

SLIGO HILLS DEVELOPMENT CORPORATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2019 AND 2018

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3- 4
FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS	5-6
STATEMENTS OF REVENUE AND EXPENSES	7
STATEMENTS OF CHANGES IN NET ASSETS	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10-13
SUPPLEMENTARY INFORMATION	
DETAIL OF ACCOUNTS - STATEMENT OF NET ASSETS	15
DETAIL OF ACCOUNTS - STATEMENT OF REVENUE AND EXPENSES	16-18



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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sligo Hills Development Corporation
Kensington, Maryland

Report on the Financial Statements

We have audited the accompanying statements of financial statements of Sligo Hills Development Corporation, which comprise the statement of net assets as of June 30, 2019 and 2018, and the related statements of revenue and expenses, 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 auditors consider internal control relevant to the Corporation'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 Corporation'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sligo Hills Development Corporation as of June 30, 2019 and 2018, and the results of its operations 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 15 through 18 is presented for the 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink, reading "Rosal, Feldhoff & Alderman, P.C." in a cursive style.

Vienna, Virginia
October 16, 2019

SLIGO HILLS DEVELOPMENT CORPORATION
STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED JUNE 30,

ASSETS

	2019	2018
CURRENT ASSETS		
Accounts receivable and other assets	\$ 3,777	\$ 1,849
Interfund receivable	140,615	10,876
Interest receivable	149,579	218,761
Total current assets	293,971	231,486
Restricted cash and cash equivalents for current liabilities		
Replacement reserve	11,471	19,914
Customer deposits - tenant security deposits	9,489	9,384
Total restricted assets available for current liabilities	20,960	29,298
NON-CURRENT ASSETS		
HOC notes receivable - long term	1,199,402	1,199,402
Property and equipment, net of depreciation	1,134,832	1,194,034
Total non-current assets	2,334,234	2,393,436
TOTAL ASSETS	\$ 2,649,165	\$ 2,654,220

See notes to financial statement

**SLIGO HILLS DEVELOPMENT CORPORATION
STATEMENTS OF NET ASSETS - CONTINUED
FOR THE YEARS ENDED JUNE 30,**

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	7,018	7,159
Total current liabilities	<u>7,018</u>	<u>7,159</u>
 Current liabilities payable from restricted assets		
Customer deposit payable - tenant security deposits	5,410	6,077
Total current liabilities payable from restricted assets	<u>5,410</u>	<u>6,077</u>
 TOTAL LIABILITIES	 <u>12,428</u>	 <u>13,236</u>
 NET ASSETS		
Investment in capital assets	1,134,832	1,194,034
Restricted net assets	15,550	23,221
Unrestricted net assets	<u>1,486,355</u>	<u>1,423,729</u>
Total net assets	<u>2,636,737</u>	<u>2,640,984</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>2,649,165</u></u>	 <u><u>2,654,220</u></u>

See notes to financial statement

SLIGO HILLS DEVELOPMENT CORPORATION
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2019	2018
Operating revenue:		
Dwelling rental	\$ 241,714	\$ 229,923
Management fees and other income	1,696	1,651
Total operating revenue	243,410	231,574
Operating expenses:		
Administration	76,263	74,660
Maintenance	126,594	117,064
Depreciation	59,202	59,202
Utilities	2,787	1,823
Fringe benefits	14,616	15,258
Other	28,190	17,012
Bad debt expense	-	3,214
Total operating expenses	307,652	288,233
Operating loss	(64,242)	(56,659)
Non-operating revenue		
Investment income	59,995	59,910
Changes in net assets	\$ (4,247)	\$ 3,251

See notes to financial statements

SLIGO HILLS DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30,

	<u>2019</u>	<u>2018</u>
Net assets, Beginning of year	\$ 2,640,984	\$ 2,670,561
Changes in net assets	(4,247)	3,251
Distributions for pensions	-	<u>(32,828)</u>
Net assets, End of year	<u>\$ 2,636,737</u>	<u>\$ 2,640,984</u>

See notes to financial statements

SLIGO HILLS DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2019	2018
Cash flows from operating activities:		
Changes in net assets	\$ (4,247)	3,251
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	59,202	59,202
(Increase) decrease in assets		
Accounts receivable and other assets	(1,928)	7,325
Interfund receivable	(129,739)	(10,876)
Interest receivable	69,182	(9,232)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(141)	(4,031)
Interfund payable	-	(24,734)
Customer deposits payable	(667)	(513)
Net cash (used in) provided by operating activities	(8,338)	20,392
Cash flows from investing activities:		
Building renovations	-	(5,674)
Cash flows from financing activities:		
Distributions for pensions	-	(32,828)
Net (decrease) increase in cash and cash equivalents	(8,338)	(18,110)
Cash and cash equivalents at beginning of year	29,298	47,408
Cash and cash equivalents at end of year	\$ 20,960	\$ 29,298
Supplemental Information		
Interest paid during the year	\$ 67	\$ 23

See notes to financial statements

SLIGO HILLS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 - ORGANIZATION

Sligo Hills Development Corporation (the Corporation), a not-for-profit, non-stock Corporation, was formed under the laws of the State of Maryland on August 1, 1997 for the purpose of acquiring, owning, operating and maintaining 50 apartment units and 23 scattered site moderately priced units to provide rental housing for persons of eligible income under the Annotated Code of Maryland. The Corporation's dwelling units are located in various parts of Montgomery County, Maryland and are a component unit of the Housing Opportunities Commission of Montgomery County, Maryland.

The Corporation sold the 50 apartment units to Tanglewood and Sligo LP on December 18, 2012. These financial statements and notes refer to the remaining property.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting and presentation

The Corporation's financial statements are prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America. The Corporation is solely owned by the Housing Opportunities of Montgomery County, Maryland ("HOC") and therefore, follows the financial statement format used by the Commission.

b) 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 Corporation considers the reserve for replacement fund and tenant security deposits as cash and cash equivalents.

c) Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at outstanding balances net of allowance for doubtful accounts. 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 receivable, adverse situations that may affect a tenant's ability to pay, current economic conditions, and other relevant factors. For the years ended June 30, 2019 and 2018, there was a balance of \$972 and \$1,017, respectively, for the allowance for doubtful accounts.

SLIGO HILLS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require 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.

e) Property and equipment

Property and equipment, including major improvements, replacements and betterments are capitalized and stated at cost. The assets are depreciated on the straight-line method over the estimated useful lives of the respective assets, as follows:

Building	40 years
Building renovations	10 years

The Corporation'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.

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 the 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.

f) Rental income

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

SLIGO HILLS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Rental subsidies

The Corporation receives rental subsidies from the county and state for making units available for low-income tenants. For the years ended June 30, 2019 and 2018, rent subsidies totaled \$34,547 and \$38,201, respectively.

h) 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.

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. The Corporation 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 Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. The Corporation's federal income tax returns for the tax years 2016 through 2018 generally remain subject to examination by the IRS, generally for three years after they are filed.

i) Advertising costs

The Corporation's policy is to expense advertising costs when incurred.

j) Subsequent events

Subsequent events have been evaluated through October 16, 2019, which is the date the financial statements were available to be issued.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30,

	2019	2018
Land and non-depreciable assets	\$ 102,320	\$ 102,320
Buildings	2,262,136	2,262,136
Building renovations	65,082	65,082
Total at cost	2,429,538	2,429,538
Less: accumulated depreciation	(1,294,706)	(1,235,504)
Total property and equipment, net	\$ 1,134,832	\$ 1,194,034

SLIGO HILLS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 4 – POOLED INVESTMENTS

As of June 30, 2019 and 2018, the Corporation had \$9,489 and \$9,384, respectively, of security deposit cash which is in a pooled fund with other properties that are controlled by the HOC.

NOTE 5 - RESERVE FOR REPLACEMENT

Under the regulatory agreement with the Housing Opportunities Commission (HOC), disbursements from the replacement reserve for the purpose of maintenance, improvements, or renovations of the property cannot be made without prior written consent of the HOC. Deposits to the replacement reserve are made at the sole discretion of HOC. As of June 30, 2019 and 2018, the balance of the reserve for replacement was \$11,471 and \$19,914, respectively.

NOTE 6 – NOTE RECEIVABLE – HOC (\$1,199,402)

On December 18, 2012, the Corporation entered into a note agreement with Tanglewood and Sligo, LP in the amount of \$3,190,410. The note bears simple interest at 5% per annum with maturity date of December 18, 2055. The note of \$3,190,410 is divided between the Corporation and Tanglewood Apartments in the amount of \$1,199,402 and \$1,991,008, respectively. Surplus cash flow distributions were \$129,162 and \$50,748 for 2019 and 2018, respectively, which was used to reduce the accrued interest receivable. Interest income of \$59,980 is accrued each year. As of June 30, 2019 and 2018, accrued interest income receivable was \$149,579 and \$218,761, respectively.

NOTE 7- RELATED PARTY TRANSACTIONS.

The Housing Opportunities Commission Corporation of Montgomery County, Maryland pays expenses related to the operations of the Corporation. Significant related party balances and transactions with HOC consist of the following as of and for the years ended June 30,

	<u>2019</u>	<u>2018</u>
Related parties receivable (Interfund)	\$ 140,615	\$ 10,876
Housing association fees	75,127	67,791
Agency management fees (allocated overhead)	41,189	39,230
Distributions for pensions	-	32,828

SUPPLEMENTARY INFORMATION

SLIGO HILLS DEVELOPMENT CORPORATION

SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED JUNE 30,

DETAIL OF ACCOUNTS - STATEMENT OF NET ASSETS

	<u>2019</u>	<u>2018</u>
ACCOUNTS RECEIVABLE AND OTHER ASSETS		
Accounts receivable - Other Government	\$ 3,587	\$ 3,985
Resident rent receivable	1,152	(1,225)
Other resident fees receivable	10	106
Allowance for doubtful accounts	(972)	(1,017)
Accounts receivable and other assets	<u>\$ 3,777</u>	<u>\$ 1,849</u>
ACCRUED INTEREST RECEIVABLE		
Interest receivable	<u>\$ 149,579</u>	<u>\$ 218,761</u>
PROPERTY AND EQUIPMENT		
Land and non-depreciable assets	\$ 102,320	\$ 102,320
Buildings	2,262,136	2,262,136
Building renovations	65,082	65,082
Accumulated depreciation - building	(1,294,706)	(1,235,504)
Property and equipment, net	<u>\$ 1,134,832</u>	<u>\$ 1,194,034</u>
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		
Accounts payable - vendors	\$ 820	\$ 213
Accrued salaries	207	307
Accrued annual leave	2,366	2,121
Resident rent prepaid	343	212
Accrued utilities	106	2
Accrued other	873	2,001
Clearing resident refunds	2,303	2,303
Accounts payable and accrued liabilities	<u>\$ 7,018</u>	<u>\$ 7,159</u>
DWELLING RENTAL INCOME		
Rent - current residents	\$ 260,983	\$ 267,523
Rent - subsidies	34,547	38,201
Concessions	(25)	(1,563)
Vacancy loss	(55,352)	(75,336)
Late fees/NSF	1,561	1,098
Total dwelling rental income	<u>\$ 241,714</u>	<u>\$ 229,923</u>

SLIGO HILLS DEVELOPMENT CORPORATION
SUPPLEMENTAL INFORMATION (CONTINUED)
FOR THE YEARS ENDED JUNE 30,

DETAIL OF ACCOUNTS - STATEMENT OF REVENUE AND EXPENSES

	2019	2018
ADMINISTRATION		
Administrative salaries - budget	\$ 1,852	\$ 2,488
Temp pool	-	14
Auditing services	5,790	6,080
Property assist contract fee	6,179	5,468
Miscellaneous operating expenses	730	272
On-line information services	7	225
Printing/reproduction	-	3
Paper pads and other office supplies	41	76
Food and beverages	16	45
Donations	10	-
Local mileage, travel, and ICC tolls	18	31
Gasoline	470	653
Vehicle repairs and maintenance	753	793
Legal services - litigation	30	-
Legal services - General	347	120
Temp Agency services	1,166	316
Advertising	-	2
Local phone bill and cellular phone charges	100	36
Credit check services	148	312
Office equipment rent	-	862
Temp agency - administration	2,447	2,047
Contract administration salary	6,927	6,356
Computer software	-	5
Other operating professional services	28	43
Rental license fees	1,651	1,651
Training program	73	76
Vehicle lease/rent	1,648	2,320
Monitoring fee	1	-
Allocated overhead	41,189	39,230
Salaries - Tenant services	4,484	5,136
Furniture and micellaneous equipment rent	158	-
Total administration	\$ 76,263	\$ 74,660

SLIGO HILLS DEVELOPMENT CORPORATION
SUPPLEMENTAL INFORMATION (CONTINUED)

FOR THE YEARS ENDED JUNE 30,

DETAIL OF ACCOUNTS - STATEMENT OF REVENUE AND EXPENSES (CONTINUED)

	2019	2018
MAINTENANCE		
Salary - maintenance	\$ 19,589	\$ 18,359
Overtime/on call	2,964	2,748
Premium pay	94	54
Temp agency - maintenance	1,852	280
Temp pool - maintenance	45	-
Kitchen, bath, electrical, appliance and plumbing supplies	1,758	1,549
Employee uniforms	630	348
Cleaning, janitorial, grounds and landscaping supplies	164	34
Health and safety materials	-	620
Locks keys, windows, glass, and doors	279	266
Hardware and HVAC supplies	419	815
Paint, wall covering and miscellaneous supplies	520	359
Plumbing and HVAC equipment	168	185
Appliance equipment	2,187	-
Tools, maintenance and miscellaneous equipment	218	44
Electrical and plumbing contracts	1,000	1,291
Cleaning, janitorial, grounds and landscaping contracts	625	3,185
Roofing, gutter, and HVAC contracts	325	1,659
Snow removal contracts	265	-
Paint/wallcoverings int. - contracts	3,287	10,697
Exterminating, asphalt, concrete, and miscellaneous contracts	1,685	1,224
Housing association fees	75,127	67,791
Kitchen, bath, electrical, appliance and plumbing supplies - capital	201	2,424
Cleaning, janitorial, windows, glass, doors, hardware supplies - capital	2	-
Appliance and maintenance equipment - capital	3,872	2,232
Appliance contracts - capital	793	-
Plumbing, grounds/landscaping and miscellaneous contracts - capital	850	900
Flooring/carpet contracts - capital	7,075	-
Fencing and asphalt contracts - capital	-	-
Paint/wallcovering int. contracts - capital	600	-
Total maintenance	\$ 126,594	\$ 117,064

SLIGO HILLS DEVELOPMENT CORPORATION
SUPPLEMENTAL INFORMATION (CONTINUED)

FOR THE YEARS ENDED JUNE 30,

DETAIL OF ACCOUNTS - STATEMENT OF REVENUE AND EXPENSES (CONTINUED)

	2019	2018
UTILITIES		
Water bill	\$ 775	\$ 771
Electric bill	934	913
Natural gas	1,078	139
Total utilities	\$ 2,787	\$ 1,823
 FRINGE BENEFITS		
Accrued leave	\$ 244	\$ 35
FICA	118	164
Unemployment	5	8
Workers compensation	70	193
Health insurance	783	746
Deferred contribution plan	120	180
Other post employment benefits-Admin	130	160
Contract managed benefits	1,648	1,550
Pension expense	379	1,367
OPEG expense (GASB 75)	294	293
FICA - tenant services	305	375
Unemployment - tenant services	14	20
Workers' compensation - tenant services	140	120
Health insurance - tenant services	785	922
Deferred contribution plan - tenant services	271	322
Other post employment benefits - tenant services	281	280
FICA - maintenance	1,659	1,538
Unemployment - maintenance	66	74
Workers' compensation - maintenance	570	442
Health insurance - maintenance	4,301	4,113
Deferred Contribution plan - maintenance	1,282	1,186
Other post employment benefits - maintenance	1,151	1,170
Total fringe benefits	\$ 14,616	\$ 15,258
 OTHER EXPENSES		
Security system	-	1
Fire and hazard insurance	1,790	2,380
Vehicle insurance	1,307	501
Solid waste tax	1,709	1,708
Front foot benefit charge	-	500
Water quality protect charge	889	889
Development corporate fee	22,495	11,033
Total other expenses	\$ 28,190	\$ 17,012