THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)

COMBINED FINANCIAL STATEMENTS
Year Ended June 30, 2018 and 2017
AND
INDEPENDENT AUDITORS' REPORT

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Housing Opportunities Commission
Montgomery County, Maryland

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Metropolitan (the "Entity") which are comprised of the combined balance sheets of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership as of June 30, 2018 and the related combined statements of operations, equity (deficit), and cash flows for the year then ended, and the related notes to the combined 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 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 audits 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the combined financial position of The Metropolitan as of June 30, 2018, and the results of its combined operations, changes in equity (deficit), and its combined cash flows for the year then ended in accordance with accounting principles generally accepted in the Unites States of America.

We did not audit the financial statements as of and for the year ended June 30, 2017. Those statements were audited by other auditors whose report dated December 12, 2017, reported an unmodified opinion. In addition, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements of the other auditors from which it has been derived.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2018 combined financial statements as a whole. The accompanying detailed schedule of revenues and expenses, Combining Schedule of Interfund Balance, and Net Assets – Consolidating Fund Basis for the year ended June 30, 2018 are presented for purposes of additional analysis and are not a required part of the combined 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 the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Rubino & Company

March 28, 2019
Bethesda, Maryland

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
COMBINED BALANCE SHEETS
June 30, 2018 (with comparative amounts at June 30, 2017)

ASSETS

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	Eliminations	The Metropolitan 2018	The Metropolitan 2017
Current assets					
Cash and cash equivalents	$ 40,113	$ 4,660,489	$ -	$ 4,700,602	$ 4,376,469
Accounts receivable and other assets	41,203	291,527	-	332,730	325,809
Interfund receivable - advances to partnerships	-	11,693,996	-	11,693,996	11,160,514
Total current assets	81,316	16,646,012	-	16,727,328	15,862,792
Restricted cash and cash equivalents					
Customer deposits - funded security deposits	42,032	229,652	-	271,684	288,201
Restricted deposits	159,106	831,015	-	990,121	1,058,609
Total restricted cash and cash equivalents	201,138	1,060,667	-	1,261,805	1,346,810
Fixed and non-current assets					
Property and equipment, net of accumulated depreciation	5,819,690	17,961,713	(3,052,464)	20,728,939	22,072,754
Total assets	$ 6,102,144	$ 35,668,392	$ (3,052,464)	$ 38,718,072	$ 39,282,356

The accompanying notes are an integral part of these financial statements.

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
COMBINED BALANCE SHEETS
June 30, 2018 (with comparative amounts at June 30, 2017)

LIABILITIES AND NET ASSETS

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	Eliminations	The Metropolitan 2018	The Metropolitan 2017
Current liabilities					
Accounts payable and accrued liabilities	$ 56,234	$ 110,877	$ -	$ 167,111	$ 147,037
Accrued interest payable	29,985	126,136	-	156,121	160,411
Mortgage payable, current	165,249	695,144	-	860,393	807,391
Deferred revenue	-	2,160	-	2,160	3,240
Prepaid rent	3,751	54,754	-	58,505	130,238
Total current liabilities	255,219	989,071	-	1,244,290	1,248,317
Restricted current liabilities					
Customer deposits payable	41,456	228,915	-	270,371	284,937
Non-current liabilities					
Mortgage payable	5,478,982	22,470,988	-	27,949,970	28,732,948
Interfund payable - operating loan deficit	12,196,852	5,247	165,000	12,367,099	11,826,484
Note payable - HOC	977,000	-	(977,000)	-	-
Accrued asset management fee	60,471	-	-	60,471	60,471
Total non-current liabilities	18,713,305	22,476,235	(812,000)	40,377,540	40,619,903
Total liabilities	19,009,980	23,694,221	(812,000)	41,892,201	42,153,157
Equity (deficit)	(12,907,836)	11,974,171	(2,240,464)	(3,174,129)	(2,870,801)
Total liabilities and partners' deficit	$ 6,102,144	$ 35,668,392	$ (3,052,464)	$ 38,718,072	$ 39,282,356

The accompanying notes are an integral part of these financial statements.

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
COMBINED STATEMENT OF OPERATIONS
Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	Eliminations	The Metropolitan 2018	The Metropolitan 2017
Operating revenue					
Dwelling rental revenue	$ 774,626	$ 6,313,960	$ -	$ 7,088,586	$ 7,130,345
Other income	36,757	447,413	-	484,170	523,239
Total operating revenues	811,383	6,761,373	-	7,572,756	7,653,584
Expenses					
Administrative	252,775	762,868	-	1,015,643	1,008,090
Utilities	153,440	425,167	-	578,607	555,017
Maintenance	273,288	692,303	-	965,591	893,948
Other expenses	121,771	1,603,681	-	1,725,452	1,962,978
Depreciation	319,639	1,133,307	(93,303)	1,359,643	1,244,944
Fringe benefits	50,089	128,657	-	178,746	168,448
Interest expense, operating	364,403	1,613,204	-	1,977,607	2,027,303
Bad debt expense	-	98,418	-	98,418	20,800
Total expenses	1,535,405	6,457,605	(93,303)	7,899,707	7,881,528
Operating income (loss)	(724,022)	303,768	93,303	(326,951)	(227,944)
Non-operating revenue (expense)					
Investment income	2,092	21,531	-	23,623	14,016
Total non-operating revenue	2,092	21,531	-	23,623	14,016
Net income (loss)	(721,930)	325,299	93,303	(303,328)	(213,928)
Minoritiy interest limited partnership	(2,017,243)	-	929,932	(1,087,311)	(886,750)
Beginning fund balance	(10,168,663)	11,648,872	(3,263,699)	(1,783,490)	(1,770,123)
Ending fund balance	$ (12,907,836)	$ 11,974,171	$ (2,240,464)	$ (3,174,129)	$ (2,870,801)

The accompanying notes are an integral part of these financial statements.

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
COMBINED STATEMENTS OF EQUITY (DEFICIT)
Year ended June 30, 2018

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	Eliminations	The Metropolitan
Balance, July 1, 2016	$ (11,492,053)	$ 11,371,075	$ (2,535,895)	$ (2,656,873)
Net income (loss)	(693,853)	277,797	202,128	(213,928)
Balance, June 30, 2017	(12,185,906)	11,648,872	(2,333,767)	(2,870,801)
Net income (loss)	(721,930)	325,299	93,303	(303,328)
Balance, June 30, 2018	$ (12,907,836)	$ 11,974,171	$ (2,240,464)	$ (3,174,129)

The accompanying notes are an integral part of these financial statements.

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
COMBINED STATEMENT OF CASH FLOWS
Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	Eliminations	The Metropolitan 2018	The Metropolitan 2017
Cash flows from operating activities					
Net income	$ (721,930)	$ 325,299	$ 93,303	$ (303,328)	$ (213,928)
Adjustments to reconcile net income to net cash from operating activities					
Depreciation and amortization	319,639	1,133,307	(93,303)	1,359,643	1,244,944
Amortization of debt issance costs	-	77,416	-	77,416	77,416
Bad debt expense	-	98,418	-	98,418	20,800
Changes in operating assets and liabilities	-	-	-	-	-
Accounts receivable and other assets	725	(106,062)	-	(105,337)	(48,113)
Customer deposits	680	1,271	-	1,951	622
Accounts payable and accrued expense	8,634	11,440	-	20,074	(20,133)
Accrued interest payable	(824)	(3,466)	-	(4,290)	(4,025)
Deferred revenue	-	(1,080)	-	(1,080)	(1,080)
Prepaid rent	(4,933)	(66,800)	-	(71,733)	28,760
Net cash provided by operating activities	(398,009)	1,469,743	-	1,071,734	1,085,263
Cash flows from investing activities					
Purchase of fixed assets	(4,749)	(11,080)	-	(15,829)	(190,728)
Deposit to mortgage escrows, net	(524)	(2,233)	-	(2,757)	(2,586)
Deposit to replacement reserve, net	48,158	23,087	-	71,245	150,813
Net cash used by investing activities	42,885	9,774	-	52,659	(42,501)
Cash flows from financing activities					
Mortgage principal payments	(155,069)	(652,323)	-	(807,392)	(757,654)
Interfund payable - operating loan deficit	540,325	(533,193)	-	7,132	(5,380)
Net cash from financing activities	385,256	(1,185,516)	-	(800,260)	(763,034)
Net change in cash and cash equivalents	30,132	294,001	-	324,133	279,728
Cash and cash equivalents, beginning of year	9,981	4,366,488	-	4,376,469	4,096,741
Cash and cash equivalents, end of year	$ 40,113	$ 4,660,489	$ -	$ 4,700,602	$ 4,376,469
Supplementtal cash flow information					
Interest paid	$ 365,227	$ 1,536,381			

The accompanying notes are an integral part of these financial statements.

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.

2. Summary of Significant Accounting Policies

<u>Basis of Presentation and Use of Estimates</u>

The accompanying combined 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.

<u>Reporting Entity and Principles of Combination</u>

In determining how to define the reporting entity, management has considered all potential component units. The decision to 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.

2. Summary of Significant Accounting (continued)

These combined 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. In combination, all significant intercompany accounts and transactions have been eliminated.

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

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, 2018 and 2017 is $27 and $14,384, respectively.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs for the Entity for the years ended June 30, 2018 and 2017 are $109,312 and $119,296.

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.

2. Summary of Significant Accounting (continued)

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

	Years
Building and improvements	15-40
Leasehold improvements	30
Fixed buildings equipment	5
Furniture and equipment	5

Investment in Real Estate

The Entity reviews its investment in real estate 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, 2018 and 2017.

Debt Issuance Costs

In 2017 the Entity adopted new U.S. GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the combined balance sheet as a direct deduction from the fact 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, in accordance with the new guidance.

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.

2. Summary of Significant Accounting (continued)

Income Taxes

No provision or benefit for income taxes have been included in these combined 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-year Summarized Financial Information

The financial statements include prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Entity’s combined financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Evaluation of Subsequent Events by Management

Management has evaluated subsequent events for disclosure and/or recognition in the combined financial statements through the date that the combined financial statements were available to be issued, which date is March 28, 2019.

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.

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 is as follows:

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
Beginning balance	$ 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
Ending Balance	$ 142,962	$ 16,144	$ 31,816	$ 725,000	$ 68,128	$ 6,071	$ 990,121

3. Restricted Deposits (continued)

2017	Metropolitan of Bethesda Limited Partnership		Metropolitan Development Corporation					
	Reserve for Replacement	Mortgage Escrow	Reserve for Replacement	Other Reserve	Mortgage Escrow	Renovation Escrow	The Metropolitan
Beginning balance	$ 231,877	$ 15,129	$ 164,959	$ 725,000	$ 63,800	$ 6,071	$ 1,206,836
Interest earned	632	-	516	-	-	-	1,148
Withdrawals	(82,789)	(28,843)	(207,772)	-	(121,302)	-	(440,706)
Deposits	41,400	29,334	97,200	-	123,397	-	291,331
Ending Balance	$ 191,120	$ 15,620	$ 54,903	$ 725,000	$ 65,895	$ 6,071	$ 1,058,609

4. Fixed Assets

Fixed assets consist of the following at June 30:

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	Eliminations	The Metropolitan 2018	The Metropolitan 2017
Buildings and improvements	$ 12,219,889	$ 36,348,470	$ (5,085,099)	$ 43,483,260	$ 43,483,260
Fixed building equipment	176,324	646,699		823,023	807,194
Furniture and equipment	51,982	160,464		212,446	212,446
Leasehold improvements	-	444,066		444,066	444,066
Accumulated depreciation	(6,628,505)	(19,637,986)	2,032,635	(24,233,856)	(22,874,212)
	$ 5,819,690	$ 17,961,713	$ (3,052,464)	$ 20,728,939	$ 22,072,754

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, 2018 and 2017 is $156,121 and $160,411.

5. Mortgage Payable (continued)

Interest expense for the years ended June 30, 2018 and 2017 is $1,897,318 and $1,951,344 on this mortgage.

Principal payments over the next five years as of June 30, 2018 and thereafter are payable as follows:

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan
2019	$ 165,249	$ 695,144	$ 860,393
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
2024-2028	1,294,651	5,446,156	6,740,808
2029-2033	1,779,171	7,484,366	9,263,538
2034-2037	1,628,329	6,849,782	8,478,111
	$ 5,644,231	$ 23,743,315	$ 29,387,547

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

	2018	2017
Mortgage payable	$ 29,387,546	$ 30,194,938
Debt issuance	(577,183)	(654,599)
	$ 28,810,363	$ 29,540,339

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 through January, 2018 and $58 from February to June, 2018, and $66 per unit per month in 2017. Management fees charged to operations for the years ended June 30, 2018 and 2017 were $233,932 and $243,040, respectively.

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 non-interest bearing operating deficit loans. The balance of the operating deficit loans on the Partnership and related receivable for the Corporation at June 30, 2018 and 2017 are $11,693,996 and $11,160,514, 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, 2018 and 2017 is $62,020 and $66,680. The Partnership had accrued fees at both June 30, 2018 and 2017 of $60,471.

Note Payable

The Partnership entered into a development agreement with HOC to oversee construction and insure 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 with a twenty-year payment period beginning January 1, 2018. The promissory note has a 3% interest rate, which commenced on the payment period date of January 1, 2018.

2019	$ 36,845
2020	37,965
2021	39,120
2022	40,309
2023	41,536
2024-2028	227,416
2029-2033	264,170
2034-2038	289,639
	$ 977,000

7. Related Party Transactions (continued)

Development Corporation Fee

HOC received a development corporation fee from the Corporation for the years ended June 30, 2018 and 2017 of $940,808 and $1,047,020.

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, 2018 and 2017 totaled $508,105 and $500,972, respectively.

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").

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 2018 and 2017 totaled $302,885 and $435,897.

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.

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.

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.

SUPPLEMENTAL INFORMATION

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
SELECTED LINE ITEM DETAIL
Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	The Metropolitan Development Corporation				Metropolitan of Bethesda	The Metropolitan	
	Office Space	Retail	Housing	Total	Limited Partnership	2018	2017
REVENUE							
Rental income							
Gross rent potential	$ -	$ 591,814	$ 6,211,961	$ 6,803,775	$ 780,533	$ 7,584,308	$ 7,579,268
Vacancy loss & concessions	-	(20,000)	(469,815)	(489,815)	(5,907)	(495,722)	(448,923)
Net rental income	-	571,814	5,742,146	6,313,960	774,626	7,088,586	7,130,345
Parking	-	-	226,853	226,853	16,629	243,482	249,005
County reimbursed expenses	96,534	-	-	96,534	-	96,534	89,665
Miscellaneous income	-	-	124,026	124,026	20,128	144,154	184,569
Total revenue	96,534	571,814	6,093,025	6,761,373	811,383	7,572,756	7,653,584
EXPENSES							
Operating expenses							
Advertising and promotions	-	-	109,312	109,312	-	109,312	119,296
Salaries and related expenses	32,511	23,625	571,106	627,242	241,872	869,114	814,886
General and administrative	291	10,178	142,202	152,671	45,150	197,821	188,560
Management fees	-	-	164,564	164,564	69,368	233,932	243,040
Development corporation fee	-	-	940,808	940,808	-	940,808	1,047,020
Maintenance	20,214	24,340	471,836	516,390	207,066	723,456	663,562
Insurance	-	-	223,945	223,945	73,035	296,980	296,737
Audit fees	-	-	13,650	13,650	12,696	26,346	41,142
Air rights expense	-	-	302,885	302,885	-	302,885	435,897
Pilot and other taxes	-	-	3,469	3,469	22,611	26,080	24,859
Asset management fees	-	-	62,020	62,020	-	62,020	66,680
Utilities	38,222	29,347	357,598	425,167	153,440	578,607	555,017
Security contract	5,296	4,485	60,772	70,553	26,125	96,678	91,785
Bad debt expense	-	98,418	-	98,418	-	98,418	20,800
Total operating expenses	96,534	190,393	3,424,167	3,711,094	851,363	4,562,457	4,609,281
Other expenses							
Interest expense, operating		548	1,612,656	1,613,204	364,403	1,977,607	2,027,303
Depreciation and amortization	-	-	1,133,307	1,133,307	319,639	1,452,946	1,447,072
Total other expenses	-	548	2,745,963	2,746,511	684,042	3,430,553	3,474,375
Total expenses	96,534	190,941	6,170,130	6,457,605	1,535,405	7,993,010	8,083,656
OPERATING INCOME (LOSS)	-	380,873	(77,105)	303,768	(724,022)	(420,254)	(430,072)
NON-OPERATING REVENUE (LOSS)							
Investment income	-	-	21,531	21,531	2,092	23,623	14,016
Total non-operating revenue	-	-	21,531	21,531	2,092	23,623	14,016
NET INCOME (LOSS)	$ -	$ 380,873	$ (55,574)	$ 325,299	$ (721,930)	$ (396,631)	$ (416,056)

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
SELECTED LINE ITEM DETAIL
Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan 2018	The Metropolitan 2017
Accounts receivable and other assets				
Resident tenant receivables	$ -	$ 5,534	$ 5,534	$ 76,353
Montgomery County receivable	-	96,534	96,534	89,665
Prepaid expenses	-	13,525	13,525	-
Prepaid insurance	22,490	52,476	74,966	73,241
Prepaid mortgage insurance	18,713	78,664	97,377	100,096
Other receivables	-	965	965	838
Other assets	-	43,856	43,856	-
Allowance for doubtful accounts	-	(27)	(27)	(14,384)
Total accounts receivable and other assets	$ 41,203	$ 291,527	$ 332,730	$ 325,809
Restricted deposits				
Mortgage escrow	$ 16,144	$ 68,128	$ 84,272	$ 81,515
Renovation escrow	-	6,071	6,071	6,071
Other reserve	-	725,000	725,000	725,000
Replacement reserve	142,962	31,816	174,778	246,023
Total restricted deposits	$ 159,106	$ 831,015	$ 990,121	$ 1,058,609
Accounts payable and accrued liabilities				
Accounts payable	$ 25,790	$ 40,787	$ 66,577	$ 38,780
Accrued salaries and benefits	16,078	20,977	37,055	28,024
Accrued expenses	14,366	49,113	63,479	80,233
Total accounts payable and accrued liabilities	$ 56,234	$ 110,877	$ 167,111	$ 147,037
Customer deposits payable				
Customer deposits	$ 32,986	$ 212,542	$ 245,528	$ 259,605
Accrued interest on customer deposits	8,470	16,373	24,843	25,332
Total customer deposits payable	$ 41,456	$ 228,915	$ 270,371	$ 284,937

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
SELECTED LINE ITEM DETAIL
Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan 2018	The Metropolitan 2017
Dwelling rental revenue				
Gross potential tenant rent	$ 780,533	$ 6,803,775	$ 7,584,308	$ 7,579,268
Gross potential subsidy rent	(5,907)	(463,072)	(468,979)	(422,169)
Concessions	-	(26,743)	(26,743)	(26,754)
Total dwelling rental revenue	774,626	6,313,960	7,088,586	7,130,345
Other income				
Tenant charges	$ 16,062	$ 211,074	$ 227,136	$ 261,606
Parking	16,629	226,853	243,482	249,005
Miscellaneous income	4,066	9,486	13,552	12,628
Total other income	$ 36,757	$ 447,413	$ 484,170	$ 523,239
Administrative				
Salaries and related expenses	$ 125,561	$ 322,672	$ 448,233	$ 416,052
Telephone	-	20,721	20,721	18,420
Office supplies and expenses	3,969	39,876	43,845	55,910
Professional fees	843	11,729	12,572	15,140
Accounting and auditing fees	12,696	13,650	26,346	41,142
Property management fees	69,368	164,564	233,932	243,040
Licenses and fees	4,130	10,958	15,088	27,979
Tenant security deposit interest expense	482	-	482	501
Advertising	-	109,312	109,312	119,296
Program supplies	14,760	-	14,760	13,604
Miscellaneous administrative expenses	20,966	69,386	90,352	57,006
Total administrative	$ 252,775	$ 762,868	$ 1,015,643	$ 1,008,090
Utilities				
Water	$ 43,727	$ 118,873	$ 162,600	$ 174,757
Electricity	73,092	215,319	288,411	271,857
Gas	24,551	57,286	81,837	72,298
Trash removal	12,070	33,689	45,759	36,105
Total utilities	$ 153,440	$ 425,167	$ 578,607	$ 555,017

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
SELECTED LINE ITEM DETAIL
Year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan 2018	The Metropolitan 2017
Maintenance				
Salaries and related expenses	$ 66,222	$ 175,913	$ 242,135	$ 230,386
Repair and grounds contracts	149,687	419,410	569,097	455,077
Appliances	19,001	12,968	31,969	24,309
Repairs materials and supplies	38,378	84,012	122,390	184,176
Total maintenance	$ 273,288	$ 692,303	$ 965,591	$ 893,948
Other expenses				
Security	$ 26,125	$ 70,553	$ 96,678	$ 91,785
Insurance - property	44,462	103,745	148,207	144,034
Mortgage insurance	28,573	120,200	148,773	152,703
Real estate taxes	22,311	3,470	25,781	21,090
Asset management fee	-	62,020	62,020	66,680
Development corporation fee	-	940,808	940,808	1,047,020
Capital lease payment	-	302,885	302,885	435,897
Other taxes and fees	300	-	300	3,769
Total other expenses	$ 121,771	$ 1,603,681	$ 1,725,452	$ 1,962,978

THE METROPOLITAN

(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)

COMBINING SCHEDULE OF INTERFUND BALANCE

June 30, 2018 (with comparative amounts at June 30, 2017)

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	Eliminations	The Metropolitan 2018	The Metropolitan 2017
Intercompany receivable	$ -	$ 11,693,996	$ -	$ 11,693,996	$ 11,160,514
Operating deficit advances	(11,693,996)	-	(165,000)	(11,858,996)	(11,325,514)
Due to/from HOC central cash	(480,323)	(5,247)	-	(485,570)	(500,970)
Interfund (payable) receivable	$ (12,174,319)	$ 11,688,749	$ (165,000)	$ (650,570)	$ (665,970)

THE METROPOLITAN
(A Combination of Metropolitan Development Corporation and Metropolitan of Bethesda Limited Partnership)
NET ASSETS - CONSOLIDATING FUND BASIS
June 30, 2018 (with comparative amounts at June 30, 2017)

	Metropolitan of Bethesda Limited Partnership	Metropolitan Development Corporation	The Metropolitan 2018	The Metropolitan 2017
Net assets (deficit)				
Investment in capital assets net of related debt	$ (801,541)	$ (5,781,602)	$ (6,583,143)	$ (5,953,417)
Restricted net assets	159,682	831,752	991,434	1,061,873
Unrestricted surplus (deficit)	(12,265,977)	16,924,021	4,658,044	4,354,510
Total net assets	$ (12,907,836)	$ 11,974,171	$ (933,665)	$ (537,034)