Wheaton Metro Development Corporation

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

June 30, 2019 and 2018

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Wheaton Metro Development Corporation

Index

Independent Auditor's Report

To Management
Wheaton Metro Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Wheaton Metro Development Corporation, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, 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.

Auditor's 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 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 financial position of Wheaton Metro 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The June 30, 2019 and 2018 accompanying supplementary information on pages 16 to 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Baltimore, Maryland
November 12, 2019

Wheaton Metro Development Corporation

Balance Sheets
June 30, 2019 and 2018

Assets

	2019	2018
Current assets		
Cash and cash equivalents	$ 115,164	$ 13,345
Advance to affiliate	1,668,971	1,669,494
Accounts receivable and other assets, net of allowance	101,652	116,702
Total current assets	1,885,787	1,799,541
Restricted cash and cash equivalents available for current liabilities		
Customer deposits	72,712	66,177
Restricted cash and cash equivalents	490,990	455,653
Total restricted cash and cash equivalents for current liabilities	563,702	521,830
Non-current assets		
Rental property, net of accumulated depreciation	26,698,742	27,529,572
Deferred charges, net of accumulated amortization	8,556	11,871
Prepaid expenses	91,019	94,104
Total non-current assets	26,798,317	27,635,547
Total assets	$ 29,247,806	$ 29,956,918

Wheaton Metro Development Corporation

Balance Sheets
June 30, 2019 and 2018

Liabilities and Net Assets

	2019	2018
Current liabilities		
Accounts payable and accrued liabilities	$ 77,085	$ 63,449
Mortgage payable - current	486,812	465,431
Accrued interest payable	110,326	112,072
Total current liabilities	674,223	640,952
Current liabilities payable from restricted cash and cash equivalents		
Customer deposit payable	71,124	65,535
Non-current liabilities		
Mortgage payable, net of unamortized debt issuance costs of $626,290 and $647,520 and net of current maturities	28,307,244	28,772,827
Loan payable to Montgomery County, MD	2,984,721	2,984,721
Loans payable to Housing Opportunities Commission of Montgomery County, MD	1,379,283	1,379,283
Developer fee payable	3,273,051	3,273,051
Accrued interest payable	720,441	624,969
Total non-current liabilities	36,664,740	37,034,851
Total liabilities	37,410,087	37,741,338
Total net assets	(8,162,281)	(7,784,420)
Total liabilities and net assets	$ 29,247,806	$ 29,956,918

See Notes to Financial Statements.

Wheaton Metro Development Corporation

Statements of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenue		
Dwelling rental	$ 2,442,970	$ 2,410,775
Commercial rental	124,425	119,559
Other income	9,388	10,139
Total operating revenue	2,576,783	2,540,473
Operating expenses		
Administration	299,585	326,448
Maintenance	311,220	318,836
Bad debt	1,202	7,766
Depreciation and amortization	937,124	936,204
Utilities	67,326	55,975
Fringe benefits	58,931	60,145
Interest expense	1,453,380	1,473,900
Other	230,370	255,460
Total operating expenses	3,359,138	3,434,734
Operating loss	(782,355)	(894,261)
Nonoperating revenues		
Investment income	7,210	4,264
Net loss	$ (775,145)	$ (889,997)

See Notes to Financial Statements.

Wheaton Metro Development Corporation

Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

Balance, July 1, 2017	$ (6,894,423)
Net loss	(889,997)
Balance, June 30, 2018	(7,784,420)
Contributions	397,284
Net loss	(775,145)
Balance, June 30, 2019	$ (8,162,281)

See Notes to Financial Statements.

Wheaton Metro Development Corporation

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net loss	$ (775,145)	$ (889,997)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	937,124	936,204
Amortization of debt issuance costs	21,230	21,230
(Increase) decrease in assets		
Accounts receivable and other assets	18,135	(10,381)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	13,636	(32,585)
Accrued interest payable	93,726	93,804
Customer deposits payable, net	(946)	2,676
Net cash provided by operating activities	307,760	120,951
Cash flows from investing activities		
Decrease (increase) in interfund receivable	523	(1,478)
(Increase) decrease in restricted cash and cash	(35,337)	31,322
Purchases of property and equipment	(102,979)	-
Net cash (used in) provided by investing activities	(137,793)	29,844
Cash flows from financing activities		
Payments on mortgage payable	(465,432)	(444,987)
Contributions	397,284	267,835
Net cash used in financing activities	(68,148)	(177,152)
Net decrease in cash and cash equivalents	101,819	(26,357)
Cash and cash equivalents, beginning	13,345	39,702
Cash and cash equivalents, ending	$ 115,164	$ 13,345
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,338,424	$ 1,358,866

See Notes to Financial Statements.

Note 1 - Organization

Wheaton Metro Development Corporation (the "Corporation") was formed as a non-stock corporation under the laws of the state of Maryland on October 1, 2003. The Corporation was formed for the purpose of operating a housing property consisting of 120 market-rate units, two retail units, and a parking garage for persons of low-and moderate income located in Wheaton, Maryland (the "Project").

On January 1, 2009, Wheaton Metro Limited Partnership (the "Partnership") assigned 120 market-rate units, two retail units and a parking garage, which is part of MetroPointe Apartments, to the Corporation, along with related assets and liability balances as of that date.

Note 2 - Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable and bad debts

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of June 30, 2019 and 2018, the allowance was $259 and $0, respectively.

Rental property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used:

	Method	Estimated useful lives
Buildings and improvements	Straight-line	40 years
Land improvements	Straight-line	15 years
Furniture and equipment	Straight-line	5 years

Impairment of long-lived assets

The Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether 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. No impairment loss has been recognized during the year ended June 30, 2019.

Debt issuance costs
Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related mortgage.

Deferred charges
Costs related to obtaining commercial tenants of $30,640 are being amortized over the life of the leases, which ranged from 9-10 years. Amortization expense for the years ended June 30, 2019 and 2018 was $3,315 and $3,315, respectively. Accumulated amortization as of June 30, 2019 and 2018 was $22,084 and $18,769, respectively. Estimated amortization expense for each of the ensuing years through June 30, 2021 is $3,315 and estimated amortization expense for the year ended June 30, 2022 is $1,926.

Income taxes
The Corporation is a component unit of The Housing Opportunities Commission of Montgomery County, Maryland (the "Commission") and is therefore exempt from income taxation. Accordingly, the financial statements do not include a provision for income taxes.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. Management has determined whether any tax positions have met the recognition threshold and has measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. As of June 30, 2019, returns for the tax years 2016 through 2018 generally remain subject to examination by taxing authorities.

Rental income
Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and tenants of the property are operating leases.

Commercial lease income is recognized as earned in accordance with the respective lease terms. GAAP requires commercial lease income to be recognized on a straight-line basis over the terms of the respective leases. Rental income recorded on the straight-line method in excess of the rents billed is recognized as deferred rent asset.

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

Cash and cash equivalents
Short-term liquid investments with original maturities of less than three months are considered to be cash equivalents. As of June 30, 2019, there were no cash equivalents.

Note 3 - Restricted cash and cash equivalents

Replacement reserve
In accordance with the Regulatory Agreement with the Commission, disbursements from the reserve for replacement for the purpose of maintenance, improvements, or renovations of the Project cannot be made without prior consent of the Commission. The reserve for replacement is pooled with other properties that are controlled by the Commission and deposited with Montgomery

County, Maryland. The Corporation is required to deposit $2,500 monthly in accordance with the Regulatory Agreement. As of June 30, 2019 and 2018, the balance in the reserve was $169,934 and $137,418, respectively.

Renovation reserve

The Corporation has an additional renovation reserve to be used to fund capital improvements or major repairs. As of June 30, 2019 and 2018, the balance in the reserve was $245,939 and $244,107, respectively.

Mortgage escrow

Under the agreements with the affiliate of the Commission, the Corporation is required to make monthly escrow deposits for mortgage insurance. As of June 30, 2019 and 2018, the escrow was $75,117 and $74,128, respectively.

Note 4 - Rental property

Property held by the Corporation at June 30, 2019 and 2018 consists of the following:

	2019	2018
Land	$ 1,428,020	$ 1,428,020
Buildings and improvements	33,650,146	33,560,986
Land improvements	1,292,638	1,292,638
Furniture and equipment	347,737	333,918
Leasehold improvements	68,784	68,784
Accumulated depreciation	(10,088,583)	(9,154,774)
	$ 26,698,742	$ 27,529,572

Note 5 - Mortgage payable

The Corporation assumed the obligations from the Partnership mortgage obtained for financing the construction of the Project in connection with the issuance, by an affiliate of the Commission, of Housing Development Bonds, 2006 Series A, in an aggregate amount not to exceed $33,380,000. The loan converted to permanent financing in January 2009, at which time monthly payments of principal and interest in the amount of $150,064 commenced. The loan bears interest at 4.50% and matures on January 1, 2049. The Project serves as collateral for the loan. As of June 30, 2019 and 2018, the mortgage payable was $29,420,346 and $29,885,778, respectively, and accrued interest was $110,326 and $112,072, respectively.

As discussed in Note 2, debt issuance costs, net of accumulated amortization, totaled $626,290 and $647,520 as of June 30, 2019 and 2018, respectively, and are related to the mortgage payable. Debt issuance costs on the above mortgage are being amortized using an imputed rate of 4.76%. For the years ended June 30, 2019 and 2018, amortization expense related to debt issuance costs was $21,230 and $21,230, respectively, and is included in interest expense in the statements of operations.

Aggregate maturities of the mortgage payable for the five years following June 30, 2019 and every five years thereafter are as follows:

2020	$ 486,812
2021	509,176
2022	532,568
2023	557,034
2024	582,624
2025-2029	3,340,060
2030-2034	4,181,073
2035-2039	5,233,850
2040-2044	6,551,712
2045-2049	7,445,437
	$ 29,420,346

Note 6 - Note payable to Montgomery County, MD

In 2009, the Corporation assumed the obligations of a note payable to Montgomery County, Maryland in the amount of $2,984,721. The note is collateralized by the Project. Beginning March 31, 2016, the note bears interest at a rate of 1% per annum and annual payments of principal and interest are due in an amount equal to the lesser of 50% of debt service cash flow as defined in the loan note or the amount which when applied first to interest and then to principal will amortize the loan over its then remaining term. The loan matures on April 1, 2046. As of June 30, 2019 and 2018, the outstanding principal balance and accrued interest was $2,984,721 and $2,984,721 and $97,004 and $67,157, respectively. There was no cash flow available for debt service payment at June 30, 2019 and 2018.

Note 7 - Related party transactions

Loan payable to the Housing Opportunities Commission of Montgomery County, MD

The Corporation obtained financing from the Commission, an affiliate of the Corporation. The original amount of the loan was $486,138 and total additional principal advances cannot exceed $1,250,000. Total advances by the Commission were $1,250,000 and the loan is collateralized by the Project. Annual payments of 50% of net cash flow, as defined in the deed of trust note, are due commencing on July 1, 2010. The loan bears interest at 5.25% per annum and matures on July 1, 2039. As of June 30, 2019 and 2018, the outstanding principal balance and accrued interest was $1,250,000 and $1,250,000 and $623,437 and $557,812, respectively. There was no cash flow available for debt service payment at June 30, 2019 and 2018.

In accordance with the commission resolution dated November 2, 2011, the Opportunity Housing Reserve Fund advanced $129,283 to the Project to fund payment of debt issuance costs. The advance does not bear interest and is payable from available net cash flow in accordance with the commission resolution. As of June 30, 2019 and 2018, $129,283, remains payable and there was no net cash flow available for repayment.

Developer fee payable

The Corporation entered into a development agreement with the Commission and Bozzuto Development Company, an unrelated party ("Developers") for services relating to the development of the Project. The Developers earned a developer fee of $5,694,506. The developer fee is payable from available net cash flow in accordance with the development agreement. As of June 30, 2019 and 2018, $3,273,051, remains payable, and there is no cash flow available for repayment.

Advances to affiliate
The Corporation made advances to affiliates which do not bear interest and are due on demand. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. As of June 30, 2019 and 2018, $1,668,971 and $1,669,494, respectively, were due to the Corporation.

Asset management fee
Pursuant to Section 7 of the Asset Management Fee Agreement (the "Agreement"), the Corporation agreed to pay an annual asset management fee to the Commission equal to the proportionate share of the asset management agent's indirect overhead expense attributable to the Project for the preceding year as determined annually as part of the asset management agent's annual budget. The Agreement expired December 31, 2010 and renews automatically without notice. For each of the years ended June 30, 2019 and 2018, asset management fees of $8,680, were incurred and paid.

Note 8 - Property management fee

The Corporation has an agreement with Bozzuto Management Company, an unrelated party, to provide property management services, effective July 1, 2016 through July 1, 2019. The agreement provided for a fee of 3.5% of gross revenues per month. Management fees charged to operations under this agreement for the years ended June 30, 2019 and 2018 were $94,387 and $88,789, respectively.

Note 9 - Net assets

The Commission, the Corporation's principal investor, is required to report on a fund basis. The Corporation, therefore has reported net assets on a fund balance to conform to the Commission's presentation. This presentation does not conform with generally accepted accounting principles, but is not materially different. Below is a summary of the Corporation's net assets as of June 30, 2019 and 2018:

	2019	2018
Investment in capital assets, net	$ (10,358,659)	$ (9,993,261)
Restricted net assets	492,578	456,295
Unrestricted net assets	1,703,800	1,752,546
	$ (8,162,281)	$ (7,784,420)

Note 10 - Rental income under operating leases

The Project has commercial leases that expire on various dates between December 2022 and May 2029. The following is a schedule of minimum future rental income on noncancelable operating leases for each of the next five years and thereafter as of June 30, 2019:

June 30, 2020	$	103,927
2021		105,649
2022		107,500
2023		78,746
2024		48,490
Thereafter		252,848
	$	697,160

For the year ended June 30, 2019, the Corporation's rent receipts required under the lease terms was $113,255.

Note 11 - Concentration of credit risk

The Corporation, at times, will have cash in banking institutions in excess of the $250,000 insured by the Federal Deposit Insurance Corporation ("FDIC"). Cash balances in excess of the FDIC insured amounts are collateralized with the Federal Reserve Bank and, therefore, are not at risk.

Note 12 - Financial dependency

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. The Corporation has operating expenses and debt service in excess of operating income in recent years. If sufficient cash flow from operations cannot be attained, the Corporation will continue to be financially dependent on the Commission, who has agreed to continue funding deficits as needed. The Commission has committed to fund any shortfall in operating cash flow as necessary for a period no less than one year following the issuance of these financial statements.

Note 13 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through November 12, 2019 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Supplementary Information

Wheaton Metro Development Corporation

Selected Line Item Detail
Years Ended June 30, 2019 and 2018

	2019	2018
Administration		
Marketing and lease-up	$ 39,768	$ 50,490
Contract administration salary	77,815	76,882
Contract bonus/commission	15,037	23,944
Contract management fee	94,387	88,789
Miscellaneous operating expenses	1,671	3,123
Postage	958	1,008
Printing/reproduction	3,230	2,962
Office supplies	930	1,021
Auditing services	11,720	19,900
Legal services	3,492	3,009
Other operating professional services	216	201
Credit check services	2,622	3,168
Telephone	15,705	15,003
Software	19,597	12,864
Rental license fees	91	10,657
Bank fees	992	1,179
Resident gifts	4,101	4,047
Miscellaneous program supplies	5,499	6,481
Security deposit interest	794	904
Cable charges	960	566
Resident service fees	-	250
Total administration expenses	$ 299,585	$ 326,448
Maintenance		
Contract maintenance salary	$ 131,152	$ 124,471
Electrical supplies	7,437	5,063
Appliance supplies	3,009	2,810
Plumbing supplies	2,931	2,762
Employee uniforms	828	377
Cleaning and janitorial supplies	2,232	1,620
Windows and glass	2,419	2,476
Doors	5,066	1,665
Hardware supplies	841	1,378
Locks and keys	1,729	1,614
HVAC supplies	3,143	1,964
Flooring and carpeting	5,428	5,681
Paint and wall coverings	231	367
Miscellaneous supplies	435	189
Miscellaneous equipment	-	2,582
Kitchen and bath supplies	-	474
Appliance equipment	2,382	392
Plumbing contracts	4,473	2,766
Cleaning and janitorial contracts	34,876	21,860
Grounds and landscaping contracts	7,970	7,865
HVAC contracts	12,813	10,526
Paint and wall coverings contracts	22,680	25,541
Flooring and carpeting contracts	20,532	34,513
Elevator contracts	8,180	8,270

Wheaton Metro Development Corporation

Selected Line Item Detail
Years Ended June 30, 2019 and 2018

	2019	2018
Exterminating contracts	3,054	4,808
Asphalt/concrete contracts	3,261	3,420
Snow removal contracts	896	1,514
Miscellaneous contracts	13,803	41,429
Roofing materials	6,069	-
Electrical contracts	3,350	-
Plumbing contracts	-	439
Total maintenance expenses	$ 311,220	$ 318,836
Utilities		
Water	$ 6,998	$ 1,837
Electric	50,688	44,403
Trash collection	9,640	9,735
Total utility expenses	$ 67,326	$ 55,975
Fringe benefits		
Contract managed benefits	$ 57,071	$ 58,215
Contract employee appreciation	1,594	1,575
Contract other training	266	355
Total fringe benefits	$ 58,931	$ 60,145
Other		
Mortgage insurance	$ 148,526	$ 150,757
Other taxes	2,882	2,860
Property insurance	49,831	67,264
Water quality protection charge	2,545	2,543
Security contracts	17,906	23,356
Asset management fee	8,680	8,680
Total other expenses	$ 230,370	$ 255,460

See Independent Auditor's Report.

Wheaton Metro Development Corporation

Cash Flow and Distribution
Year Ended June 30, 2019

Operating revenue	$ 2,576,783
Additions (deductions)	
Change in accounts receivable	3,703
Change in prepaid rent	1,165
	2,581,651
Operating expenses	(3,359,138)
(Additions) Deductions	
Change in accounts payable	4,787
Change in prepaid expenses	11,347
Change in accrued expenses	7,681
Depreciation and amortization	937,124
Amortization of debt issuance costs	21,230
Required reserve deposits, net of approved withdrawals	35,337
Scheduled debt service	(465,431)
	(2,807,063)
Cash shortfall	$ (225,412)
Order of distribution	
First - the lesser of 50% of remaining cash flow or amortizing principal and interest payment amount to the County Loan	$ -
Second - 50% of the remaining cash flow to pay the HOC LOC	-
Total distributable cash flow	$ -

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