

**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, 2020 AND 2019

**RAD 6 DEVELOPMENT CORPORATION
(SIX RESIDENTAL 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, 2020 and 2019, 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.

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, 2020 and 2019, 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 18 through 23 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 15, 2020

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

JUNE 30,

ASSETS

	2020	2019
CURRENT ASSETS		
Cash	\$ 200	\$ 200
Accounts receivable, net and other assets	3,911,885	3,961,805
Total current assets	3,912,085	3,962,005
RESTRICTED CASH AND CASH EQUIVALENTS		
AVAILABLE FOR CURRENT LIABILITIES		
Customer deposits - tenant security deposits	114,070	113,293
Restricted cash and cash equivalents	1,089,362	1,045,723
Total restricted cash and cash equivalents for current liabilities	1,203,432	1,159,016
NON-CURRENT ASSETS		
Property and equipment, net of depreciation	27,281,798	28,118,476
TOTAL ASSETS	\$ 32,397,315	\$ 33,239,497

See notes to financial statements

RAD 6 DEVELOPMENT CORPORATION
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STATEMENTS OF FINANCIAL POSITION - Continued

JUNE 30,

LIABILITIES AND NET ASSETS

	2020	2019
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 228,969	\$ 219,314
Accrued interest payable	76,170	77,790
Interfund payable	5,915,342	5,424,455
Mortgage note payable-current	490,960	471,153
	6,711,441	6,192,712
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposit payable - tenant security deposits	99,328	89,004
NON-CURRENT LIABILITIES		
Mortgage note payable, net of current maturities	21,667,688	22,158,648
Less debt issuance costs	(304,512)	(316,300)
	21,363,176	21,842,348
Mortgage note payable, net of current maturities and debt issuance costs	21,363,176	21,842,348
	28,173,945	28,124,064
NET ASSETS		
Investment in capital assets net of related debt	5,123,150	5,488,675
Restricted net assets	1,104,104	1,070,012
Unrestricted net assets	(2,003,884)	(1,443,254)
	4,223,370	5,115,433
TOTAL LIABILITIES AND NET ASSETS	\$ 32,397,315	\$ 33,239,497

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,

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Dwelling rental	\$ 3,400,451	\$ 3,369,744
Other income	<u>149,171</u>	<u>242,655</u>
Total operating revenues	<u>3,549,622</u>	<u>3,612,399</u>
OPERATING EXPENSES		
Administration	533,018	675,528
Maintenance	952,202	814,692
Depreciation	825,146	803,130
Utilities	324,002	338,314
Fringe benefits	296,095	181,089
Interest	961,094	981,721
Other	499,819	216,734
Bad debts	<u>53,195</u>	<u>23,817</u>
Total operating expenses	<u>4,444,571</u>	<u>4,035,025</u>
Net operating loss	(894,949)	(422,626)
Investment income	<u>2,886</u>	<u>6,916</u>
Change in net assets	<u>\$ (892,063)</u>	<u>\$ (415,710)</u>

See notes to financial statements

RAD 6 DEVELOPMENT CORPORATION
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STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	Investment in Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
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)
Balances - June 30, 2019	<u>5,488,675</u>	<u>1,070,012</u>	<u>(1,443,254)</u>	<u>5,115,433</u>
Changes in net assets	(365,525)	34,092	(560,630)	(892,063)
Balances - June 30, 2020	<u><u>\$ 5,123,150</u></u>	<u><u>\$ 1,104,104</u></u>	<u><u>\$ (2,003,884)</u></u>	<u><u>\$ 4,223,370</u></u>

See notes to financial statements

RAD 6 DEVELOPMENT CORPORATION
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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	2020	(restated) 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (892,063)	\$ (415,710)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	825,146	803,130
Amortization of debt issuance costs	11,788	11,788
Disposition of buildings and improvements	11,532	
Effects of changes in operating assets and liabilities		
Accounts receivable and other assets	49,920	(1,539,906)
Interfund payable	490,887	1,757,142
Customer deposits payable	10,324	(674)
Prepaid rent	32,852	4,981
Accounts payable and accrued liabilities	(23,197)	95,756
Interest payable	(1,620)	-
Net cash provided by operating activities	<u>515,569</u>	<u>716,507</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Improvements and additions to rental property	-	(231,501)
Net cash used in investing activities	<u>-</u>	<u>(231,501)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Principal payments on mortgage note	(471,153)	(452,146)
Net cash used in financing activities	<u>(471,153)</u>	<u>(452,146)</u>
Net increase (decrease) in cash	44,416	32,860
Cash , cash equivalents and restricted cash, beginning	<u>1,159,216</u>	<u>1,126,356</u>
Cash , cash equivalents and restricted cash, ending	<u>\$ 1,203,632</u>	<u>\$ 1,159,216</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 950,926</u>	<u>\$ 969,933</u>
Cash	\$ 200	\$ 200
Restricted cash and cash equivalents		
Customer deposits	114,070	113,293
Replacement reserve	960,326	703,573
Renovation escrow	-	206,530
Mortgage escrow fund	129,036	135,620
	<u>\$ 1,203,632</u>	<u>\$ 1,159,216</u>

See notes to financial statements

**RAD 6 DEVELOPMENT CORPORATION
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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, 2020 and 2019 was \$104,985 and \$105,868, 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 \$10,911 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, 2020 and 2019 the balance in the replacement reserve was \$960,326 and \$703,573, respectively. The balance at June 30, 2020 and 2019 in the renovation escrow was \$0 and \$206,530, 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, 2020 AND 2019

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, 2020 and 2019, \$11,788 of amortization expense was recorded as a component of interest expense in the statements of activities. Accumulated amortization at June 30, 2020 and 2019 was \$49,115 and \$37,327, 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, 2020 AND 2019

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 2017, 2018, and 2019 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, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Advertising costs

The Corporation's policy is to expense advertising costs when incurred. Advertising costs were \$1,836 and \$1,070 for the years ended June 30, 2020 and 2019, respectively, and is included in administration expense in the statements of activities.

m) Subsequent Events

The Corporation has evaluated subsequent events through December 15, 2020, 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.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 3,348,715	\$ 3,348,715
Buildings and improvements	27,401,391	27,412,923
Site improvements	15,886	15,886
Total at cost	<u>30,765,992</u>	<u>30,777,524</u>
Less: accumulated depreciation	<u>(3,484,194)</u>	<u>(2,659,048)</u>
Total property and equipment, net	<u>\$ 27,281,798</u>	<u>\$ 28,118,476</u>

For the years ended June 30, 2020 and 2019, the Corporation recognized depreciation expense of \$825,146 and \$803,130, 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

4. MORTGAGE PAYABLE (CONTINUED)

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.

Aggregate maturities of the mortgage payable for the five years following June 30, 2020 and thereafter are as follows:

2021	490,960
2022	511,600
2023	533,107
2024	555,518
2025	578,871
2026-2030	3,280,500
2031-2035	4,030,507
2036-2040	4,951,985
2041-2045	6,084,136
2046	1,141,464
	<u>\$ 21,158,648</u>

5. RELATED PARTY TRANSACTIONS

The Housing Opportunities Commission Corporation of Montgomery County, Maryland charged a Management fee of \$0 and \$254,899 for the periods ended June 30, 2020 and 2019, respectively.

The Interfund relationship between the Housing Opportunities Commission, of Montgomery County, Maryland and RAD 6 Development Corporation at June 30, 2020 and 2019 was a payable of \$5,915,342 and \$5,424,455, 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 2020 and 2019.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

6. REAL PROPERTY TAXES

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

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, 2020 and 2019 was \$28,560 and \$89,283, respectively.

9. ADOPTION OF ACCOUNTING PRONOUNCEMENT

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. This guidance requires that the statement of cash flows reconcile the change during the period in the total cash, cash equivalents, and restricted cash reserves. As a result, the restricted cash reserves will be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period to amounts presented in the statement of cash flows. The Organization adopted the guidance July 1, 2019, and applied its provisions retrospectively. The adoption of ASU No. 2016-18 did not have a material impact on the Organization's financial statements.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

10. OTHER CONDITIONS

In early 2020, an outbreak of a novel strain of the coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to overall decline in economic activity which could result in a loss of lease revenue or other material adverse effects to the Organization's financial position results of operations, and cash flows. The Organization is not able to estimate the length or severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. These financial statements do not include any adjustments that might result due to this pandemic.

SUPPLEMENTARY INFORMATION

RAD 6 DEVELOPMENT CORPORATION
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SUPPLEMENTARY INFORMATION

SCHEDULES OF SELECTED LINE ITEMS

FOR THE YEARS ENDED JUNE 30,

	2020	2019
ACCOUNTS RECEIVABLE AND OTHER ASSETS		
Tenant receivables, net	\$ (118,157)	\$ (122,993)
Accounts receivable HUD	3,225,908	3,254,236
Ex resident rent receivable	824	824
Other receivable	-	-
Prepaid expenses	679,100	705,528
Prepaid mortgage insurance	60,000	60,000
Deferred revenue	64,210	64,210
Total accounts receivable and other assets	\$ 3,911,885	\$ 3,961,805
RESTRICTED CASH AND CASH EQUIVALENTS		
Mortgage escrow fund	\$ 129,036	\$ 135,620
Renovation escrow	-	206,530
Replacement reserve	960,326	703,573
Total restricted cash and cash equivalents	\$ 1,089,362	\$ 1,045,723
NON-CURRENT ASSETS		
Property and equipment, net of depreciation:		
Land	\$ 3,348,715	\$ 3,348,715
Buildings and improvements	27,401,391	27,412,923
Site improvements	15,886	15,886
	30,765,992	30,777,524
Less: accumulated depreciation	(3,484,194)	(2,659,048)
Total property and equipment, net of depreciation	\$ 27,281,798	\$ 28,118,476
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		
Accounts payable - vendors	\$ 55,549	\$ 46,931
Accrued salaries and benefits	59,581	31,431
Accrued utilities	13,965	47,683
Clearing resident refunds	5,610	5,545
Non-interest bearing deposit	300	300
Accrued expense - other	38,744	65,056
Prepaid rent	55,220	22,368
Total account payable and accrued liabilities	\$ 228,969	\$ 219,314

RAD 6 DEVELOPMENT CORPORATION
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DETAILED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2020	2019
REVENUES		
DWELLING RENTAL		
Rent: current residents	\$ 1,636,181	\$ 1,617,839
Rent: subsidies	2,095,152	2,045,384
Rent: tenant repayment	1,247	221
Concessions	(33,154)	(30,080)
Vacancy loss	(234,995)	(195,697)
Other rent fees	3,886	1,905
Rent: retroactive	5,053	3,478
Rent: voucher loss	1,507	10,829
Voucher loss	(1,507)	(9,367)
Expense Recovery Charge	-	(851)
Laundry income	1,274	609
Sales/services to residents	5,130	637
Late fees/NSF	4,212	6,620
Utility allowances	(84,128)	(82,318)
Ex-resident work-orders	593	535
Total dwelling rental	3,400,451	3,369,744
MANAGEMENT FEES & OTHER INCOME		
User fees	(426)	569
Miscellaneous income	2,795	-
Transfer between funds - rental license	12,596	11,792
Transfer between funds	134,206	230,294
Total management fees & other income	149,171	242,655
OPERATING EXPENSES		
ADMINISTRATION		
Administrative salaries - budget	-	8,594
Contract administrative salaries	205,785	104,164
Temp pool	1,110	5,586
Property assistance contract fee	78,118	89,283
Auditing fees	11,180	16,800
Miscellaneous operating expenses	35,468	14,545
Other office supplies	3,488	4,229
Printing/reproduction	1,327	955
Paper, pads, etc	440	238
Food & beverages	1,025	2,644
Donations	-	25
Postage	2	-
Other operating professional	345	651
Advertising	1,836	1,070
Marketing/publication related services	4,397	2,858
Credit check services	2,227	1,588
Criminal record check services	696	416
Furniture and misc equipment rental	-	7,386

**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,

	2020	2019
ADMINISTRATION - CONTINUED		
Other licenses, fees and permits	-	224
Allocated overhead	-	254,899
Computer equipment	118	-
Computer software	17	-
Rental license fees	12,596	11,792
Local mileage and travel	481	285
ICC tolls	-	17
Gasoline	4,450	5,329
Vehicle repairs and maintenance	4,910	8,149
Legal services- general	8,209	11,982
Legal services- counsel	180	488
Legal services- litigation	-	3,922
Temporary agency fees - administrative	5,032	4,004
Temporary agency fees	57,535	12,086
Temporary agency fees - tenant services	72	-
Office equipment rent	3,497	3,496
Contractor expenses	-	12
Local phone bill	21,006	24,682
Cellular phone charges	950	905
Cable charges	188	-
Online information services	10,517	10,725
Vehicle lease/rent	13,831	14,694
Salaries - tenant services	41,685	46,134
Resident participation	275	425
Miscellaneous program supplies	-	246
Case Management	25	-
Total administration	533,018	675,528
MAINTENANCE		
Salary - maintenance	280,261	261,152
Overtime/on-call	32,170	31,728
Premium pay	2,075	2,058
Temp pool - maintenace	-	766
Temp agency - maintenance	6,067	25,688
Kitchen and bath supplies	428	305
Electrical supplies	9,560	4,303
Appliance supplies	2,541	5,187
Plumbing supplies	7,037	8,409
Employee uniforms	6,670	5,027
Cleaning and janitorial supplies	5,400	5,340
Grounds and landscaping supplies	1,688	455
Health and safety materials	780	3,467
Locks and keys	1,492	2,612
Windows and glass	2,386	3,452
Doors	169	1,039
Roofing materials	208	-
Floors and carpeting	1,020	(1,197)
Miscellaneous supplies	30,143	4,803
Electrical equipment	55	-
Plumbing equipment	220	651
Hardware supplies	2,755	3,457
HVAC supplies	3,564	5,846

**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,

	2020	2019
MAINTENANCE - CONTINUED		
Paint and wallcoverings	18,288	3,167
HVAC equipment	4,458	7,771
Appliance equipment	5,612	16,073
Tools	3,310	3,668
Maintenance equipment	10,625	2,800
Discount	(1)	(13)
Equipment rent	450	-
Appliance contracts	1,445	164
Miscellaneous equipment	624	-
Electrical contracts	9,758	7,150
Plumbing contracts	16,025	10,135
Cleaning and janitorial contracts	38,795	19,691
Grounds and landscaping contracts	92,534	86,026
Windows and glass contracts	(64)	2,480
Roofing and gutter contracts	10,440	5,685
HVAC contracts	514	188
Flooring and carpeting contracts	22,187	9,003
Paint/wallcoverings int. contracts	48,208	59,209
Paint/wallcoverings ext contracts	1,565	3,473
Exterminating contracts	39,977	33,875
Snow removal contracts	17,741	55,102
Fencing contracts	2,700	2,425
Asphalt and concrete contracts	3,000	-
Miscellaneous contracts	15,492	12,011
Kithchen and bath supplies - capital	6,241	(190)
Electrical supplies - capital	3,750	209
Appliance supplies - capital	101	11
Plumbing supplies - capital	1,393	429
Cleaning/janitorial supplies - capital	84	-
Locks and keys - capital	1,029	-
Windows and glass - capital	860	390
Doors -capital	203	705
HVAC supplies - capital	660	206
Hardware supplies - capital	1,116	113
Plumbing equipment - capital	-	785
Miscellaneous supplies - capital	811	125
Electrical equipment - capital	-	-
Flooring and carpeting - capital	29,458	6,725
Appliance equipment - capital	49,731	26,147
Miscellaneous contracts - capital	312	-
Electrical contracts - capital	2,265	575
Appliance contracts - capital	-	-
HVAC equipment - capital	17	2,935
Plumbing contracts - capital	2,912	13,000
Cleaning/janitorial contracts - capital	1,203	-
Grounds/landscaping - capital	34,100	-
Windows/glass contracts - capital	1,050	-
Roofing/gutter contracts - capital	3,707	700
HVAC contracts - capital	1,901	-

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,

	2020	2019
MAINTENANCE - CONTINUED		
Flooring/carpet contracts - capital	35,950	47,401
Paint/wallcoverings int. contracts - capital	614	(855)
Exterminating contracts - capital	295	-
Asphalt/concrete contracts - capital	-	650
Miscellaneous contracts - capital	12,067	-
Total maintenance	952,202	814,692
UTILITIES		
Water bill	172,086	178,448
Electric bill	110,455	113,948
Natural gas	10,067	14,091
Trash collection	28,848	25,642
Trash collection - bulk	2,546	6,185
Total Utilities	324,002	338,314
FRINGE BENEFITS		
Accrued leave	8,468	5,374
FICA	85	1,026
Unemployment	-	40
Workers compensation	-	210
Health insurance	-	4,027
Deferred contribution plan	-	475
Other post employment benefits	-	420
Contract managed benefits	49,242	26,638
Pension expense	99,357	4,625
OPEB expense (GASB 75)	(6,266)	3,579
Training program	1,514	1,070
FICA tenant services	3,021	3,206
Unemployment tenant services	196	150
Workers compensation tenant services	1,220	1,440
Health insurance - tenant services	5,305	5,912
Deferred contribution plan tenant services	2,234	3,308
Other post employment benefits - tenant services	1,350	2,953
FICA maintenance	23,651	21,518
Unemployment - maintenance	1,180	882
Workers compensation - maintenance	7,538	6,621
Health insurance - maintenance	72,321	58,425
Deferred contribution plan - maintenance	17,594	15,768
Other post employment benefits - maintenance	8,085	13,422
Total fringe benefits	296,095	181,089
INTEREST EXPENSES		
Interest payments - general	949,306	969,933
Amortization of debt issuance costs	11,788	11,788
Total interest expenses	961,094	981,721
OTHER EXPENSES		
Security contracts	2,622	2,429
Security system	325	-
Fire & hazard insurance	26,265	22,650

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,

	2020	2019
OTHER EXPENSES - CONTINUED		
Equipment insurance	20,738	-
Vehicle insurance	8,155	11,888
COVID-19 - coronavirus expenses	3,122	-
Real estate taxes	3,817	3,434
Solid waste tax	59,875	57,307
Asset management fees	254,900	-
Mortgage insurance	120,000	119,026
Total other expenses	499,819	216,734
NON-OPERATING REVENUE (EXPENSE)		
Interest income - security deposit	777	1,263
Security deposit interest expense	(1,519)	(222)
Investment interest income - non operating	3,628	5,875
Total non-operating revenue (expense)	2,886	6,916

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, 2020, 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 15, 2020.

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.

Handwritten signature in cursive script that reads "Kozak, Palkov & Adams, P.C."

Vienna, Virginia
December 15, 2020

**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, 2020**

Finding

Questioned Cost

None

N/A