1,513
Deferred contribution plan	475	359
Employee meal allowance	-	-
Other post employment benefits	420	410
Contract managed benefits	26,638	22,829
Pension expense	4,625	14,349
OPEB expense (GASB 75)	3,579	3,077
Training program	1,070	1,047
FICA tenant services	3,206	3,487
Unemployment tenant services	150	183
Workers compensation tenant services	1,440	1,280
Health insurance - tenant services	5,912	6,439
Deferred contribution plan tenant services	3,308	3,549
Other post employment benefits - tenant services	2,953	2,840
Resident service fees	-	500
FICA maintenance	21,518	18,197
Unemployment - maintenance	882	871
Workers compensation - maintenance	6,621	5,348
Health insurance - maintenance	58,425	51,551
Deferred contribution plan - maintenance	15,768	13,405
Other post employment benefits - maintenance	13,422	13,550
Total fringe benefits	181,089	168,138
INTEREST EXPENSES		
Interest payments - general	969,933	985,128
Amortization of debt issuance costs	11,788	11,788
Total interest expenses	981,721	996,916
OTHER EXPENSES		
Security contracts	2,429	2,738
Security system	-	620
Fire & hazard insurance	22,650	27,846
Equipment insurance	-	-
Vehicle insurance	11,888	5,408
Real estate taxes	3,434	3,051
Other taxes	-	-
Solid waste tax	57,307	57,141

RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES
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MONTGOMERY COUNTY, MARYLAND)

DETAILED STATEMENTS OF ACTIVITIES - CONTINUED
FOR THE YEARS ENDED JUNE 30,

	2019	2018
OTHER EXPENSES - CONTINUED		
Water quality protection charge (RFSA)	-	-
Mortgage insurance	119,026	120,000
Total other expenses	216,734	216,804
 NON-OPERATING REVENUE (EXPENSE)		
Interest income - security deposit	1,263	480
Security deposit interest expense	(222)	(1,281)
Investment interest income - non operating	5,875	3,817
Total non-operating revenue (expense)	6,916	3,016

**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***

To the Commissioners and Board of Directors
RAD 6 Development Corporation
Montgomery County, Maryland

We have audited, 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, the financial statements of RAD 6 Development Corporation which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered RAD 6 Development Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RAD 6 Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of RAD 6 Development Corporation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RAD 6 Development Corporation's financial statements are free of 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Ronald Pollock, P.C.", written in a cursive style.

Vienna, Virginia
December 16, 2019

**RAD 6 DEVELOPMENT CORPORATION
HUD PROJECT NO.: 000-98068
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2019**

Finding

Questioned Cost

None

N/A