



**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Independent Auditor's Report,
Financial Statements and Supplementary Information**

June 30, 2018 and 2017



CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS
MEMBER AICPA

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Independent Auditor's Report

To the Commissioners
Housing Opportunities Commission
10400 Detrick Avenue
Kensington, MD 20895

Report on the Financial Statements

We have audited the accompanying financial statements of the Pooks Hill Courtyard, a Component Unit of the Housing Opportunities Commission of Montgomery County, Maryland (the Property), as of and for the year ended June 30, 2018, and the related statements of activities, changes in net assets and cash flows for the year then ended, which collectively comprise the Property's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the Property's June 30, 2017 financial statements. In our report dated September 29, 2017, we expressed an unmodified opinion on those 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 from 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 judgment, 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 Property'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 on the Property'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 have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (Continued)

Opinion

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

Other Matters

Supplemental and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information shown on Pages 17 & 18 is presented for purposes of additional analysis. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018 on our consideration of the Property's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Property's internal control over financial reporting compliance.

AAL, P.C.

AAL P.C.
Vienna, VA
October 25, 2018

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Statements of Net Assets
As of June 30,**

	2018	2017
<u>Assets</u>		
Current Assets		
Cash and cash equivalents (Note 3)	\$220,051	\$195,026
Accounts receivable and other assets	1,712	1,065
Total Current Assets	221,763	196,091
Restricted Cash and Cash Equivalents for Current Liabilities (Note 3)		
Restricted cash and cash equivalents	631,054	614,318
Customer deposits	18,127	16,742
Total Restricted Cash and Cash Equivalents Available for Current Liabilities	649,181	631,060
Non-current Assets		
Property and equipment, net of depreciation (Note 4)	3,002,452	3,122,773
Total Non-current Assets	3,002,452	3,122,773
Total Assets	\$3,873,396	\$3,949,924

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Statements of Net Assets
As of June 30,**

	2018	2017
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable and accrued liabilities	\$19,523	\$14,918
Unearned revenue	7,623	5,847
Accrued interest payable	10,413	2,138
Loans payable to Montgomery County-current (Note 10)	83,188	83,023
Mortgage notes and loans payable-current (Note 10)	182,804	173,993
Interfund receivable (payable)	39,482	39,600
Total Current Liabilities	343,033	319,519
Current Liabilities Payable from Restricted Assets		
Customer deposits payable	17,089	14,754
Total Current Liabilities Payable from Restricted Assets	17,089	14,754
Noncurrent Liabilities (Note 10)		
Mortgage notes and loans payable less current portion	1,838,208	2,021,013
Less: Deferred charges, net of accumulated amortization	(92,337)	(101,132)
	1,745,871	1,919,881
Loans payable to Montgomery County less current portion	251,934	268,622
Total Noncurrent Liabilities	1,997,805	2,188,503
Total Liabilities	2,357,927	2,522,776
Net Assets (Note 11)		
Invested in capital assets, net of related debt	646,318	576,122
Restricted net assets	632,092	616,306
Unrestricted net assets	237,059	234,720
Total Net Assets	1,515,469	1,427,148
Total Liabilities and Net Assets	3,873,396	3,949,924

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Statements of Activities
For the Years Ended June 30,**

	<u>2018</u>	<u>2017</u>
Operating Revenue		
Dwelling rental	\$912,702	\$907,574
Management fees and other income	2,533	12,367
Total Operating Revenue	<u>915,235</u>	<u>919,941</u>
 Operating Expenses		
Administration	79,668	93,458
Maintenance	184,918	124,220
Depreciation and amortization	120,322	120,155
Fringe benefits	13,659	14,194
Utilities	64,902	60,786
Interest	124,660	124,813
Bad debts expense	1,655	377
Other	67,219	47,693
Total Operating Expenses	<u>657,003</u>	<u>585,696</u>
Operating income	<u>258,232</u>	<u>334,245</u>
 Non-operating revenue (expense)		
Investment income (expense)	3,598	362
Total non-operating income	<u>3,598</u>	<u>362</u>
 Net change in net assets	<u>\$261,830</u>	<u>\$334,607</u>

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Statements of Changes in Net Assets
For the Years Ended June 30,**

	<u>Unrestricted Net Assets</u>
Balance - June 30, 2016	\$1,278,411
Change in net assets	334,607
Distributions	<u>(185,870)</u>
Balance - June 30, 2017	1,427,148
Change in net assets	261,830
Distributions	<u>(173,509)</u>
Balance - June 30, 2018	<u>\$1,515,469</u>

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Statements of Cash Flows
For the Years Ended June 30,**

	2018	2017
Cash Flows from Operating Activities		
Cash received from tenants	\$916,926	\$916,879
Cash paid to suppliers and employees	(405,761)	(344,895)
Net Cash Provided by Operating Activities	511,165	571,984
Cash Flows from Capital and Related Financing Activities		
Addition to Capital Assets	-	(10,000)
Interest paid	(107,591)	(116,143)
Principal repayments of mortgage note payable	(173,994)	(165,607)
Principal repayments of notes payable	(16,523)	(82,859)
Distributions	(173,508)	(185,870)
Net Cash Used in Capital and Related Financing Activities	(471,616)	(560,479)
Cash Flows Provided by Investing Activities		
Investment income (expense)	3,598	362
Net Cash Used in Investing Activities	3,598	362
Net Increase in Cash and Cash Equivalents	43,147	11,867
Cash and Cash Equivalents - Beginning	826,086	814,219
Cash and Cash Equivalents - Ending	\$869,233	\$826,086

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Statements of Cash Flows
For the Years Ended June 30,
(Continued)**

	2018	2017
Reconciliation of changes in net assets to net cash provided by Operating Activities:		
Changes in net assets	\$261,830	\$334,607
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	120,322	120,155
Interest and amortization of Deferred Chagres	124,660	124,813
Investment income (expense)	(3,598)	(362)
(Increase) decrease in assets:		
Accounts receivable and other assets	(647)	(644)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	6,381	4,005
Interfund payable	(118)	(10,168)
Tenant security deposits payable	2,335	(422)
Net Cash Provided by Operating Activities	\$511,165	\$571,984

Pooks Hill Courtyard, a Component Unit of the Housing Opportunities Commission of Montgomery County, Maryland

Notes to Financial Statements June 30, 2018 and 2017

Note 1 - Organization

Pooks Hill Courtyard, a Component Unit of the Housing Opportunities Commission of Montgomery County, Maryland (H.O.C.) (Pooks Hill Courtyard or Property) was formed under the laws of the State of Maryland on January 19, 1999 for the purpose of acquiring a 50-unit apartment complex to provide rental housing, some of which are for low and moderate income families.

Pooks Hill Courtyard's dwelling units are located in Montgomery County, Maryland which constitutes a concentration of credit risk. The Property's collateral for rents receivable is one month's rent held as a security deposit.

Note 2 - Summary of Significant Accounting Policies

Method of Accounting

The Property's financial statements are prepared on the accrual basis of accounting.

Basis of Presentation

Financial statement presentation follows the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Section 958, Not-for-Profit Entities. Under those standards, net assets and revenues, gain and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations that they are to be maintained permanently by the Organization to use all or part of the income earned on assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Cash and Cash Equivalents

Short-term liquid investments (including securities purchased under agreements to resell) with original maturities of less than three months are considered to be cash equivalents. The Property considers the following as cash and cash equivalents: the reserve for replacement fund, operating reserve fund, and customer deposits.

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 2 - Summary of Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at outstanding balances, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against income. Accounts deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on past experience, aging of the receivables, adverse situations that may affect a tenant's ability to pay, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires estimates that may be susceptible to significant change. Unpaid balances remaining after the stated payment terms are considered past due.

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated average useful lives of the assets as follows: buildings and building renovations, forty years; and miscellaneous equipment, five to ten years.

The Property's policy is to capitalize property and equipment expenditures of \$5,000 or more.

Maintenance, repairs, and minor renewals which do not significantly improve or extend the lives of the respective assets are charged against operations when incurred. Additions, improvements, and major renewals are capitalized.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Property and tenants of the Property are operating leases with terms of twelve months or less.

Rental Subsidies

The Property receives rental subsidies from the county and state for making units available for low-income tenants.

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents, including restricted cash and cash equivalents, consist of the following as of June 30:

	2018	2017
Operating cash and cash equivalents	\$220,051	\$195,026
Replacement reserve (Note 8)	295,456	289,105
Operating reserve (Note 9)	335,598	325,213
Customer deposits	18,127	16,742
Restricted cash and cash equivalents	649,181	631,060
Total cash and cash equivalents	\$869,232	\$826,086

Note 4 - Property and Equipment

Property and equipment consist of the following as of June 30:

	2018	2017
Land	\$628,400	\$628,400
Buildings	4,633,373	4,633,373
Building renovations	29,355	29,355
Miscellaneous equipment	12,382	12,382
Site Improvement	67,025	67,025
	5,370,535	5,370,535
Accumulated depreciation	(2,368,083)	(2,247,762)
Total property and equipment	\$3,002,452	\$3,122,773

Note 5 - Deferred Charges

Deferred Charges consist of the following as of June 30:

	2018	2017
Deferred title, Underwriter fee and record charges	\$54,319	\$54,319
Cost of issuance charges	208,319	208,319
	262,638	262,638
Accumulated amortization	(170,301)	(161,506)
Total Deferred Charges	\$92,337	\$101,132

With the implementation of FASB ASC 835-30 *Interest – Imputation of Interest – Simplifying the Presentation of Debt Issuance Costs*, the Property has set off these Deferred Charges from the Mortgage Note Payable (Refer Note 10). Also, the amortized amount of Deferred Charges, of \$8,794 in 2017 and 2018, (presented as amortization cost with depreciation in the previous years), has been added to the

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

Interest expense.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 6 - Income Taxes

The Property is a component unit of The Housing Opportunities Commission of Montgomery County, Maryland (H.O.C.) and is therefore exempt from income taxation. Therefore, the accompanying financial statements do not include a provision for income taxes.

Note 7 - Pooled Investments

As of June 30, 2018, the Property has \$ 295,456 of replacement reserve cash of which \$ 33,595 is in a pooled fund with other properties that are controlled by H.O.C., deposited with The Montgomery County Government.

As of June 30, 2017, the Property has \$ 289,105 of replacement reserve cash of which \$ 41,720 is in a pooled fund with other properties that are controlled by H.O.C., deposited with The Montgomery County Government.

Note 8 - Reserve for Replacement

In Accordance with the Regulatory Agreement with H.O.C., disbursement from the replacement reserve for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior written consent of H.O.C. For each of the years ended June 30, 2018 and 2017, the required monthly deposits of \$3,938 were funded per the Regulatory Agreement. The cash and investments restricted for replacement consists of the following as of June 30:

	2018	2017
Beginning balance	\$289,105	\$363,445
Deposits	50,152	47,256
Interest	1,979	231
Withdrawals	(45,780)	(121,827)
Ending balance	\$295,456	\$289,105
Operating cash and cash equivalents (Note 3)	\$33,595	\$41,720
Restricted cash and cash equivalents (Note 3)	261,861	247,385
Total	\$295,456	\$289,105

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 9 – Operating Reserve

The operating reserve has been established for the purpose of funding operation expenses of the Property to the extent that the Property’s collected gross receipts are insufficient for such purpose. For each of the years ended June 30, 2018 and 2017, monthly deposits of \$717 were funded at the discretion of HOC. The cash and investments restricted for operating reserves consists of the following as of June 30:

	2018	2017
Beginning balance	\$325,213	\$316,332
Deposits	8,604	8,604
Interest	1781	277
Ending balance	\$335,598	\$325,213

Note 10 - Mortgage Note Payable

Mortgage note payable to Housing Opportunity Commission of Montgomery County consists of an original amount, \$ 4,247,578; requiring monthly principal and interest payments of \$ 23,228 with an interest rate of 4.95%, due June, 2027. The note is secured by a mortgage on the buildings and improvements. The Property entered into a regulatory agreement with H.O.C. in conjunction with obtaining the mortgage.

Aggregate maturities required on mortgage payable, assuming no change in the current terms, consist of the following for each of the years ending June 30:

2019	182,804
2020	192,061
2021	201,785
2022	212,005
2022	222,742
2023 - 2027	1,009,615
	\$2,021,012
Less: Current Portion	(182,804)
Less: Deferred Charges (Refer Note 5)	(92,337)
Total	\$1,745,871

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 10 - Mortgage Note Payable (Continued)

Notes payable consist of the following as of June 30:

	2018	2017
Note payable to Montgomery County, Maryland;		
Original amount, \$665,000; with repayment upon sale or refinancing of property; noninterest bearing; collateralized by the building and improvements; during the year ended June 30, 2018, the Property made discretionary principal payments totaling \$66,500; the Property intends to continue to make discretionary payments of \$66,500 until note is repaid in full	\$ 66,500	\$ 66,500
Note payable to Montgomery County, Maryland;		
Original amount, \$500,000; requiring annual principal and interest payments of \$19,374; interest rate of 1%; collateralized by the building and improvements; matures during 2033	<u>268,622</u>	<u>285,145</u>
	335,122	351,645
Current maturities	<u>(83,188)</u>	<u>(83,023)</u>
Total	<u><u>\$251,934</u></u>	<u><u>\$268,622</u></u>

Aggregate maturities required on notes payable, assuming no change in current terms, consist of the following for each of the years ending June 30:

2019	\$ 83,188
2020	16,855
2021	17,024
2022	17,193
2023	17,365
2024 - 2028	89,467
2029 - 2033	94,030
	<u><u>\$ 335,122</u></u>

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 11 – Net Assets

The Property is required to report on a fund basis and the net assets for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Invested in capital assets, net of related debt	\$646,318	\$576,122
Restricted net assets	632,092	616,306
Unrestricted net assets	237,059	234,720
Total Net Assets	<u>\$1,515,469</u>	<u>\$1,427,148</u>

Note 12 - Concentration of Cash Risk

As of June 30, 2018 and 2017, bank balances were \$869,232 (consisted of \$ 512,065 in PNC bank and \$357,167 in Wells Fargo bank) and \$ 826,086 (consisted of \$484,133 in PNC bank and \$341,953 in Wells Fargo bank) , respectively. The FDIC insured limit is \$250,000 per customer per bank. However, amounts held in trust accounts and other demand accounts are either invested in United States treasury securities or are collateralized at a level of at least 100% of market value of principal and accrued interest. The collateral is held by the bank's agent in H.O.C.'s name.

Note 13 - Review of Subsequent Events

The subsequent period events were evaluated from the date of the Statement of Net Assets through the date of the Independent Auditor's Report.

Supplementary Information

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Schedule of Assets and Liabilities
As of June 30,**

	<u>2018</u>	<u>2017</u>
Property and Equipment		
Land	\$628,400	\$628,400
Buildings	4,633,373	4,633,373
Building renovations	29,355	29,355
Miscellaneous equipment	12,382	12,382
Site Improvement	<u>67,025</u>	<u>67,025</u>
	5,370,535	5,370,535
Accumulated depreciation	<u>(2,368,083)</u>	<u>(2,247,762)</u>
Total Property and Equipment, Net	<u><u>\$3,002,452</u></u>	<u><u>\$3,122,773</u></u>
 Accounts Payable and Accrued Liabilities		
Accrued salaries	\$908	\$1,137
Residential rent prepaid	8,246	6,736
Accrued utilities	4,143	4,265
Accrued other	5,721	3,288
Accounts Payable	<u>8,128</u>	<u>5,339</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$27,146</u></u>	<u><u>\$20,765</u></u>

**Pooks Hill Courtyard, a Component Unit of the Housing
Opportunities Commission of Montgomery County, Maryland**

**Schedule of Operating Expenses
For the Years Ended June 30,**

	<u>2018</u>	<u>2017</u>
Administration		
Auditing	\$8,499	\$8,186
Contract management fees	26,225	25,826
Office expenses	15,661	21,561
Office salaries	29,283	37,885
Total Administration	<u>\$79,668</u>	<u>\$93,458</u>
 Fringe Benefits		
Contract Managed Benefits	\$13,189	\$13,848
Contract Other Training	470	346
Total Fringe Benefits	<u>\$13,659</u>	<u>\$14,194</u>
 Maintenance		
Contracts	\$156,126	\$84,242
Janitorial payroll	19,890	26,082
Supplies	8,902	13,896
Total Maintenance	<u>\$184,918</u>	<u>\$124,220</u>
 Other		
Asset management fees	\$53,840	\$37,640
Insurance	6,002	5,270
Security Contract	6,381	3,770
Other	996	1,013
Total Other	<u>\$67,219</u>	<u>\$47,693</u>
 Utilities		
Electric	\$16,597	\$16,138
Gas/oil	3,251	851
Trash collection	9,448	9,069
Water	35,606	34,728
Total Utilities	<u>\$64,902</u>	<u>\$60,786</u>

Other Reports



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**Independent Auditor's 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
Housing Opportunities Commission
10400 Detrick Avenue
Kensington, MD 20895

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 the Pooks Hill Courtyard, a Component Unit of the Housing Opportunities Commission of Montgomery County, Maryland (the Property), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Property's basic financial statements, and have issued our report thereon dated October 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Property'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 the *Property's* internal control. Accordingly, we do not express an opinion on the effectiveness of the Property'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 Property's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Independent Auditor's 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*
(Continued)**

Compliance and Other matters

As part of obtaining reasonable assurance about whether the Property'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 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 results of that testing, and not to provide an opinion on the effectiveness of the Property's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Property's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AAL, P.C.

AAL P.C.
Vienna, VA
October 25, 2018

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Independent Auditor's Report on Compliance with Specific Requirements Applicable to Fair Housing and Non-Discrimination

To the Commissioners
Housing Opportunities Commission
10400 Detrick Avenue
Kensington, MD 20895

We have applied procedures to test the Pooks Hill Courtyard, a Component Unit of the Housing Opportunities Commission of Montgomery County, Maryland (the Property)'s compliance with Fair Housing and Non-Discrimination requirements applicable to its HUD-assisted programs, for the year ended June 30, 2018.

Our procedures were limited to the applicable compliance requirement described in the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General. Our procedures were substantially less in scope than an audit, the objective of which would be the expression of an opinion on the Property's compliance with the Fair Housing and Non-Discrimination requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under the Guide.

This report is intended solely for the information and use of management, the Housing Opportunities Commission of Montgomery County, Maryland, and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

AAL, P.C.

AAL P.C.
Vienna, VA
October 25, 2018