

THE METROPOLITAN
COMBINING FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 AND 2018

**THE METROPOLITAN
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET	3
COMBINED STATEMENT OF OPERATIONS	4
COMBINED STATEMENT OF PARTNERS' EQUITY (DEFICIT)	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
OTHER INFORMATION	
DETAILED SCHEDULE OF REVENUES AND EXPENSES	16
COMBINING SCHEDULE OF INTERFUND BALANCE	20



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Housing Opportunities Commission of
Montgomery County, Maryland
Kensington, Maryland

Report on the Financial Statements

We have audited the accompanying combining financial statements of The Metropolitan, which are comprised of the combining balance sheets of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership as of June 30, 2019, and the related combining statements of operations, partners' equity (deficit), and cash flows for the year 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 combining 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 combining 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 combining financial statements based on our audit. We conducted our audit 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 combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining financial statements.

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

Opinion

In our opinion the combining financial statements referred to above present fairly, in all material respects, the individual and combining financial position of The Metropolitan as of June 30, 2019, and the results of their operations, changes in equity (deficit), and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The combined financial statements as of June 30, 2018, were audited by other auditors whose report dated March 28, 2019, expressed an unmodified opinion on those financial statements. As discussed in Note 2 to the financial statements, the Entity has adjusted its 2018 combined financial statements to correct an error. The other auditors reported on the 2018 combined financial statements before the retrospective adjustment.

As part of our audit of the 2019 combining financial statements, we also audited the adjustments to the 2018 combined financial statements to correct the error described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Entity's 2018 combined financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 combined financial statements as a whole.

Report on Supplementary Information

Other Information

Our audit was conducted for the purpose of forming an opinion on the combining financial statements as a whole. The accompanying detailed schedule of revenues and expenses and combining schedule of interfund balance are presented for purposes of additional analysis and are not a required part of the combining financial statements. Such information is the responsibility of management and 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements or to the combining 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 combining financial statements as a whole.



CliftonLarsonAllen LLP

Baltimore, Maryland
January 3, 2020

**THE METROPOLITAN
COMBINING BALANCE SHEET
JUNE 30, 2019
(WITH COMPARATIVE TOTALS AT 2018)**

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan <u>2019</u>	The Metropolitan As Restated <u>2018</u>
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 85,006	\$ 4,274,440	\$ 4,359,446	\$ 4,700,602
Accounts Receivable and Other Assets	23,349	209,545	232,894	332,730
Interfund Receivable - Advances to Partnerships	-	12,276,477	12,276,477	11,693,996
Total Current Assets	<u>108,355</u>	<u>16,760,462</u>	<u>16,868,817</u>	<u>16,727,328</u>
RESTRICTED CASH AND CASH EQUIVALENTS				
Customer Deposits - Funded Security Deposits	45,096	221,387	266,483	271,684
Restricted Deposits	128,812	1,873,388	2,002,200	990,121
Total Restricted Cash and Cash Equivalents	<u>173,908</u>	<u>2,094,775</u>	<u>2,268,683</u>	<u>1,261,805</u>
NONCURRENT ASSETS				
Property and Equipment, Net of Accumulated Depreciation	5,516,429	16,897,686	22,414,115	23,781,403
Deferred Charges, Net of Accumulated Amortization	-	28,703	28,703	-
Total Noncurrent Assets	<u>5,516,429</u>	<u>16,926,389</u>	<u>22,442,818</u>	<u>23,781,403</u>
Total Assets	<u>\$ 5,798,692</u>	<u>\$ 35,781,626</u>	<u>\$ 41,580,318</u>	<u>\$ 41,770,536</u>
LIABILITIES AND PARTNERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 44,652	\$ 291,673	\$ 336,325	\$ 167,111
Accrued Interest Payable	29,107	122,443	151,550	156,121
Mortgage Payable, Current	176,096	740,778	916,874	860,393
Prepaid Rent	2,388	77,780	80,168	60,665
Total Current Liabilities	<u>252,243</u>	<u>1,232,674</u>	<u>1,484,917</u>	<u>1,244,290</u>
RESTRICTED CURRENT LIABILITIES				
Customer Deposits Payable	44,126	217,752	261,878	270,371
NONCURRENT LIABILITIES				
Mortgage Payable	5,302,886	21,811,680	27,114,566	27,949,970
Interfund Payable - Operating Loan Deficit	12,756,490	4,371	12,760,861	12,202,099
Note Payable - HOC	977,000	-	977,000	977,000
Accrued Asset Management Fee	60,471	-	60,471	60,471
Total Noncurrent Liabilities	<u>19,096,847</u>	<u>21,816,051</u>	<u>40,912,898</u>	<u>41,189,540</u>
Total Liabilities	19,393,216	23,266,477	42,659,693	42,704,201
PARTNERS' EQUITY (DEFICIT), AS RESTATED	<u>(13,594,524)</u>	<u>12,515,149</u>	<u>(1,079,375)</u>	<u>(933,665)</u>
Total Liabilities and Partners' Equity (Deficit)	<u>\$ 5,798,692</u>	<u>\$ 35,781,626</u>	<u>\$ 41,580,318</u>	<u>\$ 41,770,536</u>

See accompanying Notes to Financial Statements.

**THE METROPOLITAN
COMBINING STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)**

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan <u>2019</u>	The Metropolitan <u>As Restated 2018</u>
OPERATING REVENUE				
Dwelling Rental Revenue	\$ 780,934	\$ 6,168,272	\$ 6,949,206	\$ 7,088,586
Other Income	67,889	520,222	588,111	484,170
Total Operating Revenue	<u>848,823</u>	<u>6,688,494</u>	<u>7,537,317</u>	<u>7,572,756</u>
EXPENSES				
Administrative	240,616	759,304	999,920	1,015,643
Utilities	152,112	414,091	566,203	578,607
Maintenance	311,901	734,198	1,046,099	965,591
Other Expenses	116,812	1,484,428	1,601,240	1,823,870
Depreciation	318,268	1,113,190	1,431,458	1,452,946
Fringe Benefits	45,109	120,532	165,641	178,746
Interest Expense, Operating	354,169	1,560,037	1,914,206	1,977,607
Total Expenses	<u>1,538,987</u>	<u>6,185,780</u>	<u>7,724,767</u>	<u>7,993,010</u>
OPERATING INCOME (LOSS)	(690,164)	502,714	(187,450)	(420,254)
NONOPERATING REVENUE (EXPENSE)				
Investment Income	3,476	38,264	41,740	23,623
Total Nonoperating Revenue	<u>3,476</u>	<u>38,264</u>	<u>41,740</u>	<u>23,623</u>
NET INCOME (LOSS)	(686,688)	540,978	(145,710)	(396,631)
Minority Interest Limited Partnership	(2,017,243)	-	(2,017,243)	(2,017,243)
Partners' Equity - Beginning of Year, As Restated	<u>(10,890,593)</u>	<u>11,974,171</u>	<u>1,083,578</u>	<u>1,480,209</u>
PARTNERS' EQUITY - END OF YEAR, AS RESTATED	<u>\$ (13,594,524)</u>	<u>\$ 12,515,149</u>	<u>\$ (1,079,375)</u>	<u>\$ (933,665)</u>

See accompanying Notes to Financial Statements.

**THE METROPOLITAN
COMBINING STATEMENT OF PARTNERS' EQUITY (DEFICIT)
YEAR ENDED JUNE 30, 2019**

	<u>Metropolitan of Bethesda Limited Partnership</u>	<u>Metropolitan Development Corporation</u>	<u>The Metropolitan</u>
BALANCE - JULY 1, 2017, AS RESTATED	\$ (12,185,906)	\$ 11,648,872	\$ (537,034)
Net Income (Loss), As Restated	<u>(721,930)</u>	<u>325,299</u>	<u>(396,631)</u>
BALANCE - JUNE 30, 2018, AS RESTATED	(12,907,836)	11,974,171	(933,665)
Net Income (Loss)	<u>(686,688)</u>	<u>540,978</u>	<u>(145,710)</u>
BALANCE - JUNE 30, 2019	<u><u>\$ (13,594,524)</u></u>	<u><u>\$ 12,515,149</u></u>	<u><u>\$ (1,079,375)</u></u>

See accompanying Notes to Financial Statements.

**THE METROPOLITAN
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)**

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan <u>2019</u>	As Restated <u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	\$ (686,688)	\$ 540,978	\$ (145,710)	\$ (396,631)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	318,268	1,130,595	1,448,863	1,452,946
Amortization of Debt Issuance Costs	-	42,322	42,322	77,416
Amortization of Deferred Charges	-	10,444	10,444	-
Bad Debt Expense	-	-	-	98,418
Changes in Operating Assets and Liabilities:				
Accounts Receivable and Other Assets	17,854	81,982	99,836	(105,337)
Customer Deposits	(394)	(2,898)	(3,292)	1,951
Accounts Payable and Accrued Expense	(11,582)	180,796	169,214	20,074
Accrued Interest Payable	(878)	(3,693)	(4,571)	(4,290)
Prepaid Rent	(1,363)	20,866	19,503	(72,813)
Net Cash Provided (Used) by Operating Activities	<u>(364,783)</u>	<u>2,001,392</u>	<u>1,636,609</u>	<u>1,071,734</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Fixed Assets	(15,007)	(49,163)	(64,170)	(15,829)
Lease Commission	-	(17,404)	(17,404)	-
Deposit to Mortgage Escrows, Net	(558)	(2,378)	(2,936)	(2,757)
Deposit to Replacement Reserve, Net	30,852	(1,039,995)	(1,009,143)	71,245
Net Cash Provided (Used) by Investing Activities	<u>15,287</u>	<u>(1,108,940)</u>	<u>(1,093,653)</u>	<u>52,659</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Mortgage Principal Payments	(165,249)	(695,144)	(860,393)	(807,392)
Interfund Payable - Operating Loan Deficit	559,638	(583,357)	(23,719)	7,132
Net Cash Provided (Used) by Financing Activities	<u>394,389</u>	<u>(1,278,501)</u>	<u>(884,112)</u>	<u>(800,260)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	44,893	(386,049)	(341,156)	324,133
Cash and Cash Equivalents - Beginning of Year	<u>40,113</u>	<u>4,660,489</u>	<u>4,700,602</u>	<u>4,376,469</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 85,006</u>	<u>\$ 4,274,440</u>	<u>\$ 4,359,446</u>	<u>\$ 4,700,602</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest Paid	<u>\$ 355,046</u>	<u>\$ 1,489,865</u>		

See accompanying Notes to Financial Statements.

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 ORGANIZATION

The Metropolitan (the Entity) was organized as a mixed-use project which was built on air rights leased from Montgomery County, Maryland. The property was developed by the Housing Opportunities Commission of Montgomery County, Maryland (HOC) and consists of 308 residential rental units, a retail rental area, operations of the top-level parking garage, a public plaza, and Washington Metropolitan Area Transit Authority Metro office space. The property was completed in January 1997 and 92 residential units were sold to the Metropolitan of Bethesda Limited Partnership (the Partnership) to be used as low and moderate-income housing and was granted tax credits under Section 42 of the Internal Revenue Code, with HOC having a 1% interest as general partner. In January 1998, the Metropolitan Development Corporation (the Corporation), a segment of HOC, acquired the balance of the project from HOC, the developer.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying combining financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which 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 reported amounts of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates. Some of the more significant estimates required to be made by management include allowance for doubtful accounts and depreciation expense.

Reporting Entity and Principles of Combination

In determining how to define the reporting entity, management has considered all potential component units. The decision to not include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the Government Auditing Standards Board Codification. These criteria state that the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

These combining financial statements include the accounts of the Corporation (wholly owned by HOC) and the Partnership to present the full operations and accounts of the Entity. The 99% limited partnership interest is reflected in these financial statements as the minority interest. Neither the Corporation or the Partnership are considered component units of each other.

Both the Corporation's and Partnership's permanent financing is under the HUD Shared Risk Program.

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Entity considers all highly liquid debt instruments with a maturity of three months or less at time of purchase to be cash equivalents. At times cash deposits may exceed the federally insured limits of the financial institution and expose the Entity to credit risk. The Entity believes it is not exposed to any significant risk of loss on these funds.

Allowance for Doubtful Accounts

All tenant receivables that are ninety or more days past due are charged to this account. The allowance at June 30, 2019 and 2018 is \$0 and \$27, respectively.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs for the Entity for the years ended June 30, 2019 and 2018 are \$106,355 and \$109,312, respectively.

Capitalization and Depreciation

Fixed assets are recorded at cost. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using the straight-line method. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset.

The estimated service life of the assets for depreciation purposes is as follows:

Building and Improvements	15 to 40 Years
Leasehold Improvements	30 Years
Fixed Buildings Equipment	5 to 15 Years
Furniture and Equipment	5 Years

The Entity reviews its fixed assets for impairment annually and whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the rental property, undiscounted and without interest charges, are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. There was no impairment loss recognized during the years ended June 30, 2019 and 2018.

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs

Debt issuance costs are reported on the combining balance sheet as a direct deduction from the face amount of the debt. The debt issuance costs are being amortized over the term of the debt on a method that approximates the interest method. The Entity reflects amortization of debt issuance costs as interest expense.

Rental Income and Prepaid Rent

Rental income is recognized as it becomes due. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Partnership and the Entity with the tenants of the property are operating leases and are no longer than one year.

Income Taxes

No provision or benefit for income taxes have been included in these combining financial statements for the Partnership since taxable income or loss passes through to, and is reportable by, the partners individually.

The Corporation is a component unit of HOC and is therefore exempt from income taxation. Accordingly, the financial statements do not include a provision for income taxes.

The preparation of the financial statements in accordance with U.S. GAAP 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 Corporation's and Partnership's last three years of tax returns remain subject to examination by taxing authorities.

Prior Period Adjustment – Correction of an Error

In fiscal year 2019, the Entity removed eliminations that had previously been reported for the combining financial statements presented herein. The eliminations were deemed no longer necessary based on the nature of the transactions that were being eliminated. The effect of the prior period adjustment is detailed below:

	<u>As Previously Stated 6/30/18</u>	<u>Removal of Eliminations</u>	<u>As Restated 6/30/2018</u>
Net Loss June 30, 2018	(303,328)	(93,303)	(396,631)
Fund balance July 1, 2017	(2,870,801)	2,333,767	(537,034)

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 3 RESTRICTED DEPOSITS

Reserve for Replacements

In accordance with the deed of trust, the Entity is required to maintain a reserve for replacement account. The required monthly deposit into this account is \$8,100 for the Corporation and \$3,450 for the Partnership. All withdrawals from the reserve for replacements require approval from HOC. The Corporation made an additional deposit of \$1,000,000 into the reserve for replacement account for the year ended June 30, 2019. Additionally, management of the Corporation opted to make monthly deposits of \$16,200 during fiscal year 2019.

Mortgage Escrow

Pursuant to the terms of the mortgage note, the Partnership and Corporation are required to make monthly deposits with the mortgagee for payment of the mortgage insurance premium so that a sufficient amount is on deposit with the mortgagee when actual payment of such expense is due.

The reserve for replacements and mortgage escrow are kept in the same account.

Other Reserve

The Corporation has set aside a reserve of \$725,000 in order to acquire the limited partnership interest in the Partnership. This amount is held by HOC in a replacement reserve pool.

Renovation Escrow

The Corporation holds a renovation escrow in the amount of \$6,071.

The activity in these funds for the year ended June 30, 2019 and 2018 is as follows:

	June 30, 2019						
	Metropolitan of Bethesda Limited Partnership		Metropolitan Development Corporation				
	Reserve for Replacement	Mortgage Escrow	Reserve for Replacement	Other Reserves	Mortgage Escrow	Renovation Escrow	The Metropolitan
Balance - Beginning of Year	\$ 142,962	\$ 16,144	\$ 31,816	\$ 725,000	\$ 68,128	\$ 6,071	\$ 990,121
Interest Earned	3,154	-	3,219	-	-	-	6,373
Withdrawals	(75,406)	(27,219)	(157,624)	-	(114,474)	-	(374,723)
Deposits	41,400	27,777	1,194,400	-	116,852	-	1,380,429
Balance - End of Year	<u>\$ 112,110</u>	<u>\$ 16,702</u>	<u>\$ 1,071,811</u>	<u>\$ 725,000</u>	<u>\$ 70,506</u>	<u>\$ 6,071</u>	<u>\$ 2,002,200</u>
	June 30, 2018						
	Metropolitan of Bethesda Limited Partnership		Metropolitan Development Corporation				
	Reserve for Replacement	Mortgage Escrow	Reserve for Replacement	Other Reserve	Mortgage Escrow	Renovation Escrow	The Metropolitan
Balance - Beginning of Year	\$ 191,120	\$ 15,620	\$ 54,903	\$ 725,000	\$ 65,895	\$ 6,071	\$ 1,058,609
Interest Earned	1,820	-	1,318	-	-	-	3,138
Withdrawals	(91,378)	(28,057)	(121,605)	-	(117,996)	-	(359,036)
Deposits	41,400	28,581	97,200	-	120,229	-	287,410
Balance - End of Year	<u>\$ 142,962</u>	<u>\$ 16,144</u>	<u>\$ 31,816</u>	<u>\$ 725,000</u>	<u>\$ 68,128</u>	<u>\$ 6,071</u>	<u>\$ 990,121</u>

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 FIXED ASSETS

Fixed assets consist of the following at June 30, 2019 and 2018:

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan	
			2019	2018
Buildings and Improvements	\$ 12,231,249	\$ 36,374,977	\$ 48,606,226	\$ 46,535,724
Fixed Building Equipment	179,971	669,356	849,327	823,023
Furniture and Equipment	51,982	160,464	212,446	212,446
Leasehold Improvements	-	444,066	444,066	444,066
Accumulated Depreciation	(6,946,773)	(20,751,177)	(27,697,950)	(24,233,856)
Total	<u>\$ 5,516,429</u>	<u>\$ 16,897,686</u>	<u>\$ 22,414,115</u>	<u>\$ 23,781,403</u>

NOTE 5 MORTGAGE PAYABLE

The deed of trust notes were assumed from HOC and collateralized by a Leasehold Deed of Trust, security agreement, and assignment of rents for the Partnership in the amount of \$7,470,518 and the Corporation in the amount of \$31,425,878. There is a single regulatory agreement covering both the Partnership and Corporation notes, which provides that a default on either note is a default on both notes. Principal and interest are payable in monthly installments of \$43,358 and \$182,392 for the Partnership and Corporation, beginning March 1, 1998 through December 31, 2036. The liability of the Entity under the mortgage note is limited to the underlying value of the real estate collateral, which includes assignment of rents and leases plus other amounts deposited with the lender. Accrued interest at June 30, 2019 and 2018 is \$151,550 and \$156,121, respectively.

Interest expense for the years ended June 30, 2019 and 2018 is \$1,844,034 and \$1,897,318, respectively, on this mortgage.

Principal payments over the next five years as of June 30, 2019 and thereafter are payable as follows:

<u>Years Ending June 30.</u>	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan
2020	\$ 176,096	\$ 740,778	\$ 916,874
2021	187,657	789,407	977,064
2022	199,975	841,229	1,041,204
2023	213,103	896,452	1,109,555
2024	227,092	955,300	1,182,392
2025-2029	1,379,640	5,803,675	7,183,315
2030-2034	1,895,967	7,975,686	9,871,653
2035-2038	1,199,452	5,045,644	6,245,096
Total	<u>\$ 5,478,982</u>	<u>\$ 23,048,171</u>	<u>\$ 28,527,153</u>

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 MORTGAGE PAYABLE (CONTINUED)

Debt issuance costs are being shown net of the mortgage loan balance as follows:

	2019	2018
Mortgage Payable	\$ 28,527,153	\$ 29,387,546
Debt Issuance	(495,713)	(577,183)
Total	\$ 28,031,440	\$ 28,810,363

NOTE 6 MANAGEMENT FEES

The Entity is managed by Bozzuto Management, pursuant to a management agreement, which provides for a management fee of a flat rate per unit month of \$66 for the first half of fiscal year 2018, \$58 for the second half of fiscal year 2018, and \$60 per unit per month for fiscal year 2019. Management fees charged to operations for the years ended June 30, 2019 and 2018 were \$220,959 and \$233,932, respectively.

NOTE 7 RELATED PARTY TRANSACTIONS

Operating Deficit and Interfund Receivable

As stated in the partnership agreement, the general partner of the Partnership was required to fund operating deficits through the compliance period. Although the compliance period for the Partnership ended in 2012, the general partner continues to fund such deficits through noninterest bearing operating deficit loans. The balance of the operating deficit loans on the Partnership and related receivable for the Corporation at June 30, 2019 and 2018 are \$12,276,477 and \$11,693,996, respectively.

Asset Management Fee

In accordance with the asset management agreement, an annual fee was to be paid to HOC by the Partnership during its compliance period. The Corporation incurred fees for the services rendered in providing advice regarding administering the assets of the Entity. The fee incurred by the Corporation as of June 30, 2019 and 2018 is \$63,630 and \$62,020, respectively. The Partnership had accrued fees at both June 30, 2019 and 2018 of \$60,471.

Note Payable

The Partnership entered into a development agreement with HOC to oversee construction and ensure all federal, state and local requirements are fulfilled for a fee of \$1,341,204. Of the total fee, only \$364,204 was paid, leaving a deferred developer fee of \$977,000 payable to HOC. The balance is secured by a deed of trust and promissory note. The promissory note has a 3% interest rate. Payments of interest and principal have been deferred by HOC. The full note is shown as noncurrent on the balance sheet as payments are not expected within the next 12 months.

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

Development Corporation Fee

HOC received a development corporation fee from the Corporation for the years ended June 30, 2019 and 2018 of \$933,095 and \$940,808, respectively.

Miscellaneous Operating Expenses

The Entity is indebted to HOC for various operating expenses paid on its behalf. Amounts due to HOC as of June 30, 2019 and 2018 totaled \$484,384 and \$508,103, respectively.

NOTE 8 REAL ESTATE TAXES

Under an agreement with Montgomery County, Maryland, both the Partnership and the Corporation have entered into a provision for Payment in Lieu of Taxes (PILOT).

NOTE 9 AIR RIGHTS LEASE

The Entity was built utilizing the air rights above Garage 49 owned by Montgomery County, Maryland. The Air Rights Lease provides for a 99-year lease term commencing June 23, 1995. Lease payments are calculated based on a cash flow formula. Payments made during 2019 and 2018 totaled \$210,292 and \$302,885, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

The Extended Use Agreement requires that one hundred percent of the residential units in the Partnership shall be both rent restricted and occupied by individuals whose income is fifty percent or less than the median income for the Washington Metropolitan Statistical Area as determined by HUD. Gross rent shall not exceed thirty percent of household income.

NOTE 11 CONCENTRATION OF CREDIT RISK

The Entity maintains its cash balances in several accounts in various high credit, quality financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each financial institution. At times, these balances may exceed the federal insurance limits, however, amounts held in trust accounts, and other demand accounts are fully collateralized by either U.S. treasuries or other government guaranteed securities. The collateral is held by the institution's agent in HOC's name.

**THE METROPOLITAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 12 OPERATING RISK

The Entity's sole asset is 308 units of residential housing. The Entity's operations are concentrated in the multifamily real estate market. In addition, it operates in a heavily regulated environment subject to administrative directives, rules and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change by an act of Congress. Such changes may occur with little notice or inadequate funding to pay for the related cost, including additional administrative burden, to comply with a change.

OTHER INFORMATION

**THE METROPOLITAN
DETAILED SCHEDULE OF REVENUES AND EXPENSES
SELECTED LINE ITEM DETAIL
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)
(UNAUDITED)**

	The Metropolitan Development Corporation				Metropolitan of Bethesda Limited Partnership	The Metropolitan	
	Office Space	Retail	Housing	Total		2019	2018
REVENUE							
Rental Income:							
Gross Rent Potential	\$ -	\$ 300,616	\$ 6,592,950	\$ 6,893,566	\$ 791,353	\$ 7,684,919	\$ 7,584,308
Vacancy Loss and Concessions	-	-	(557,297)	(557,297)	(10,419)	(567,716)	(495,722)
Net Rental Income	-	300,616	6,035,653	6,336,269	780,934	7,117,203	7,088,586
Parking	-	-	238,650	238,650	20,912	259,562	243,482
County Reimbursed Expenses	100,681	-	-	100,681	-	100,681	96,534
Miscellaneous Income	-	-	12,894	12,894	46,977	59,871	144,154
Total Revenue	100,681	300,616	6,287,197	6,688,494	848,823	7,537,317	7,572,756
EXPENSES							
Operating Expenses:							
Advertising and Promotions			106,355	106,355	-	106,355	109,312
Salaries and Related Expenses	46,092	31,977	535,517	613,586	227,895	841,481	869,114
General and Administrative	41	15,113	137,197	152,351	41,598	193,949	197,821
Management Fees	-	-	154,846	154,846	66,113	220,959	233,932
Development Corporation Fee	-	-	933,095	933,095	-	933,095	940,808
Maintenance	10,226	63,937	494,976	569,139	249,520	818,659	723,456
Insurance	-	-	204,148	204,148	65,121	269,269	296,980
Audit Fees	-	-	14,520	14,520	12,500	27,020	26,346
Air Rights Expense	-	-	210,292	210,292	-	210,292	302,885
Pilot and Other Taxes	-	-	3,469	3,469	23,778	27,247	26,080
Asset Management Fees	-	-	63,630	63,630	-	63,630	62,020
Utilities	39,031	27,271	347,789	414,091	152,112	566,203	578,607
Security Contract	5,291	3,037	61,493	69,821	26,564	96,385	96,678
Bad Debt Expense	-	(27)	-	(27)	1,349	1,322	98,418
Total Operating Expenses	100,681	141,308	3,267,327	3,509,316	866,550	4,375,866	4,562,457
Other Expenses:							
Interest Expense, Operating	-	550	1,492,552	1,493,102	354,169	1,847,271	1,977,607
Depreciation and Amortization	-	-	1,183,362	1,183,362	318,268	1,501,630	1,452,946
Total Other Expenses	-	550	2,675,914	2,676,464	672,437	3,348,901	3,430,553
Total Expenses	100,681	141,858	5,943,241	6,185,780	1,538,987	7,724,767	7,993,010
OPERATING INCOME (LOSS)	-	158,758	343,956	502,714	(690,164)	(187,450)	(420,254)
NONOPERATING REVENUE (LOSS)							
Investment Income	-	-	38,264	38,264	3,476	41,740	23,623
Total Nonoperating Revenue	-	-	38,264	38,264	3,476	41,740	23,623
NET INCOME (LOSS), AS RESTATED	\$ -	\$ 158,758	\$ 382,220	\$ 540,978	\$ (686,688)	\$ (145,710)	\$ (396,631)

**THE METROPOLITAN
DETAILED SCHEDULE OF REVENUES AND EXPENSES
SELECTED LINE ITEM DETAIL (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)
(UNAUDITED)**

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan	
			2019	2018
ACCOUNTS RECEIVABLE AND OTHER ASSETS				
Resident Tenant Receivable	\$ 1,162	\$ 2,860	\$ 4,022	\$ 5,534
Montgomery County Receivable	-	100,681	100,681	96,534
Prepaid Expenses	-	-	-	13,525
Prepaid Insurance	-	-	-	74,966
Prepaid Mortgage Insurance	18,146	76,316	94,462	97,377
Other Receivables	4,041	-	4,041	965
Other Assets	-	29,688	29,688	43,856
Allowance for Doubtful Accounts	-	-	-	(27)
	<u>\$ 23,349</u>	<u>\$ 209,545</u>	<u>\$ 232,894</u>	<u>\$ 332,730</u>
RESTRICTED DEPOSITS				
Mortgage Escrow	\$ 16,702	\$ 70,506	\$ 87,208	\$ 84,272
Renovation Escrow	-	6,071	6,071	6,071
Other Reserve	-	725,000	725,000	725,000
Replacement Reserve	112,110	1,071,811	1,183,921	174,778
	<u>\$ 128,812</u>	<u>\$ 1,873,388</u>	<u>\$ 2,002,200</u>	<u>\$ 990,121</u>
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES				
Accounts Payable	\$ 24,698	\$ 35,580	\$ 60,278	\$ 66,577
Accrued Salaries and Benefits	584	1,567	2,151	37,055
Accrued Expenses	19,370	254,526	273,896	63,479
	<u>\$ 44,652</u>	<u>\$ 291,673</u>	<u>\$ 336,325</u>	<u>\$ 167,111</u>
CUSTOMER DEPOSITS PAYABLE				
Customer Deposits	\$ 35,527	\$ 201,056	\$ 236,583	\$ 245,528
Accrued Interest on Customer Deposits	8,599	16,696	25,295	24,843
	<u>\$ 44,126</u>	<u>\$ 217,752</u>	<u>\$ 261,878</u>	<u>\$ 270,371</u>

**THE METROPOLITAN
 DETAILED SCHEDULE OF REVENUES AND EXPENSES
 SELECTED LINE ITEM DETAIL (CONTINUED)
 YEAR ENDED JUNE 30, 2019
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)
 (UNAUDITED)**

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan	
			2019	2018
DWELLING RENTAL REVENUE				
Gross Potential Tenant Rent	\$ 791,353	\$ 6,725,569	\$ 7,516,922	\$ 7,584,308
Vacancies and Concessions	(10,419)	(557,297)	(567,716)	(495,722)
	<u>\$ 780,934</u>	<u>\$ 6,168,272</u>	<u>\$ 6,949,206</u>	<u>\$ 7,088,586</u>
OTHER INCOME				
Tenant Charges	\$ 6,242	\$ 272,068	\$ 278,310	\$ 227,136
Parking	20,912	238,650	259,562	243,482
Miscellaneous Income	40,735	9,504	50,239	13,552
	<u>\$ 67,889</u>	<u>\$ 520,222</u>	<u>\$ 588,111</u>	<u>\$ 484,170</u>
ADMINISTRATIVE				
Salaries and Related Expenses	\$ 120,405	\$ 327,995	\$ 448,400	\$ 448,233
Telephone	-	18,810	18,810	20,721
Office Supplies and Expenses	3,518	10,413	13,931	43,845
Professional Fees	5,374	23,895	29,269	12,572
Accounting and Auditing Fees	12,500	14,520	27,020	26,346
Property Management Fees	66,113	154,846	220,959	233,932
Licenses and Fees	86	10,151	10,237	15,088
Tenant Security Deposit Interest Expense	685	3,237	3,922	482
Advertising	-	106,355	106,355	109,312
Program Supplies	16,007	37,929	53,936	14,760
Miscellaneous Administrative Expenses	15,928	51,153	67,081	90,352
	<u>\$ 240,616</u>	<u>\$ 759,304</u>	<u>\$ 999,920</u>	<u>\$ 1,015,643</u>
UTILITIES				
Water	\$ 49,230	\$ 132,839	\$ 182,069	\$ 162,600
Electricity	66,025	190,797	256,822	288,411
Gas	22,483	52,461	74,944	81,837
Trash Removal	14,374	37,994	52,368	45,759
	<u>\$ 152,112</u>	<u>\$ 414,091</u>	<u>\$ 566,203</u>	<u>\$ 578,607</u>

**THE METROPOLITAN
 DETAILED SCHEDULE OF REVENUES AND EXPENSES
 SELECTED LINE ITEM DETAIL (CONTINUED)
 YEAR ENDED JUNE 30, 2019
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)
 (UNAUDITED)**

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan	
			2019	2018
MAINTENANCE				
Salaries and Related Expenses	\$ 62,381	\$ 165,059	\$ 227,440	\$ 242,135
Repair and Grounds Contracts	164,670	402,521	567,191	569,097
Appliance	26,749	42,776	69,525	31,969
Repairs Materials and Supplies	58,101	123,842	181,943	122,390
	<u>\$ 311,901</u>	<u>\$ 734,198</u>	<u>\$ 1,046,099</u>	<u>\$ 965,591</u>
OTHER EXPENSES				
Security	\$ 26,564	\$ 69,821	\$ 96,385	\$ 96,678
Insurance - Property	25,400	87,326	112,726	148,207
Mortgage Insurance	27,786	116,822	144,608	148,773
Liability Insurance	11,935	-	11,935	-
Real Estate Taxes	23,478	3,442	26,920	25,781
Asset Management Fee	-	63,630	63,630	62,020
Development Corporation Fee	-	933,095	933,095	940,808
Capital Lease Payment	-	210,292	210,292	302,885
Bad Debts - Tenants	1,349	-	1,349	98,418
Other Taxes and Fees	300	-	300	300
	<u>\$ 116,812</u>	<u>\$ 1,484,428</u>	<u>\$ 1,601,240</u>	<u>\$ 1,823,870</u>

**THE METROPOLITAN
COMBINING SCHEDULE OF INTERFUND BALANCE
JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)
(UNAUDITED)**

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	<u>The Metropolitan</u>	
			<u>2019</u>	<u>2018</u>
Intercompany Receivable	\$ -	\$ 12,276,477	\$ 12,276,477	\$ 11,693,996
Operating Deficit Advance	(12,276,477)	-	(12,276,477)	(11,693,996)
Due to HOC Central Cash	<u>(480,013)</u>	<u>(4,371)</u>	<u>(484,384)</u>	<u>(508,103)</u>
 Interfund (Payable) Receivable	 <u>\$ (12,756,490)</u>	 <u>\$ 12,272,106</u>	 <u>\$ (484,384)</u>	 <u>\$ (508,103)</u>