

**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, 2018 AND 2017**

**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, 2018 and 2017, 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, 2018 and 2017, 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.

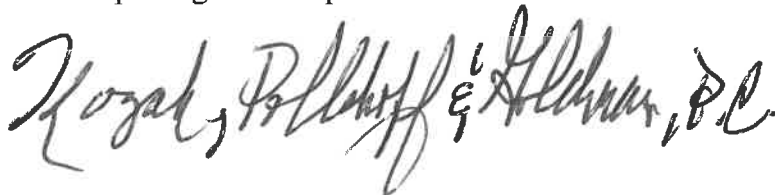
### **Other Matters**

#### 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 October 23, 2018 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  
October 23, 2018

**RAD 6 DEVELOPMENT CORPORATION  
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MONTGOMERY COUNTY, MARYLAND)**

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

**ASSETS**

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 200	\$ 200
Accounts receivable, net and other assets	<u>2,421,899</u>	<u>2,164,969</u>
Total current assets	<u>2,422,099</u>	<u>2,165,169</u>
<b>RESTRICTED CASH AND CASH EQUIVALENTS AVAILABLE FOR CURRENT LIABILITIES</b>		
Customer deposits - tenant security deposits	112,038	111,559
Restricted cash and cash equivalents	<u>1,014,118</u>	<u>796,826</u>
Total restricted cash and cash equivalents for current liabilities	<u>1,126,156</u>	<u>908,385</u>
<b>NON-CURRENT ASSETS</b>		
Property and equipment, net of depreciation	<u>28,690,106</u>	<u>28,877,642</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 32,238,361</u></u>	<u><u>\$ 31,951,196</u></u>

See notes to financial statements

**RAD 6 DEVELOPMENT CORPORATION  
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MONTGOMERY COUNTY, MARYLAND)**

STATEMENTS OF FINANCIAL POSITION - Continued

JUNE 30,

**LIABILITIES AND NET ASSETS**

	2018	2017
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 118,577	\$ 432,463
Accrued interest payable	77,790	80,836
Interfund payable	3,667,313	2,282,460
Mortgage note payable-current	452,146	433,905
	4,315,826	3,229,664
 <b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Customer deposit payable - tenant security deposits	89,678	89,377
	89,678	89,377
 <b>NON-CURRENT LIABILITIES</b>		
Mortgage note payable, net of current maturities	22,629,801	22,871,309
Less debt issuance costs	(328,087)	(339,875)
	22,301,714	22,531,434
Mortgage note payable, net of current maturities and debt issuance costs	22,301,714	22,531,434
	22,301,714	22,531,434
Total liabilities	26,707,218	25,850,475
 <b>NET ASSETS</b>		
Investment in capital assets net of related debt	5,608,159	5,572,428
Restricted net assets	1,036,478	819,008
Unrestricted net assets	(1,113,494)	(290,715)
	5,531,143	6,100,721
Total net assets	5,531,143	6,100,721
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 32,238,361</b>	<b>\$ 31,951,196</b>

See notes to financial statements

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30,

	2018	2017
<b>OPERATING REVENUES</b>		
Dwelling rental	\$ 3,151,015	\$ 3,228,623
Other income	595,914	85,803
Total operating revenues	3,746,929	3,314,426
<b>OPERATING EXPENSES</b>		
Administration	671,176	664,016
Maintenance	623,824	553,733
Depreciation	794,376	771,804
Utilities	284,709	283,033
Fringe benefits	168,138	178,533
Interest	996,916	1,016,198
Other	216,804	213,352
Bad debts	219,227	41,533
Total operating expenses	3,975,170	3,722,202
Net operating loss	(228,241)	(407,776)
Investment income	3,016	4,237
Change in net assets	\$ (225,225)	\$ (403,539)

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, 2018 AND 2017**

	<b>Investment in Capital Assets, Net of Related Debt</b>	<b>Restricted Net Assets</b>	<b>Unrestricted Net Assets</b>	<b>Total Net Assets</b>
<b>Balances - June 30, 2016</b>	\$ 7,895,281	\$ 1,601,387	\$ (2,992,408)	\$ 6,504,260
Changes in net assets	(2,322,853)	(782,379)	2,701,693	(403,539)
<b>Balances - June 30, 2017</b>	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)
<b>Balances - June 30, 2018</b>	<u>\$ 5,608,159</u>	<u>\$ 1,036,478</u>	<u>\$ (1,113,494)</u>	<u>\$ 5,531,143</u>

See notes to financial statements



**RAD 6 DEVELOPMENT CORPORATION**  
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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (225,225)	\$ (403,539)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	794,376	771,804
Amortization of debt issuance costs	11,788	11,788
Effects of changes in operating assets and liabilities		
Accounts receivable and other assets	(256,930)	(397,078)
Interfund receivable	1,384,853	569,146
Customer deposits account - net	(178)	16,726
Prepaid rent	(904)	(14,056)
Accounts payable and accrued liabilities	(312,982)	(2,870,062)
Interest payable	(3,046)	(1,430)
Net cash (used in) provided by operating activities	1,391,752	(2,316,701)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Deposits)in to withdrawals from renovation escrow	(92,105)	1,007,845
Deposits into reserve for replacement	(127,119)	(123,414)
Withdrawals from (deposits) into mortgage escrow fund	1,932	(118,778)
Improvements and additions to property	(606,839)	(4,400,894)
Net cash used in investing activities	(824,131)	(3,635,241)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
General fund contribution/distribution (OPEB)	(344,353)	
Issuance from mortgage note payable	(223,268)	5,951,942
Net cash provided by financing activities	(567,621)	5,951,942
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	\$ 988,402	\$ 169,103

See notes to financial statements

**RAD 6 DEVELOPMENT CORPORATION  
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**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, 2018 AND 2017

**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, 2018 and 2017 was \$138,132 and \$34,052, 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, 2018 and 2017 the balance in the replacement reserve was \$673,032 and \$545,913 respectively. The balance at June 30, 2018 and 2017 in the renovation escrow was \$204,282 and \$112,117, 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, 2018 AND 2017

**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, 2018 and 2017 \$11,788 of amortization expense was recorded as a component of interest expense in the statements of activities. Accumulated amortization at June 30, 2018 and 2017 was \$25,540 and \$13,752, 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, 2018 AND 2017

**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 2014, 2015 and 2016 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, 2018 AND 2017

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

l) Advertising costs

The Corporation's policy is to expense advertising costs when incurred. Advertising costs were \$1,787 and \$4,069 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,348,715	\$ 3,348,715
Buildings and improvements	27,181,422	26,590,469
Site improvements	15,886	-
Total at cost	<u>30,546,023</u>	<u>29,939,184</u>
Less: accumulated depreciation	<u>(1,855,917)</u>	<u>(1,061,542)</u>
<b>Total property and equipment, net</b>	<u>\$ 28,690,106</u>	<u>\$ 28,877,642</u>

For the years ended June 30, 2018 and 2017, the Corporation recognized depreciation expense of \$794,376 and \$771,804, 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, 2018 AND 2017

**4. MORTGAGE PAYABLE (CONTINUED)**

Aggregate maturities of the mortgage payable for the five years following June 30, 2018 and thereafter are as follows:

2019	452,146
2020	471,153
2021	490,960
2022	511,600
2023	533,107
2024-2028	3,021,149
2029-2033	3,711,861
2034-2038	4,560,489
2039-2043	5,603,134
2044-2047	3,726,348
	<u>\$ 23,081,947</u>

**5. RELATED PARTY TRANSACTIONS**

The Housing Opportunities Commission Corporation of Montgomery County, Maryland charged a Management fee of \$254,900 and \$260,550 for the periods ended June 30, 2018 and 2017, respectively.

The Interfund relationship between the Housing Opportunities Commission, of Montgomery County, Maryland and RAD 6 Development Corporation at June 30, 2018 and 2017 was a payable of \$3,667,313 and \$2,282,460, 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 2018 and 2017.

**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, 2018 AND 2017

**7. COMMITMENTS**

In December 2014, the Corporation entered into a contract in the amount of \$16,080,000 with Hamel Builders, Inc. for the rehabilitation of the six apartment facilities. The completion of the rehabilitation was completed in September 2016.

**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, 2018 and 2017 was \$74,436 and \$57,222, 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. This amount was reported as a current year reduction in equity.

**10. SUBSEQUENT EVENTS**

The Corporation has evaluated subsequent events through October 23, 2018, 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**  
**( SIX RESIDENTIAL RENTAL APARTMENT COMPLEXES**  
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SUPPLEMENTARY INFORMATION  
SCHEDULES OF SELECTED LINE ITEMS  
FOR THE YEARS ENDED JUNE 30,

	2018	2017
<b>ACCOUNTS RECEIVABLE AND OTHER ASSETS</b>		
Tenant receivables, net	\$ (59,454)	\$ (14,905)
Accounts receivable HUD	1,670,115	1,143,001
Ex resident rent receivable	938	938
Other receivable	-	199,347
Prepaid expenses	731,676	757,964
Prepaid mortgage insurance	60,000	60,000
Deferred revenue	18,624	18,624
Total accounts receivable and other assets	\$ 2,421,899	\$ 2,164,969
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>		
Mortgage escrow fund	\$ 136,804	\$ 138,736
Renovation escrow	204,282	112,177
Replacement reserve	673,032	545,913
Total restricted cash and cash equivalents	\$ 1,014,118	\$ 796,826
<b>NON-CURRENT ASSETS</b>		
Property and equipment, net of depreciation:		
Land	\$ 3,348,715	\$ 3,348,715
Buildings and improvements	27,181,422	26,590,469
Site improvements	15,886	-
	30,546,023	29,939,184
Less: accumulated depreciation	(1,855,917)	(1,061,542)
Total property and equipment, net of depreciation	\$ 28,690,106	\$ 28,877,642
<b>ACCOUNTS PAYABLE AND ACCRUED LIABILITIES</b>		
Accounts payable - other	\$ 23,484	\$ 199,347
Accounts payable - vendors	13,413	30,645
Accrued salaries and benefits	29,070	41,804
Accrued utilities	15,922	16,842
Clearing resident refunds	5,310	5,234
Non-interest bearing deposit	300	300
Accrued expense - other	13,691	120,000
Prepaid rent	17,387	18,291
Total account payable and accrued liabilities	\$ 118,577	\$ 432,463

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

**DETAILED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,**

	2018	2017
<b>REVENUES</b>		
<b>DWELLING RENTAL</b>		
Rent: current residents	\$ 1,884,455	\$ 1,774,019
Rent: subsidies	1,702,975	1,755,828
Rent: tenant repayment	257	-
Concessions	(20,868)	(26,379)
Vacancy loss	(375,180)	(261,628)
Parking income	-	50
Other rent fees	620	95
Rent: retroactive	-	14,520
Rent: voucher loss	9,377	10,743
Voucher loss	(10,409)	(11,173)
Loss-to-lease	(167)	-
Laundry income	-	1,243
Sales/services to residents	3,770	2,747
Late fees/NSF	14,183	14,553
Utility allowances	(59,359)	(48,986)
Ex-resident work-orders	1,361	2,991
Total dwelling rental	3,151,015	3,228,623
<b>MANAGEMENT FEES &amp; OTHER INCOME</b>		
User fees	1,752	615
Miscellaneous income	1,624	8,533
Transfer between funds - rental license	11,792	10,988
Transfer between funds	580,746	65,667
Total management fees & other income	595,914	85,803
<b>OPERATING EXPENSES</b>		
<b>ADMINISTRATION</b>		
Administrative salaries - budget	6,869	7,656
Contract administrative salaries	110,046	115,589
Temp pool	1,941	4,653
Property assistance contract fee	74,436	57,222
Auditing fees	13,311	14,060
Miscellaneous operating expenses	5,571	4,216
Other office supplies	4,669	5,699
Printing/reproduction	1,705	2,912
Paper, pads, etc	1,452	1,708
Food & beverages	2,509	1,165
Donations	-	162
Postage	2	1
Flowers	-	7
Other operating professional	818	(1,033)
Advertising	1,787	4,069
Marketing/publication related services	1,251	-
Credit check services	10,813	15,051
Criminal record check services	96	-
Furniture and misc equipment rental	1,563	(273)

**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,

	2018	2017
<b>ADMINISTRATION - CONTINUED</b>		
Other licenses, fees and permits	349	176
Monitoring fee	209	-
Allocated overhead	254,900	260,550
Computer software	49	-
Rental license fees	11,792	10,988
Local mileage and travel	443	737
ICC tolls	12	40
Gasoline	5,055	3,846
Vehicle repairs and maintenance	6,668	4,582
Legal services- general	5,351	10,409
Legal services- counsel	60	5,668
Legal services- litigation	40	618
Tempory agency fees - administrative	14,583	11,753
Tempory agency fees	24,569	20,316
Office equipment rent	3,517	3,972
Contractor expenses	12	5,387
Local phone bill	21,383	20,357
Cellular phone charges	(425)	2,009
Cable cahrges	106	-
Internet access charges	21	-
Online information services	9,570	6,678
Vehicle lease/rent	26,556	15,610
Salaries - tenant services	47,508	46,835
Resident participation	-	525
ACA compliance surcharge	9	96
Total administration	671,176	664,016
<b>MAINTENANCE</b>		
Salary - maintenance	218,151	217,273
Overtime/on-call	31,033	24,008
Premium pay	1,190	4,187
Temp pool maintenace	-	545
Temp agency - maintenance	2,830	2,244
Kitchen and bath supplies	168	439
Electrical supplies	10,923	2,384
Appliance supplies	3,741	3,359
Plumbing supplies	5,110	2,267
Employee uniforms	2,154	4,038
Cleaning and janitorial supplies	6,229	9,797
Grounds and landscaping supplies	2,724	10,299
Health and safety materials	2,417	3,447
Locks and keys	1,343	3,250
Windows and glass	6,317	1,680
Doors	905	201
Floors and carpeting	2,121	421
Miscellaneous supplies	5,892	509
Electrical equipment	-	891
Plumbing equipment	177	78
Hardware supplies	4,577	1,878
HVAC supplies	2,805	1,824
Paint and wallcoverings	701	5,951

**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,

	2018	2017
MAINTENANCE - CONTINUED		
HVAC equipment	7,463	2,275
Appliance equipment	962	543
Tools	1,249	7,734
Maintenance equipment	2,518	5,860
Equipment rent	-	200
Appliance contracts	-	250
Miscellaneous equipment	-	103
Electrical contracts	2,399	6,080
Plumbing contracts	5,412	7,167
Cleaning and janitorial contracts	18,630	13,701
Grounds and landscaping contracts	79,807	76,627
Windows and glass contracts	2,159	575
Roofing and gutter contracts	450	8,031
HVAC contracts	5,403	1,643
Flooring and carpeting contracts	1,280	795
Paint/wallcoverings int. contracts	68,853	29,314
Paint/wallcoverings ext contracts	1,741	2,587
Exterminating contracts	16,548	15,408
Snow removal contracts	29,544	17,823
Fencing contracts	450	-
Asphalt and concrete contracts	-	1,150
Miscellaneous contracts	2,096	12,458
Kithchen and bath supplies - capital	552	-
Electrical supplies - capital	21	-
Appliance supplies - capital	11	92
Plumbing supplies - capital	395	2,111
Locks and keys - capital	-	-
Windows and glass - capital	(30)	920
Doors -capital	-	3,318
HVAC supplies - capital	(371)	371
Hardware supplies - capital	(288)	317
Plumbing equipment - capital	-	2,187
Miscellaneous supplies - capital	421	-
Electrical equipment - capital	-	1,934
Flooring and carpeting - capital	(1,577)	1,577
Appliance equipment - capital	15,791	-
Electrical contracts - capital	1,765	452
Appliance contracts - capital	-	894
HVAC equipment - capital	1,572	1,545
Tools - Capital	-	-
Plumbing contracts - capital	3,675	5,380
Grounds/landscaping - capital	-	2,456
Flooring/carpet contracts - capital	35,084	10,702
Snow removal contracts - capital	3,276	7,293
Paint/wallcoverings int. contracts - capital	1,280	-
Asphalt/concrete contracts - capital	3,775	-
Miscellaneous contracts - capital	-	890
Total maintenance	<u>623,824</u>	<u>553,733</u>

**RAD 6 DEVELOPMENT CORPORATION**  
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**MONTGOMERY COUNTY, MARYLAND)**

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

	2018	2017
<b>UTILITIES</b>		
Water bill	140,841	142,186
Electric bill	106,446	94,900
Natural gas	15,740	12,508
Trash collection	20,381	31,103
Trash collection - bulk	1,301	2,336
Total Utilities	284,709	283,033
<b>FRINGE BENEFITS</b>		
Accrued leave	458	3,120
FICA	607	913
Unemployment	46	742
Workers compensation	2,243	2,614
Health insurance	1,513	1,525
Deferred contribution plan	359	409
Employee meal allowance	-	31
Other post employment benefits	410	432
Contract managed benefits	22,829	24,220
Pension expense	14,349	25,614
OPEB expense (GASB 75)	3,077	-
Training program	1,047	1,501
FICA tenant services	3,487	3,278
Unemployment tenant services	183	209
Workers compensatio tenant services	1,280	1,010
Health insurance - tenant services	6,439	7,918
Deferred contribution plan tenant services	3,549	3,412
Other post employment benefits - tenant services	2,840	3,004
Resident service fees	500	-
FICA maintenance	18,197	17,824
Unemployment - maintenance	871	1,080
Workers compensation - maintenance	5,348	(164)
Health insurance - maintenance	51,551	52,108
Deferred contribution plan - maintenance	13,405	13,489
Other post employment benefits - maintenance	13,550	14,244
Total fringe benefits	168,138	178,533
<b>INTEREST EXPENSES</b>		
Interest payments - general	985,128	1,004,410
Amortization of debt issuance costs	11,788	11,788
Total interest expenses	996,916	1,016,198
<b>OTHER EXPENSES</b>		
Security contracts	2,738	1,086
Security system	620	154
Fire & hazard insurance	27,846	24,413
Equipment insurance	-	119
Vehicle insurance	5,408	5,180
Real estate taxes	3,051	3,051
Other taxes	-	23
Solid waste tax	57,141	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,

	2018	2017
<b>OTHER EXPENSES - CONTINUED</b>		
Water quality protection charge (RFSA)	-	2,185
Mortgage insurance	120,000	120,000
Total other expenses	216,804	213,352
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Interest income - security deposit	480	92
Security deposit interest expense	(1,280)	-
Investment interest income - non operating	3,816	4,145
Total non-operating revenue (expense)	3,016	4,237

**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, 2018, 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 October 23, 2018.

**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 "Royal, Pollock & Allen, P.C.", written in a cursive style.

Vienna, Virginia  
October 23, 2018

**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, 2018**

**Finding**

**Questioned Cost**

None

N/A