

**W.C. AND A.N. MILLER DEVELOPMENT COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990**

---

## TABLE OF CONTENTS

---

	<u>P a g e</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
EXHIBIT A - Consolidated Balance Sheet	2
September 30, 1991 and 1990	
EXHIBIT B - Consolidated Statement of Income and Retained Earnings	3
For the Years Ended September 30, 1991 and 1990	
EXHIBIT C - Consolidated Statement of Cash Flows	4 - 5
For the Years Ended September 30, 1991 and 1990	
NOTES TO FINANCIAL STATEMENTS	6 - 11
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SUPPLEMENTAL INFORMATION	12
COMMENTS	13 - 15
SCHEDULE 1 - Investment Property - Net Rental Income	16
For the Years Ended September 30, 1991 and 1990	
SCHEDULE 2 - Net Operating Income	17
For the Years Ended September 30, 1991 and 1990	



***Bond, Beebe, Barton & Muckelbauer, P.C.***

---

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

---

The Board of Directors  
W.C. and A.N. Miller  
Development Company  
4315 50th Street, N.W.  
Washington, D.C. 20016

We have audited the accompanying consolidated balance sheet of W.C. and A.N. Miller Development Company as of September 30, 1991 and 1990 and the related consolidated statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of W.C. and A.N. Miller Development Company as of September 30, 1991 and 1990, and the consolidated results of its operations and its consolidated cash flows for the years then ended in conformity with generally accepted accounting principles.

*Bond, Beebe, Barton + Muckelbauer, P.C.*

December 10, 1991

*Certified Public Accountants  
5301 Wisconsin Avenue, NW  
Washington, DC 20015  
202/244-6500  
Fax: 202/244-6506*

*Members American Institute of  
Certified Public Accountants*

W.C. AND A.N. MILLER DEVELOPMENT COMPANY  
CONSOLIDATED BALANCE SHEET  
SEPTEMBER 30, 1991 AND 1990

ASSETS

REAL ESTATE - At cost	1991	1990	Increase (Decrease)
Investment property	\$ 19,583,367	\$ 18,317,237	\$ 1,266,130
Accumulated depreciation	(5,460,818)	(5,150,072)	310,746
	14,122,549	13,167,165	955,384
Unimproved land	7,370,719	6,741,236	629,483
	21,493,268	19,908,401	1,584,867
INVESTMENTS - Note 4	3,091,330	2,184,716	906,614
OPERATING ASSETS			
Cash and cash equivalents (\$1,162,465 and \$545,844 held in a fiduciary capacity at September 30, 1991 and 1990)	6,308,976	3,713,463	2,595,513
Accounts receivable	298,263	216,241	82,022
Income tax refunds receivable	985,211	74,000	911,211
Notes receivable	859,217	136,425	722,792
Jobs-in-progress and completed homes	3,560,243	3,206,000	354,243
Land - subdivided lots (construction not started)	9,451,420	9,488,968	(37,548)
Prepaid expenses	71,061	78,206	(7,145)
Furniture, fixtures and equipment (net of accumulated depreciation of \$1,700,799 and \$1,358,966 in 1991 and 1990)	760,787	839,547	(78,760)
Other	2,187,063	1,408,329	778,734
	24,482,241	19,161,179	5,321,062
 TOTAL ASSETS	 \$ 49,066,839	 \$ 41,254,296	 \$ 7,812,543

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1991</u>	<u>1990</u>	<u>Increase (Decrease)</u>
INVESTMENT PROPERTY LIABILITIES - Note 6			
Investment property notes payable	\$ 19,575,862	\$ 14,296,777	\$ 5,279,085
Unimproved land loan payable	<u>3,310,634</u>	<u>3,290,473</u>	<u>20,161</u>
	<u>22,886,496</u>	<u>17,587,250</u>	<u>5,299,246</u>
OPERATING LIABILITIES			
Dividends payable	36,009	36,009	-
Accounts payable	887,968	619,840	268,128
Notes payable - Note 7	17,032,300	12,750,000	4,282,300
Deferred partnership contribution	500,000	-	500,000
Deposits on contracts	1,028,643	442,288	586,355
Income tax payable	300	6,025	(5,725)
Accrued expenses	532,717	744,458	(211,741)
Escrow funds and rent deposits	<u>214,363</u>	<u>180,906</u>	<u>33,457</u>
	<u>20,232,300</u>	<u>14,779,526</u>	<u>5,452,774</u>
DEFERRED INCOME TAXES - Note 5	<u>417,052</u>	<u>668,221</u>	<u>(251,169)</u>
MINORITY INTEREST - In consolidated entities			
Sumner Development & Investment Company - Note 9	-	206,257	(206,257)
Haymount Limited Partnership	<u>121,725</u>	<u>203,977</u>	<u>(82,252)</u>
	<u>121,725</u>	<u>410,234</u>	<u>(288,509)</u>
STOCKHOLDERS' EQUITY			
Common stock - \$100 par value, 10,000 shares authorized, 8,002 shares issued and outstanding	800,200	800,200	-
Retained earnings - Exhibit B	<u>4,609,066</u>	<u>7,008,865</u>	<u>(2,399,799)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>5,409,266</u>	<u>7,809,065</u>	<u>(2,399,799)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 49,066,839</u>	<u>\$ 41,254,296</u>	<u>\$ 7,812,543</u>

W.C. AND A.N. MILLER DEVELOPMENT COMPANY  
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS  
FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990

EXHIBIT B

	Total		Increase (Decrease)
	1991	1990	
GROSS OPERATING INCOME			
Sales	\$ 6,694,596	\$ 8,051,599	\$ (1,357,003)
Commissions	6,577,347	6,012,002	565,345
Rent	5,436,967	6,018,816	(581,849)
	<u>18,708,910</u>	<u>20,082,417</u>	<u>(1,373,507)</u>
OPERATING EXPENSE			
Cost of sales and direct expense	15,415,367	15,193,512	221,855
Property taxes - rental property (net of capitalized taxes of \$-0- and \$9,845 in 1991 and 1990)	872,403	824,584	47,819
Interest	1,526,227	1,346,924	179,303
Depreciation	599,221	645,285	(46,064)
	<u>18,413,218</u>	<u>18,010,305</u>	<u>402,913</u>
NET OPERATING INCOME	295,692	2,072,112	(1,776,420)
GAIN ON SALE OF INVESTMENT PROPERTY	523,738	1,361,697	(837,959)
GAIN ON SALE OF INVESTMENT	-	86,937	(86,937)
INTEREST INCOME	200,892	48,209	152,683
PARTNERSHIP INCOME	49,690	89,140	(39,450)
MISCELLANEOUS INCOME	9,634	19,455	(9,821)
TOTAL INCOME	<u>1,079,646</u>	<u>3,677,550</u>	<u>(2,597,904)</u>
EXPENSE			
General and administrative			
Salaries and payroll expense	838,306	883,082	(44,776)
Professional and directors' fees	434,578	403,282	31,296
Interest - general	1,565,806	1,003,832	561,974
Depreciation	92,780	122,417	(29,637)
Provision for profit sharing - Note 3	-	-	-
Other	765,078	526,192	238,886
	<u>3,696,548</u>	<u>2,938,805</u>	<u>757,743</u>
Carrying charges - land			
Property taxes (net of capitalized taxes of \$-0- and \$85,846 in 1991 and 1990)	351,524	519,196	(167,672)
Other	36,050	20,820	15,230
Investment interest expense - Haymount Limited Partnership	198,080	188,422	9,658
	<u>585,654</u>	<u>728,438</u>	<u>(142,784)</u>
TOTAL EXPENSE	<u>4,282,202</u>	<u>3,667,243</u>	<u>614,959</u>
NET INCOME (LOSS) BEFORE INCOME TAXES	(3,202,556)	10,307	(3,212,863)
Income tax benefit (expense) - Note 5	1,234,865	(3,397)	1,238,262
NET INCOME (LOSS)	(1,967,691)	6,910	(1,974,601)
RETAINED EARNINGS AT BEGINNING OF YEAR	7,008,865	7,434,063	(425,198)
Dividends declared	(432,108)	(432,108)	-
RETAINED EARNINGS AT END OF YEAR	<u>\$ 4,609,066</u>	<u>\$ 7,008,865</u>	<u>\$ (2,399,799)</u>

**W.C. AND A.N. MILLER DEVELOPMENT COMPANY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990**

EXHIBIT C

CASH FLOWS FROM OPERATING ACTIVITIES	1991	1990
Net income (loss)	\$ (1,967,691)	\$ 6,910
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	709,737	782,599
Partnership net income	(49,690)	(89,140)
Partnership distributions	143,076	201,304
Provision for deferred income taxes	(251,169)	73,823
Gain on sale of investment property	(523,738)	(1,361,697)
Gain on sale of investments	-	(86,937)
Loss on disposal of equipment	27,250	15,045
Land and land development costs of lots sold	530,088	554,588
Changes in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable	(82,022)	(15,753)
Income tax refund receivable	(911,211)	(74,000)
Notes receivable	(722,792)	(131,425)
Cost of completed homes and jobs-in-progress	(354,243)	(257,931)
Other operating assets	(771,589)	(412,612)
Increase (decrease) in		
Accounts payable	268,128	203,757
Deferred partnership contribution	500,000	-
Deposits on contracts	586,355	(655,259)
Income tax payable	(5,725)	(401,742)
Other operating liabilities	(178,284)	(36,165)
	<u>(3,053,520)</u>	<u>(1,684,635)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions and improvements to investment property	(1,877,875)	(1,882,470)
Land development costs incurred	(1,124,152)	(3,172,484)
Investments acquired	(1,000,000)	-
Equipment purchased	(212,912)	(183,398)
Proceeds from sale of equipment	5,639	9,900
Proceeds from sale of investment property	997,405	1,837,992
Proceeds from sale of investments	-	794,364
	<u>(3,211,895)</u>	<u>(2,596,096)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from investment property notes payable	6,611,390	281,370
Proceeds from unimproved land note	72,713	180,708
Proceeds from operating notes payable	4,282,300	10,000,000
Payments on investment property notes payable	(1,332,305)	(704,404)
Payments on unimproved land note	(52,553)	(3,941)
Payments on operating notes payable	-	(3,029,730)
Increase (decrease) in minority interests	(288,509)	24,360
Dividends paid	(432,108)	(432,108)
	<u>8,860,928</u>	<u>6,316,255</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS - Forward</b>	<u>2,595,513</u>	<u>2,035,524</u>

# CONSOLIDATED STATEMENT OF CASH FLOWS

EXHIBIT C

	<u>1991</u>	<u>1990</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Forwarded	\$ 2,595,513	\$ 2,035,524
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,713,463</u>	<u>1,677,939</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,308,976</u>	<u>\$ 3,713,463</u>

## SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 3,300,034	\$ 2,557,991
Cash paid for income taxes	\$ 30,300	\$ 407,511



**W.C. AND A.N. MILLER DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990**

---

**NOTE 1: GENERAL BACKGROUND**

The consolidated financial statements include the accounts of W.C. and A.N. Miller Development Company and all of its wholly-owned subsidiaries and majority owned ventures (the Company). Intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements include the accounts of the following companies which have a year-end of September 30:

	<u>Form of Entity</u>	<u>Percentage of Ownership</u>
Bethesda Two Corporation	Corporation	100%
Haymount Corporation	Corporation	100%
F&R Corporation of Virginia	Corporation	100%
Spring Valley Liquor Corporation	Corporation	100%
Haymount Limited Partnership	Partnership	85%
Sumner Development & Investment Company - Note 9	Partnership	85%

W.C. and A.N. Miller Development Company and its subsidiaries are primarily engaged in real estate development, construction of residential homes, brokerage sales, investment property rental and property management. Spring Valley Liquor Corporation, which commenced operations August 31, 1991, is involved in the operation of a retail store.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are presented on the accrual basis of accounting and the Company utilizes the following accounting policies:

**Depreciation**

The Company primarily uses straight-line depreciation methods.

**Investment Property**

Investment property is carried at cost less accumulated depreciation.

**Inventory**

The Company's unimproved land is carried at historical cost. Completed homes and jobs-in-progress are carried at cost determined under the specific cost method of accounting including a provision for construction and development overhead, interest and real estate taxes. Income on lot and home sales is recognized at settlement.

**Real Estate Tax, Insurance and Interest Expense**

The Company expenses property taxes when levied except those capitalized as part of inventory, investment property during construction, and subdivided lots. Insurance premiums for policy periods of one year or less on the date the policy becomes effective are expensed as incurred. Interest expense during the construction period of new homes, investment property and land development is capitalized.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

#### Income Taxes

Deferred income taxes are provided for differences in timing in reporting income for financial statement and tax purposes arising from different methods of accounting for depreciation and rental income. Accelerated depreciation available under the accelerated cost recovery system is used for tax reporting and straight-line depreciation is used for financial statement reporting. Rental income is recognized when received for tax purposes and on the accrual basis for financial statements. The provision for deferred income taxes is computed under the liability method whereby deferred income tax expense is recognized for the net change during the year in the Company's deferred tax liability. The liability is computed at the rates expected to be in effect when the temporary differences reverse.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

#### Revenue Recognition - Rent Concessions

In response to market conditions in the commercial real estate industry, the Company may provide concessions in the form of rent abatement to certain new tenants. For leases incurred after October 1, 1990, the Company's accounting policy is to recognize rent concessions ratably over the lease term. Prior to October 1, 1990, the Company's accounting policy was to recognize rental income over the lease term as it becomes receivable according to provisions of the lease and not to recognize rental income during the rent concession period. The Company's accounting policy does not result in its financial statements being materially different from generally accepted accounting principles.

The Company's office at 4315 50th Street is included in the balance sheet as investment property. For the years ended September 30, 1991 and 1990, rent income of \$318,960 and \$306,744 attributed to this property is reflected in the consolidated income statement, with the same amount in various department expenses, with no effect on net operating income.

### NOTE 3: PROFIT SHARING PLAN

The Company sponsors a defined contribution profit sharing plan which covers all employees. The annual contribution is based on Company earnings, but may not exceed 15% of the compensation of all participants.

### NOTE 4: INVESTMENTS

Investments consist of the following at September 30:

	1990	Net Income (Loss)	Partnership Distributions	Investments Acquired	1991
Two Bethesda Metro Center Limited Partnership - At cost					
General partner	\$ 282,966	\$ (14,658)	\$ -	\$ -	\$ 268,308
Limited partner	1,839,274	(95,281)	-	-	1,743,993
F&R Limited Partnership - at cost					
General partner	-	-	-	100,000	100,000
Limited partner	-	-	-	900,000	900,000
Forward	2,122,240	(109,939)	-	1,000,000	3,012,301

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4: INVESTMENTS - continued

	1990	Net Income (Loss)	Partnership Distributions	Investments Acquired	1991
Forwarded	\$ 2,122,240	\$ (109,939)	\$ -	\$ 1,000,000	\$ 3,012,301
Tiber Island Associates (14.285% interest) - at equity	28,983	79,185	(76,328)	-	31,840
T.I. Associates Limited Partnership (7.3% interest) - at equity	33,050	80,445	(66,749)	-	46,746
Miscellaneous stock	443	-	-	-	443
	<u>\$ 2,184,716</u>	<u>\$ 49,691</u>	<u>\$ (143,077)</u>	<u>\$ 1,000,000</u>	<u>\$ 3,091,330</u>

The Company has a 15% interest in Two Bethesda Metro Center Limited Partnership. The Company's investment as a limited partner is 13% with an additional 2% interest held by the Company's wholly-owned subsidiary, Bethesda Two Corporation, as a general partner.

The Partnership originally acquired land with the intent of constructing an office building near the Bethesda Metro Center. Due to adverse market and financing conditions, the construction has been postponed. The mortgage loan secured by the land was due on December 31, 1990, and the Partnership has been negotiating for an extension or refinancing. If an extension or refinancing is not obtained, the Partnership must payoff the loan, which would require substantial additional capital investment, or face the possible loss of its land through foreclosure.

The Company has approximately a 50% interest in F&R Limited Partnership. The Company's investment as a limited partner is 45% with an additional 5% interest held by the Company's wholly-owned subsidiary, F&R Corporation of Virginia, as a general partner.

Other investments are presented at cost plus equity in undistributed earnings.

### NOTE 5: INCOME TAXES

The income tax expense (benefit) consists of the following:

	1991	1990
Current income tax (benefit)	\$ (1,301,654)	\$ (70,426)
Deferred income tax expense	66,789	73,823
Income tax expense (benefit) - Exhibit B	<u>\$ (1,234,865)</u>	<u>\$ 3,397</u>

At September 30, of the respective years, the components of the balance of deferred income taxes were:

Depreciation related	\$ 755,055	\$ 698,647
Rental income related	(8,865)	(25,070)
Contribution carryforward	(5,355)	(5,356)
Alternative minimum tax credit carryforward	(54,341)	-
Tax benefit from net operating loss carryforward	<u>(269,442)</u>	<u>-</u>
	<u>\$ 417,052</u>	<u>\$ 668,221</u>

# NOTES TO FINANCIAL STATEMENTS

## NOTE 6: INVESTMENT PROPERTY LIABILITIES

This balance consists of trust notes payable which are secured as follows:

Investment property	Terms	1991	1990
Commercial property			
Little Falls Mall	Due \$19,001 monthly including 6.75% interest, due 10-31-93	\$ -	\$ 647,866
	Due \$54,946 monthly including 10.10% interest, due 9-20-16	6,000,000	-
	Due \$272,410 annually including 6.68% interest, due 7-31-92 and 7-31-93	544,821	-
4300 Fordham Road N.W. & 4820, 4860, 4866 & 4872 Massachusetts Avenue, N.W.	Due \$14,790 monthly including 12.5% interest, balance due 6-1-93	800,128	872,595
49th & Massachusetts Avenue, N.W.	2nd trusts, 16 notes at \$10,000, due 10-1-90, 14% interest, payable quarterly	-	160,000
Sumner Apartments	Due \$39,548 monthly including 10.25% interest, balance due 12-15-98	4,457,873	4,474,575
4910 Massachusetts Avenue, N.W.	Interest only due monthly at 10 5/8% from April 1989 through March 1992. From April 1992 through February 1999 - \$73,928 due monthly including 10 5/8% interest with remaining principal due 3-1-99. Maximum available loan of \$8,000,000	7,471,371	7,471,371
Rental houses	Various	301,669	670,370
		19,575,862	14,296,777
Unimproved land			
Land - Caroline County, Virginia - Haymount Limited Partnership	Due \$1,825 monthly including 9.0% interest, balance due 6-8-97	96,912	109,464
	Due \$20,000 for five years with interest accrued at 10%, final payment due 1994	60,000	100,000
	Interest only due annually through September 1992 at 5%. Principal of \$700,000 with interest due annually for the next five years with remaining principal due September 1997	3,500,000	3,500,000
	Unamortized discount	(346,278)	(418,991)
		3,310,634	3,290,473
Total investment property liabilities		\$ 22,886,496	\$ 17,587,250

# NOTES TO FINANCIAL STATEMENTS

## NOTE 6: INVESTMENT PROPERTY LIABILITIES - continued

As of September 30, 1991, maturities on these liabilities are as follows:

Year Ended  
September 30,

1992	\$ 488,459
1993	1,853,248
1994	877,993
1995	874,840
1996	1,110,490
1997 and after	<u>18,027,744</u>
	23,232,774
Unamortized discount	<u>(346,278)</u>
	<u>\$ 22,886,496</u>

## NOTE 7: OPERATING NOTES PAYABLE

The balance of notes payable consists of the following obligations:

	<u>Terms</u>	<u>1991</u>	<u>1990</u>
Line of credit	Interest only due monthly at 1/4 of 1% above prime rate. Maximum loan of \$4,000,000, due in full November 1991 (secured by 14 Spring Valley lots)	\$ 2,800,000	\$ 2,550,000
Line of credit	Interest only due monthly at prime plus 1/2%, maximum loan \$1,500,000, due in full July 1993 - Note 8	602,300	-
Revolving credit line	Interest only due monthly at 1/2 of 1% above prime rate. Maximum loan of \$10,000,000 due in full October 1992 (secured by 44 Spring Valley lots)	10,000,000	10,000,000
Short-term loan	Due November 30, 1991 with interest at 11%	200,000	200,000
Short-term loan	Due upon profitability of Spring Valley Liquor Corporation with interest at 10%	50,000	-
Subordinated debentures	Interest only due monthly at prime, issued between January-May 1991, due one year from date of issue with one-year extension option	<u>3,380,000</u>	<u>-</u>
		<u>\$ 17,032,300</u>	<u>\$ 12,750,000</u>

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 7: OPERATING NOTES PAYABLE - continued

Maturities on these obligations are as follows:

Year Ended  
September 30,

1992	\$ 6,380,000
1993	<u>10,652,300</u>
	<u>\$ 17,032,300</u>

### NOTE 8: REVOLVING CREDIT LINES

During July 1991, the Company obtained a \$1,500,000 line of credit secured by commercial property located at 4910 Massachusetts Avenue. The line of credit is for constructing investment property and construction on lots located in the Spring Valley and Spring Meadows developments. As of September 30, 1991, \$602,300 was drawn on this line of credit.

### NOTE 9: JOINT VENTURE DISSOLUTION

During July 1991, the Company acquired the 15% minority interest in Sumner Development & Investment Company thereby dissolving the joint venture.

### NOTE 10: RESTATEMENT OF 1990 FINANCIAL STATEMENTS

Certain expenses in the consolidated income statement for the year ended September 30, 1990 have been reclassified to conform to the presentation for the year ended September 30, 1991.



---

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SUPPLEMENTAL INFORMATION

---

The Board of Directors  
W.C. and A.N. Miller  
Development Company  
4315 50th Street, N.W.  
Washington, D.C. 20016

Our audits of the consolidated financial statements of W.C. and A.N. Miller Development Company for the years ended September 30, 1991 and 1990 were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying comments and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bond, Borne, Borne + Murtell, P.C.*

December 10, 1991

**W.C. AND A.N. MILLER DEVELOPMENT COMPANY**  
**COMMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990**

Presented below are analyses of certain assets and liabilities and a summary of gross profit on new homes and lots.

**Real Estate**

The detail of investment property is presented in Schedule 1.

Unimproved parcels of land are as follows:

**Maryland**

	<u>1991</u>	<u>1990</u>
Capitol Heights, Prince Georges County - 135,968 square feet	\$ 200,304	\$ 202,433
Other tracts, Montgomery County - 4.9 acres	<u>72,024</u>	<u>72,024</u>
	272,328	274,457

**Virginia**

Caroline County - 1,600 acres - Haymount Limited Partnership	6,945,828	6,314,216
Fauquier County - 359.8582 acres	<u>152,563</u>	<u>152,563</u>
	<u>\$ 7,370,719</u>	<u>\$ 6,741,236</u>

**Accounts Receivable**

Rents due and accrued	\$ 70,822	\$ 50,286
Miscellaneous	<u>64,373</u>	<u>62,820</u>
	135,195	113,106
Estimated uncollectible accounts	<u>-</u>	<u>(4,537)</u>
	135,195	108,569
Officers and employees	133,316	107,672
Settlements receivable from title companies	<u>29,752</u>	<u>-</u>
	<u>\$ 298,263</u>	<u>\$ 216,241</u>

**Jobs-in-Progress and Completed Homes**

The following schedule details the number of homes in progress and completed at September 30:

**Construction status**

Jobs-in-progress	8	5
Completed homes	<u>1</u>	<u>2</u>
	<u>9</u>	<u>7</u>

Additionally, at September 30, 1991, the Company has a home available for sale which was acquired in trade at a cost of \$388,074.



## COMMENTS

### Land - Subdivided Lots

Land subdivided into lots includes the cost of subdivided land together with certain ground improvements. Costs, sufficient to cover the contemplated ground improvements, have been estimated. A pro rata portion of the land and improvements is charged against the job cost as development starts. Interest and real estate taxes during improvement, development and construction stages are included in the cost of subdivided lots.

The following schedule indicates lots, by location, as of September 30:

Subdivision	1991		1990	
	Number of Lots	Cost	Number of Lots	Cost
Spring Valley	110	\$ 6,678,286	116	\$ 6,902,045
Spring Meadows	97	2,773,134	100	2,586,923
	207	\$ 9,451,420	216	\$ 9,488,968

### Furniture, Fixtures and Equipment (Net)

	1991		1990	
	Cost	Accumulated Depreciation	Book Value	Book Value
Office furniture, fixtures and equipment	\$ 1,393,761	\$ 896,992	\$ 496,769	\$ 483,151
Trucks and automobiles	342,395	207,837	134,558	179,700
Tractors and trailers	404,937	349,702	55,235	91,676
Tools and equipment	150,199	123,643	26,556	32,754
Other fixed assets (net)	170,294	122,625	47,669	52,266
	\$ 2,461,586	\$ 1,700,799	\$ 760,787	\$ 839,547

### Other Assets

	1991	1990
Deferred leasing commission expense	\$ 404,842	\$ 331,360
Deferred charges on investment property	430,558	289,797
Deferred rent	178,370	37,001
Deferred construction costs	1,007,332	702,266
Deposits - utility and other	132,406	20,298
Organization costs (net)	33,555	27,607
	\$ 2,187,063	\$ 1,408,329

## COMMENTS

### Accrued Expenses

	1991	1990
Real estate taxes	\$ 438,680	\$ 529,117
Interest	24,266	44,187
Payroll taxes and workmen's compensation insurance accrued	14,248	96,823
Guarantee reserves	37,393	48,312
Wages and commissions	-	15,016
Other	18,130	11,003
	<u>\$ 532,717</u>	<u>\$ 744,458</u>

### Operations

An analysis of operations by department is detailed in Schedule 2.

The following summary reflects the gross profit, by subdivision, on new homes and lots sold for the years ended September 30.

	1991			1990		
	Number of Units	Sales Price	Costs Including Sales Costs	Number of Units	Sales Price	Costs Including Sales Costs
Spring Valley	4	\$ 3,208,699	\$ 2,319,786	2	\$ 1,672,073	\$ 973,219
Spring Ridge	1	425,406	387,567	2	980,889	764,474
Darnestown	2	1,410,537	1,392,884	7	4,693,361	3,203,207
Potomac Falls	-	-	-	1	705,276	646,688
	<u>7</u>	<u>5,044,642</u>	<u>\$ 4,100,237</u>	<u>12</u>	<u>8,051,599</u>	<u>\$ 5,587,588</u>
Cost of sales		<u>4,100,237</u>			<u>5,587,588</u>	
Gross profit		<u>\$ 944,405</u>	<u>18.7%</u>		<u>\$ 2,464,011</u>	<u>30.6%</u>

**W.C. AND A.N. MILLER DEVELOPMENT COMPANY**  
**INVESTMENT PROPERTY - NET RENTAL INCOME**  
**FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990**

COMMERCIAL PROPERTY	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Rental Income</u>	<u>Property Taxes</u>	<u>Insurance Repairs, Commissions and Other Expenses</u>
Spring Valley Center					
4300 Fordham Road, N.W.	\$ 189,795	\$ 160,746	\$ 234,252	\$ 28,879	\$ 32,023
4820 Massachusetts Avenue, N.W.	389,093	357,413	5,166	80,445	47,093
4860 Massachusetts Avenue, N.W.	117,827	80,970	86,936	15,915	11,553
4866 Massachusetts Avenue, N.W.	19,372	19,372	63,819	14,138	7,534
4872 Massachusetts Avenue, N.W.	205,915	156,260	6,767	33,173	116,085
Commercial parking	<u>19,181</u>	<u>19,181</u>	<u>337</u>	<u>-</u>	<u>27,899</u>
	941,183	793,942	397,277	172,550	242,187
4900 Massachusetts Avenue, N.W. and parking	1,246,982	551,272	313,035	69,488	192,406
4910 Massachusetts Avenue, N.W. and parking	7,380,955	789,792	1,560,839	279,973	582,068
4315 50th Street, N.W.	1,727,908	119,805	318,960	42,140	92,925
4301 50th Street, N.W.	1,536,503	25,451	-	68,926	16,298
14111 Seneca Road	143,783	34,537	12,000	3,141	1,090
Sumner Apartments	1,252,240	960,110	959,833	59,221	455,490
Little Falls Mall	<u>4,360,998</u>	<u>2,082,010</u>	<u>1,807,910</u>	<u>171,634</u>	<u>837,555</u>
	18,590,552	5,356,919	5,369,854	867,073	2,420,019
RENTAL HOUSES	992,815	103,899	67,113	5,330	27,283
COSTS CAPITALIZED DURING CONSTRUCTION	-	-	-	-	-
UNALLOCATED MANAGEMENT COSTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,052</u>
TOTAL - 1991	\$ 19,583,367	\$ 5,460,818	\$ 5,436,967	\$ 872,403	\$ 2,604,354
TOTAL - 1990	\$ 18,317,237	\$ 5,150,072	\$ 6,018,816	\$ 824,584	\$ 2,774,649

See Notes to Financial Statements

SCHEDULE 1

<u>Total Expense</u>	<u>1991 Net Before Interest and Depreciation</u>	<u>1990 Net Before Interest and Depreciation</u>	<u>Interest</u>	<u>Depreciation</u>	<u>1991 Profit or (Loss)</u>	<u>1990 Profit or (Loss)</u>
\$ 60,902	\$ 173,350	\$ 186,117				
127,538	(122,372)	307,257				
27,468	59,468	71,446				
21,672	42,147	56,507				
149,258	(142,491)	159,127				
27,899	(27,562)	(25,212)				
414,737	(17,460)	755,242	\$ 150,466	\$ 23,504	\$ (191,430)	\$ 616,868
261,894	51,141	18,638	7,235	23,674	20,232	(23,621)
862,041	698,798	447,437	802,529	183,404	(287,135)	(523,871)
135,065	183,895	144,497	-	43,694	140,201	100,803
85,224	(85,224)	-	-	25,451	(110,675)	-
4,231	7,769	7,902	-	5,841	1,928	951
514,711	445,122	399,487	457,874	32,148	(44,900)	(93,359)
1,009,189	798,721	692,299	34,811	96,163	667,747	551,198
3,287,092	2,082,762	2,465,502	1,452,915	433,879	195,968	628,969
32,613	34,500	21,664	46,835	13,108	(25,443)	(115,368)
-	-	9,845	17,235	-	(17,235)	213,198
157,052	(157,052)	(77,428)	-	10,048	(167,100)	(89,177)
\$ 3,476,757	\$ 1,960,210		\$ 1,516,985	\$ 457,035	\$ (13,810)	
\$ 3,599,233		\$ 2,419,583	\$ 1,206,887	\$ 445,178		\$ 637,622

**W.C. AND A.N. MILLER DEVELOPMENT COMPANY**  
**NET OPERATING INCOME**  
**FOR THE YEARS ENDED SEPTEMBER 30, 1991 AND 1990**

	<u>Construction and Development</u>	<u>Sales</u>	<u>Property Management</u>
INCOME - 1991			
Sales, commissions and rents	\$ 6,694,596	\$ 6,535,629	\$ 41,718
Cost of sales	(5,908,636)	(5,015,598)	-
Other direct expenses	(624,786)	(1,222,729)	(39,264)
Property taxes	<u>-</u>	<u>-</u>	<u>-</u>
Operating income before interest and depreciation	161,174	297,302	2,454
Interest	(9,242)	-	-
Depreciation	<u>(101,013)</u>	<u>(41,173)</u>	<u>-</u>
NET OPERATING INCOME (LOSS) - 1991	<u>\$ 50,919</u>	<u>\$ 256,129</u>	<u>\$ 2,454</u>
INCOME - 1990			
Sales, commissions and rents	\$ 8,051,599	\$ 5,969,175	\$ 42,827
Cost of sales	(5,587,588)	(4,549,319)	-
Other direct expenses	(1,050,422)	(1,196,966)	(34,568)
Property taxes	<u>-</u>	<u>-</u>	<u>-</u>
Operating income before interest and depreciation	1,413,589	222,890	8,259
Interest	-	-	-
Depreciation	<u>(150,728)</u>	<u>(59,520)</u>	<u>-</u>
NET OPERATING INCOME - 1990	<u>\$ 1,262,861</u>	<u>\$ 163,370</u>	<u>\$ 8,259</u>

Investment Property	Total
\$ 5,436,967	\$ 18,708,910
-	(10,924,234)
(2,604,354)	(4,491,133)
<u>(872,403)</u>	<u>(872,403)</u>

1,960,210	2,421,140
(1,516,985)	(1,526,227)
<u>(457,035)</u>	<u>(599,221)</u>

\$ (13,810)	\$ 295,692
-------------	------------

\$ 6,018,816	\$ 20,082,417
-	(10,136,907)
(2,774,649)	(5,056,605)
<u>(824,584)</u>	<u>(824,584)</u>

2,419,583	4,064,321
(1,346,924)	(1,346,924)
<u>(435,037)</u>	<u>(645,285)</u>

\$ 637,622	\$ 2,072,112
------------	--------------