

Providence Square Urban Renewal Associates, L.P.
D/B/A Providence Square

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

December 31, 2019 and 2018

7/23/20

Providence Square Urban Renewal Associates, L.P.
D/B/A Providence Square

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Independent Auditor's Report

To the General Partner
Providence Square Urban Renewal Associates, L.P.

We have audited the accompanying financial statements of Providence Square Urban Renewal Associates, L.P., which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in partners' equity (deficit) 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.

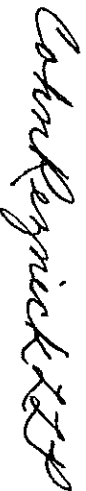
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Providence Square Urban Renewal Associates, L.P., as of December 31, 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 accompanying supplementary information on pages 18 to 20 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.



Baltimore, Maryland
April 2, 2020

**Providence Square Urban Renewal Associates, L.P.
D/B/A Providence Square**

**Balance Sheets
December 31, 2019 and 2018**

<u>Assets</u>	<u>2019</u>	<u>2018</u>	<u>Liabilities and Partners' Equity (Deficit)</u>	<u>2019</u>	<u>2018</u>
Current assets			Current liabilities		
Cash	\$ 397,271	\$ 296,041	Accounts payable	\$ 26,993	\$ 33,027
Tenant accounts receivable, net	7,343	6,103	Accrued interest payable - first mortgage	5,937	5,771
Accounts receivable - subsidy	9,391	4,391	Accrued interest payable - other mortgages	34,437	24,686
Prepaid expenses	37,178	37,144	First mortgage payable - current	1,838,653	1,912,527
Due from affiliates	757	-	Accrued real estate taxes	10,467	-
Total current assets	451,940	343,679	Total current liabilities	1,916,487	1,976,011
Restricted deposits and funded reserves			Deposits and prepaid liability		
Tenant security deposits	84,114	82,933	Tenant security deposits	84,114	82,933
Replacement reserves	50,299	8	Prepaid rent	13,265	10,385
Real estate tax and insurance escrow	42,980	67,574	Total deposits and prepaid liability	97,379	93,318
Total restricted deposits and funded reserves	177,393	150,515	Long-term liabilities		
Rental property			Mortgages payable	3,852,304	3,852,304
Buildings and improvements	10,521,279	10,521,279	Accrued interest payable - mortgages	1,283,574	1,265,400
Land improvements	123,679	123,679	Due to affiliates	16,855	-
Furniture and equipment	393,186	393,186	Total long-term liabilities	5,152,733	5,117,704
Accumulated depreciation	11,038,144	11,038,144	Partners' equity (deficit)	(2,295,256)	(2,182,939)
	(7,127,671)	(6,859,781)	Total liabilities and partners' equity (deficit)	\$ 4,871,343	\$ 5,004,094
	3,910,473	4,178,363			
Land	331,537	331,537			
Total rental property	4,242,010	4,509,900			
Total assets	\$ 4,871,343	\$ 5,004,094			

See Notes to Financial Statements.

Providence Square Urban Renewal Associates, L.P.
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Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Revenue		
Rental income	\$ 1,347,594	\$ 1,236,149
Vacancies and concessions	(12,940)	(15,739)
Other operating income	26,661	17,541
Total revenue	<u>1,361,315</u>	<u>1,237,951</u>
Operating expenses		
Salaries and employee benefits	181,988	175,571
Repairs and maintenance	206,676	218,163
Utilities	85,957	107,225
Property management fee	88,048	79,641
Real estate taxes	109,228	113,437
Property insurance	48,291	43,926
Miscellaneous operating expenses	<u>124,641</u>	<u>122,281</u>
Total operating expenses	<u>844,829</u>	<u>860,244</u>
Net operating income	<u>516,486</u>	<u>377,707</u>
Other income (expense)		
Interest income	7,275	1,755
Interest expense - mortgages	(121,016)	(119,213)
Other financial income (expense)	(25,000)	-
Local administrative fee	(2,500)	(2,500)
Depreciation	<u>(267,890)</u>	<u>(267,890)</u>
Total other income (expense)	<u>(409,131)</u>	<u>(387,848)</u>
Net income (loss)	<u>\$ 107,355</u>	<u>\$ (10,141)</u>

See Notes to Financial Statements.

Providence Square Urban Renewal Associates, L.P.
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Statements of Changes in Partners' Equity (Deficit)
Years Ended December 31, 2019 and 2018

	<u>General partner</u>	<u>Special limited partner</u>	<u>Investor limited partner</u>	<u>Total partners' equity (deficit)</u>
Balance, December 31, 2017	\$ (23,338)	\$ (2,307)	\$ (1,918,588)	\$ (1,944,233)
Net loss	(101)	(1)	(10,039)	(10,141)
Distributions	<u>(114,283)</u>	<u>(22)</u>	<u>(114,260)</u>	<u>(228,565)</u>
Balance, December 31, 2018	(137,722)	(2,330)	(2,042,887)	(2,182,939)
Net income	1,073	11	106,271	107,355
Distributions	<u>(109,836)</u>	<u>(22)</u>	<u>(109,814)</u>	<u>(219,672)</u>
Balance, December 31, 2019	<u>\$ (246,485)</u>	<u>\$ (2,341)</u>	<u>\$ (2,046,430)</u>	<u>\$ (2,295,256)</u>
Partners' percentage of partnership losses	<u>1.00%</u>	<u>0.01%</u>	<u>98.99%</u>	<u>100.00%</u>

See Notes to Financial Statements.

Providence Square Urban Renewal Associates, L.P.
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Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Rental receipts	\$ 1,330,080	\$ 1,224,562
Other operating receipts	33,936	19,296
Salaries and employee benefits paid	(181,988)	(175,571)
Repairs and maintenance paid	(213,659)	(235,957)
Utilities paid	(84,198)	(97,535)
Property management fee paid	(88,647)	(77,825)
Real estate taxes paid	(93,277)	(91,517)
Property insurance paid	(53,809)	(44,562)
Net mortgage escrow withdrawals (deposits)	24,594	(24,665)
Interest expense paid	(92,925)	(92,482)
Tenant security deposits received	1,181	6,568
Local administrative fee	(2,500)	(2,500)
Miscellaneous financial expenses paid	(25,000)	-
Miscellaneous operating expenses paid	(123,638)	(125,213)
Net cash provided by operating activities	<u>430,150</u>	<u>282,599</u>
Cash flows from investing activities		
Change in reserve for replacements	(50,291)	15,703
Due from affiliates	(757)	-
Net cash (used in) provided by investing activities	<u>(51,048)</u>	<u>15,703</u>
Cash flows from financing activities		
Principal payments on first mortgage	(73,874)	(73,340)
Distributions to partners	(219,672)	(228,565)
Advances from affiliates	16,855	-
Net cash used in financing activities	<u>(276,691)</u>	<u>(301,905)</u>
Net increase (decrease) in cash and restricted cash	102,411	(3,603)
Cash and restricted cash, beginning	<u>378,974</u>	<u>382,577</u>
Cash and restricted cash, ending	<u>\$ 481,385</u>	<u>\$ 378,974</u>

Providence Square Urban Renewal Associates, L.P.
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Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Net income (loss)	\$ 107,355	\$ (10,141)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	267,890	267,890
Bad debts	10,423	13,627
Changes in:		
Tenant accounts receivable	(11,663)	(8,737)
Accounts receivable - subsidy	(5,000)	(2,033)
Prepaid expenses	(34)	21,284
Real estate tax and insurance escrow	24,594	(24,665)
Accounts payable	(6,034)	(705)
Accrued interest payable - mortgages	28,091	26,731
Real estate taxes payable	10,467	-
Tenant security deposits liability, net	1,181	6,568
Prepaid rent	2,880	(7,220)
Net cash provided by operating activities	<u>\$ 430,150</u>	<u>\$ 282,599</u>

See Notes to Financial Statements.

Providence Square Urban Renewal Associates, L.P.
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Notes to Financial Statements
December 31, 2019 and 2018

Note 1 - Organization and nature of operations

Providence Square Urban Renewal Associates, L.P. (the "Partnership"), was formed as a limited partnership under the laws of the State of New Jersey on May 4, 1993. The purpose of the Partnership is to acquire, construct, renovate and operate a housing project consisting of 98 residential rental units for the purpose of providing affordable housing. The property is located in New Brunswick, New Jersey.

Items of Partnership income or loss are generally allocated 1.00% to the General Partner and 99.00% to the Limited and Special Limited Partners; however, specific allocations are determined and governed by the limited partnership agreement.

The major activities of the Partnership are governed by the limited partnership agreement and Internal Revenue Code Section 42 ("Section 42"). Each building of the project qualified for and was allocated low-income housing tax credits pursuant to Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project was required to meet the provisions of these regulations during each of 15 consecutive years, through 2008, in order to qualify to receive the tax credits. In addition, the Partnership has executed an extended use regulatory agreement and declaration of restrictive covenants which requires the utilization of the project pursuant to Section 42 for a minimum of 30 years, even if the Partnership disposes of the project.

By agreement, the Partnership is to be terminated by December 31, 2047.

Note 2 - Significant accounting policies

Basis of accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tenant receivables

Tenant receivables are reported net of 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. For the years ended December 31, 2019 and 2018, the allowance was \$1,214 and \$0, respectively.

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Notes to Financial Statements
December 31, 2019 and 2018

Rental property

Rental property is recorded at cost and depreciated over their estimated useful lives using the straight-line method for financial reporting purposes. Useful lives are estimated as follows:

Buildings and improvements	40 years
Land improvements	20 years
Furniture and equipment	10 years

For tax purposes, accelerated methods are used to depreciate the cost of furniture, furnishings and equipment over 5 to 7 years and land improvements over 15 years, while the buildings are depreciable using the straight-line method over a 27.5 year period. Maintenance and repairs are charged to expense when incurred. Upon retirement or other disposition, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of operations.

Impairment of long-lived assets

The Partnership 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 was recognized during the years ended December 31, 2019 and 2018.

Advertising costs

Advertising costs are charged to operations when incurred.

Income taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions, and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions which must be considered for disclosure. Income tax returns filed by the Partnership are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2016 remain open.

Rental income

Residential rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. Commercial rental income is recognized over the lease term as it becomes receivable according to the provisions of the respective leases. However, if the rentals vary from a straight-line basis, future rentals including scheduled and specific rent increases and/or rent concessions are recognized on a straight-line basis over the lease terms. All leases between the Partnership and the tenants of the property are operating leases that have the option to renew annually.

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Notes to Financial Statements
December 31, 2019 and 2018

Change in accounting principles

In November 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-18 *Statement of Cash Flows (Topic 230) - Restricted Cash* ("ASU 2016-18") to address diversity in practice with respect to the cash flows presentation of changes in amounts described as restricted cash and cash equivalents. ASU 2016-18 requires a reporting entity to include amounts described as either restricted cash or restricted cash and cash equivalents (collectively referred to as "restricted cash" herein) when reconciling beginning and ending balances in its statements of cash flows. The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash and restricted cash between the balance sheets and the statements of cash flows. ASU 2016-18 was adopted retrospectively during the year ended December 31, 2019. Consequently, ending cash and restricted cash as of December 31, 2018 and 2017, was increased from \$296,041 to \$378,974 and \$306,212 to \$382,577, respectively.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). Effective January 2019, the Partnership adopted ASU 2014-09 on a retrospective basis. The modifications under ASU 2014-09 were applied to all of the Partnership's contracts with customers. No practical expedients were applied. The majority of the Partnership's revenue is derived from leases with tenants of the project generally for terms of one year or less, which are accounted for in accordance with Leases (Topic 840). Therefore, adoption of ASU 2014-09 had no impact on the recognition of rental revenue of the project during the periods presented or on the opening balances of partners' equity (deficit) as of January 1, 2019 and 2018.

Note 3 - Restricted deposits and funded reserves

Pursuant to various agreements with Columbia Bank and the City of New Brunswick, as well as limited partnership agreement provisions, monies were required to be placed in restricted deposit. Such funds may only be used for designated purposes.

Following is a summary of balances at December 31, 2019 and 2018:

Real estate tax and insurance escrow

	2019	2018
Balance, January 1	\$ 67,574	\$ 42,909
Deposits	105,948	160,435
Interest earnings	1,174	309
Payments	(131,716)	(136,079)
Balance, December 31	<u>\$ 42,980</u>	<u>\$ 67,574</u>

Pursuant to the terms in the limited partnership agreement, a minimum of \$3,000 per month is required to be deposited into the replacement reserves. Monthly deposits were \$13,540 and \$7,798, respectively, during the years ended December 31, 2019 and 2018, respectively.

Providence Square Urban Renewal Associates, L.P.
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Notes to Financial Statements
December 31, 2019 and 2018

Replacement reserves

	2019	2018
Balance, January 1	\$ 8	\$ 15,711
Deposits	162,475	93,498
Interest earnings	626	224
Withdrawals	(112,810)	(109,425)
Balance, December 31	<u>\$ 50,299</u>	<u>\$ 8</u>

Note 4 - Statements of cash flows

The following table provides a reconciliation of cash and restricted cash reported within the balance sheets that sum to the total of the same such amounts in the statements of cash flows:

	2019	2018
Cash	\$ 397,271	\$ 296,041
Tenant security deposits	84,114	82,933
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 481,385</u>	<u>\$ 378,974</u>

The amount included in restricted cash consists of security deposits held in trust for the future benefit of tenants upon moving out of the property as required by the regulatory authority.

Note 5 - Related party transactions

The Partnership contracted with Pennrose Management Company (the "Management Company"), an affiliate of the General Partner, to manage the day-to-day operations of the property for a fee equal to 6.50% of income collected (subject to certain exclusions) as compensation for its services; however, under the terms of the limited partnership agreement, in the event that there is no cash flow in a given year of at least \$1, then 33⅓% of the fee is to be deferred and will be payable from future cash flow. During 2019 and 2018, \$88,048 and \$79,641, respectively, were incurred under the contract.

The Management Company provides payroll and other administrative services on a reimbursement basis. During 2019 and 2018, \$215,250 and \$204,785, respectively, were reimbursed.

In addition, the Management Company is also entitled to a fixed monthly administrative fee to defray the costs of certain expenditures. During 2019 and 2018, \$8,136 and \$8,004, respectively, was incurred.

Pennrose Management Company - Capital Improvement Division, an affiliate of the general partner, provides maintenance oversight to the project totaling \$7 per unit per month. During 2019 and 2018, \$8,232 was incurred.

Providence Square Urban Renewal Associates, L.P.
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Notes to Financial Statements
December 31, 2019 and 2018

The limited partnership agreement provides for an annual cumulative \$2,500 local administrative fee to the Special Limited Partner. Such fee is payable out of distributable cash flow. For the years ended December 31, 2019 and 2018, \$2,500 has been incurred and paid. During 2019 and 2018, \$2,500 and \$2,500, respectively, was paid from surplus cash.

The Partnership was advanced funds from other operating partnerships. There advances are noninterest-bearing, due on demand and payable from cash flow. As of December 31, 2019 and 2018, the remaining balance was \$16,855 and \$0, respectively.

The Partnership advanced funds to an affiliate of the general partner. There advances are noninterest-bearing and due on demand. As of December 31, 2019 and 2018, the remaining balance was \$757 and \$0, respectively.

Note 6 - Mortgages payable

In connection with the development of the property, the Partnership has negotiated the following nonrecourse mortgages:

First mortgage

Columbia Bank issued permanent financing in the amount of \$2,400,000 for a period of 10 years, maturing July 1, 2019. The loan bore interest at the rate of 6.50% for the initial 60 - month period. Monthly principal and interest payments were due in the amount of \$15,321.

Effective July 1, 2013, the loan was modified to reduce the interest rate to 3.375%. Monthly principal and interest payments are due in the amount of \$11,679. During 2019, the bank extended the maturity date of the loan to March 25, 2020 with the option of an additional 30-day extension. The Partnership is in the process of refinancing the remaining principle balance outstanding and has incurred and paid \$25,000 for loan application and legal expenses. Given the financial performance of the project, management does not believe there will be issues refinancing the debt before it is due.

Interest expense for the years ended December 31, 2019 and 2018 was \$68,405 and \$66,602, respectively. Accrued interest as of December 31, 2019 and 2018 is \$5,937 and \$5,771, respectively. The principal outstanding as of December 31, 2019 and 2018 is \$1,838,653 and \$1,912,527, respectively.

Second mortgage

The City of New Brunswick issued a mortgage note in the amount of \$2,315,115 for a period of 30 years. The source of funding is an Urban Development Action Grant to the City of New Brunswick. The loan has two segments. A total of \$1,508,201 was designated as being for property acquisitions and is interest free. A total of \$806,914 was designated as being for rehabilitation expenditures and bears interest at the rate of 6.52% per annum, simple interest, with interest currently payable annually to the extent of 10% available cash flow with any excess of such cash flow being applied to principal. Interest on this segment began to accrue with completion of construction. The entire loan balance is due on December 31, 2023. Interest expense for the years ended December 31, 2019 and 2018 was \$52,611. During 2019 and 2018, \$25,674 and \$18,837, respectively, were paid from surplus cash. Accrued interest as of December 31, 2019 and 2018 is \$1,318,011 and \$1,290,086, respectively, of which \$34,437 and \$24,686, respectively, is currently due. The principal outstanding as of December 31, 2019 and 2018 is \$2,315,115.

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Notes to Financial Statements
December 31, 2019 and 2018

Third mortgage

The New Brunswick Development Corporation ("Devco") issued a commitment to lend \$1,537,189 for a period of 30 years. The loan is noninterest-bearing and matures 30 years from the date of the final advance, December 31, 2023, provided, however, that if the property is then being operated in a sound manner as affordable senior housing, Devco is to grant an addition to the maturity date of not less than 10 years. The principal outstanding as of December 31, 2019 and 2018 is \$1,537,189.

Annual maturities of the mortgages for the next five years and thereafter are summarized as follows:

	First mortgage	Second mortgage	Third mortgage	Total
2020	\$ -	\$ -	\$ -	\$ -
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
Thereafter	1,838,653	2,315,115	1,537,189	5,690,957
Total	<u>\$ 1,838,653</u>	<u>\$ 2,315,115</u>	<u>\$ 1,537,189</u>	<u>5,690,957</u>
Less current maturities				<u>-</u>
Net long-term portion				<u>\$ 5,690,957</u>

The above mortgages are collateralized by all land, buildings and equipment of the Partnership.

As a further condition of obtaining the second mortgage, the Partnership has covenanted that 100% of the units in the property are to be rented to qualifying elderly individuals whose incomes are not in excess of 60% of the area median income in which the property is located.

Note 7 - Distributable cash flow

Cash flow, which means the excess of cash receipts over cash expenditures as determined for each fiscal year or portion thereof, shall be distributed in the following order of priority as defined in the limited partnership agreement as follows:

1. To pay the annual local administrative fee;
2. To repay any loan payable to any partner other than the General Partner;
3. To the Partners, an amount or amounts equal to the unpaid balance of any voluntary loan made by them;
4. To the extent of 50.00% of the remaining cash flow to the guarantor, an amount or amounts equal to the unpaid balance of any operating loan made by it; and
5. The balance 49.98% to the Limited Partner, 50.00% to the General Partner, 0.01% to the Class B Special Limited Partners and 0.01% to the Class A Special Limited Partners.

Providence Square Urban Renewal Associates, L.P.
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Notes to Financial Statements
December 31, 2019 and 2018

Note 8 - Surplus cash

As of December 31, 2019, the Partnership's surplus cash position based on the balance sheet was as follows:

Cash	\$ 397,271
Tenant security deposits	84,114
Accounts receivable - subsidy	9,391
Due from affiliate	<u>757</u>
Total	<u>491,533</u>
Accounts payable	26,993
Tenant security deposits	84,114
Prepaid rent	13,265
Due to affiliates	16,855
Accrued interest - first mortgage	<u>5,937</u>
Total	<u>147,164</u>
Surplus cash	<u><u>\$ 344,369</u></u>

Note 9 - Real estate taxes

The Partnership entered into a PILOT agreement with the City of New Brunswick which exempts all real and personal property from local taxation and subjects the property to an alternative tax based on the greater of 60% and 40%, respectively, of assessed value or annual gross revenue, as defined, inclusive of land taxes. During 2019 and 2018, the assessed value was greater than gross revenue. This alternative tax totaled \$109,228 and \$113,437 in 2019 and 2018, respectively. During 2018, the property wrote off prepaid real estate taxes totaling \$21,920.

	2019	2018
Assessed value	\$ 2,690,000	\$ 3,558,815
Tax rate	0.02423	0.05866
Tax factor	<u>60%</u>	<u>40%</u>
Assessed tax	39,107	83,504
Land taxes	63,669	61,171
Adjustment	<u>6,452</u>	<u>(31,238)</u>
Total tax	<u><u>\$ 109,228</u></u>	<u><u>\$ 113,437</u></u>

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Notes to Financial Statements
December 31, 2019 and 2018

Note 10 - Rental revenue

Tenants' rents for 40 of the units are subsidized by the Housing Authority of The City of New Brunswick through HUD under its Section 8 Housing Assistance Payments Program. This program restricts assistance to those tenants who qualify by meeting certain HUD established criteria including maximum income limitations. The assistance contract obligates the Housing Authority of The City of New Brunswick to provide rental subsidies. The contracts are renewed annually, subject to the provider's approval to funding. Subsidies totaled \$692,562 and \$631,904 in 2019 and 2018, respectively, which is approximately 57% and 54%, respectively, of total residential rents.

Note 11 - Commercial lease agreement

The Partnership leases certain portions of the project under noncancellable operating leases for terms of five years. For the years ended December 31, 2019 and 2018, rental revenue earned under the agreements was \$123,620 and \$71,555, respectively.

Note 12 - Current vulnerability due to certain concentrations

The Partnership's principal asset is a 98-unit apartment project. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of federal and state agencies, including, but not limited to, HUD and the Housing Authority of The City of New Brunswick. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD or the City of Brunswick. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

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 Partnership through April 2, 2020 (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

Providence Square Urban Renewal Associates, L.P.
D/B/A Providence Square

Schedules of Certain Income and Expenses
Years Ended December 31, 2019 and 2018

	2019	2018
Rental income		
Rent revenue - gross potential	\$ 531,412	\$ 532,690
Tenant assistance payments	692,562	631,904
Commercial rent revenue	123,620	71,555
Total rental income	<u>\$ 1,347,594</u>	<u>\$ 1,236,149</u>
Vacancies and concessions		
Apartments vacancies	\$ 12,940	\$ 15,534
Rental concessions	-	205
Total vacancies and concessions	<u>\$ 12,940</u>	<u>\$ 15,739</u>
Other operating income		
Laundry and vending	\$ 8,269	\$ 9,084
Pet deposits	250	-
Damages income	8,314	1,625
Late fees	3,231	1,829
Miscellaneous other income	6,597	5,003
Total other operating income	<u>\$ 26,661</u>	<u>\$ 17,541</u>
Salaries and employee benefits		
Salaries - administrative	\$ 88,471	\$ 84,180
Salaries - maintenance	57,078	58,754
Payroll taxes	13,269	13,746
Health insurance and other benefits	15,851	12,992
Workmen's compensation insurance	7,319	5,899
Total salaries and employee benefits	<u>\$ 181,988</u>	<u>\$ 175,571</u>
Repairs and maintenance		
Exterminating	\$ 7,054	\$ 7,680
Grounds	22,784	18,120
Fire protection	3,855	5,720
Security services/contract	-	6,300
Supplies	1,662	3,509
HVAC expense	24,942	35,093
Painting, decorating and cleaning	5,199	2,259
Repairs and maintenance - other than contracts	80,249	88,324
Repairs and maintenance - contracts	25,697	25,002
Carpeting	35,234	26,156
Total repairs and maintenance	<u>\$ 206,676</u>	<u>\$ 218,163</u>

Providence Square Urban Renewal Associates, L.P.
D/B/A Providence Square

Schedules of Certain Income and Expenses
Years Ended December 31, 2019 and 2018

	2019	2018
Utilities		
Electricity	\$ 28,819	\$ 33,536
Water	18,389	25,485
Sewer	20,460	29,168
Trash removal	10,721	9,906
Gas	7,568	9,130
Total utilities	<u>\$ 85,957</u>	<u>\$ 107,225</u>
Miscellaneous operating expenses		
Office supplies and expense	\$ 2,423	\$ 3,484
Training and travel	4,005	4,711
Telephone and answering service	3,734	3,631
Computer supplies and expense	14,088	19,274
Bad debt expense (recovery)	10,423	13,627
Administrative fee	8,004	7,296
Miscellaneous administrative	8,872	9,066
Rent free unit	13,813	14,660
Advertising and newspaper	3,422	4,129
Legal	2,989	385
Audit	7,765	7,115
Other professional fees	10,141	24,239
Other taxes, licenses and insurance	34,962	10,664
Total miscellaneous operating expenses	<u>\$ 124,641</u>	<u>\$ 122,281</u>
Interest expense - mortgages		
Interest expense - first mortgage	\$ 68,405	\$ 66,602
Interest expense - second mortgage	52,611	52,611
Total interest expense - mortgages	<u>\$ 121,016</u>	<u>\$ 119,213</u>

See Independent Auditor's Report.

Providence Square Urban Renewal Associates, L.P.
D/B/A Providence Square

Excess Net Profit Computation for New Brunswick and Redevelopment Authority
Year Ended December 31, 2019

Urban Renewal Entity : Providence Square Urban Renewal Associates, L.P.

Annual Calculation of Allowable Net Profit and Excess Profit Charge per N.J.S.A 40A:20-3(a) and (c) for the fiscal year ending 2018:

Gross Revenue:

(1)	Total Gross Revenue per audited Statements of Operations (less subsidy of \$631,904)	\$ 668,753
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Adjustments:

(2)	Insurance, Operating and Maintenance Expenses paid by Tenant which are ordinarily paid by a Landlord	-
(3)	Vacancy reserves in excess of the allowable reserve of 10% of Gross Revenues	-
(4)	Rental income from an affiliate related to the Project	-
(5)	Adjusted Total Gross Revenue (sum of (1) through (4))	668,753

Expenses:

(6)	Total Expenses per audited Statement of Operations <i>(the statutes N.J.S.A. 40A:20-15 do not expressly identify what items are to be deducted from gross revenue. City's position is that these statutes be read in pari-materia with N.J.S.A 40A:20-3.)</i>	1,236,235
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Adjustments:

(7)	Depreciation or obsolescence	267,890
(8)	Interest on debt, except interest which is part of debt service	52,611
(9)	Income taxes	-
(10)	Salaries, bonuses or compensation paid, directly or indirectly, to Directors, Management, Officers, Stockholders, Partners or other persons holding any any proprietary ownership interest in the property.	-
(11)	Payments for services rendered in excess of reasonable and customary payments to an affiliate or related party	2,500
(12)	Amortization in excess of allowable reserve	-
(13)	Adjusted Total Expenses (Line (6) less lines (7) through (12)	913,234
(14)	Statutory Net Profit (Line (5) less (13))	(244,481)
(15)	Less allowable profit <i>(Allowable profit 12% (per financial agreement) x Total Project Cost (Line 17)</i>	1,147,380
(16)	Excess Service Charge (Line (14) less (15))	\$ -
(17)	Total Project Cost <i>(per "Computation of Total Project Cost per N.J.S.A 40A:20-3(h)" form)</i>	\$ 9,561,496

See Independent Auditor's Report.

9/23/20



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