

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

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

December 31, 2021 and 2020

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**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.

Opinion

We have audited the financial statements of Providence Square Urban Renewal Associates, L.P., which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Providence Square Urban Renewal Associates, L.P. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Providence Square Urban Renewal Associates, L.P. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Providence Square Urban Renewal Associates, L.P.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Providence Square Urban Renewal Associates, L.P.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Providence Square Urban Renewal Associates, L.P.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of certain income and expenses and excess net profit computation for New Brunswick and Redevelopment Authority presented for purposes of additional analysis and are 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 audit 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
March 29, 2022

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

**Balance Sheets
December 31, 2021 and 2020**

<u>Assets</u>	2021	2020	<u>Liabilities and Partners' Equity (Deficit)</u>	2021	2020
Current assets			Current liabilities		
Cash	\$ 449,070	\$ 430,822	Accounts payable	\$ 64,681	\$ 110,396
Tenant accounts receivable, net	216	2,311	Accrued interest payable - first mortgages	9,328	9,603
Accounts receivable - subsidy	7,814	705	First mortgage payable - current	123,947	120,673
Prepaid expenses	45,829	43,526			
Total current assets	502,929	477,364	Total current liabilities	197,956	240,672
Restricted deposits and funded reserves					
Tenant security deposits	95,897	88,836	Deposits and prepaid liability		
Replacement reserves	222,591	319,088	Tenant security deposits	95,897	88,836
Real estate tax and insurance escrow	39,614	121,186	Prepaid rent	5,055	51,625
Total restricted deposits and funded reserves	358,102	529,110	Total deposits and prepaid liability	100,952	140,461
Rental property					
Buildings and improvements	10,521,279	10,521,279	Long-term liabilities		
Land improvements	123,679	123,679	First mortgages payable, net	3,741,418	3,849,700
Furniture and equipment	393,186	393,186	Mortgages payable - other mortgages	586,715	651,907
Accumulated depreciation	11,038,144	11,038,144	Total long-term liabilities	4,328,133	4,501,607
	(7,663,451)	(7,395,561)			
Land	3,374,693	3,642,583	Partners' equity (deficit)	(59,780)	97,854
	331,537	331,537	Total liabilities and partners' equity (deficit)	\$ 4,567,261	\$ 4,980,594
Total rental property	3,706,230	3,974,120			
Total assets	\$ 4,567,261	\$ 4,980,594			

See Notes to Financial Statements.

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

Statements of Operations
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue		
Rental income	\$ 1,420,880	\$ 1,356,803
Vacancies and concessions	(13,610)	(32,665)
Other operating income	<u>16,196</u>	<u>26,521</u>
Total revenue	<u>1,423,466</u>	<u>1,350,659</u>
Operating expenses		
Salaries and employee benefits	201,494	168,892
Repairs and maintenance	145,917	225,986
Utilities	98,704	89,371
Property management fee	91,593	86,977
Real estate taxes	79,043	92,680
Property insurance	66,655	58,644
Miscellaneous operating expenses	<u>94,435</u>	<u>110,076</u>
Total operating expenses	<u>777,841</u>	<u>832,626</u>
Net operating income	<u>645,625</u>	<u>518,033</u>
Other income (expense)		
Interest income	-	2,473
Interest expense - first mortgages	(14,104)	(52,349)
Interest expense - other mortgages	(111,312)	(60,981)
Other financial income (expense)	(184,430)	186
Entity income	31,432	-
Forgiveness of debt income	-	2,578,058
Local administrative fee	(2,500)	(2,500)
Depreciation	<u>(267,890)</u>	<u>(267,890)</u>
Total other income (expense)	<u>(548,804)</u>	<u>2,196,997</u>
Net income	<u>\$ 96,821</u>	<u>\$ 2,715,030</u>

See Notes to Financial Statements.

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

**Statements of Changes in Partners' Equity (Deficit)
Years Ended December 31, 2021 and 2020**

	<u>General partner</u>	<u>Special limited partner</u>	<u>Investor limited partner</u>	<u>Total partners' equity (deficit)</u>
Balance, December 31, 2019	\$ (246,485)	\$ (2,341)	\$ (2,046,430)	\$ (2,295,256)
Net income	27,149	272	2,687,609	2,715,030
Distributions	<u>(160,960)</u>	<u>(32)</u>	<u>(160,928)</u>	<u>(321,920)</u>
Balance, December 31, 2020	(380,296)	(2,101)	480,251	97,854
Net income	967	10	95,844	96,821
Distributions	<u>(127,228)</u>	<u>(25)</u>	<u>(127,202)</u>	<u>(254,455)</u>
Balance, December 31, 2021	<u><u>\$ (506,557)</u></u>	<u><u>\$ (2,116)</u></u>	<u><u>\$ 448,893</u></u>	<u><u>\$ (59,780)</u></u>
Partners' percentage of partnership losses	<u><u>1.00%</u></u>	<u><u>0.01%</u></u>	<u><u>98.99%</u></u>	<u><u>100.00%</u></u>

See Notes to Financial Statements.

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

Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Rental receipts	\$ 1,355,816	\$ 1,374,462
Other operating receipts	16,196	29,180
Salaries and employee benefits paid	(198,554)	(137,460)
Repairs and maintenance paid	(172,297)	(176,025)
Utilities paid	(93,295)	(91,443)
Property management fee paid	(89,837)	(87,304)
Real estate taxes paid	(79,043)	(103,147)
Property insurance paid	(68,958)	(64,992)
Net mortgage escrow withdrawals (deposits)	81,572	(78,206)
Interest expense paid	(111,587)	(139,370)
Tenant security deposits received	7,061	4,722
Local administrative fee	(2,500)	(2,500)
Miscellaneous operating expenses paid	(92,443)	(103,913)
Miscellaneous financial expenses paid	(184,560)	-
	<u>367,571</u>	<u>424,004</u>
Net cash provided by operating activities		
	<u>367,571</u>	<u>424,004</u>
Cash flows from investing activities		
Due from affiliates	-	757
	<u>-</u>	<u>757</u>
Net cash provided by investing activities		
	<u>-</u>	<u>757</u>
Cash flows from financing activities		
Distributions to partners	(254,455)	(321,920)
Mortgage costs paid	-	(195,473)
Repayments to affiliates	-	(16,855)
Mortgage proceeds - first mortgage	-	4,200,000
Principal payments on first mortgages	(119,112)	(1,857,299)
Principal payments on other mortgages	(65,192)	(1,926,152)
	<u>(438,759)</u>	<u>(117,699)</u>
Net cash used in financing activities		
	<u>(438,759)</u>	<u>(117,699)</u>
Net (decrease) increase in cash and restricted cash	(71,188)	307,062
Cash and restricted cash, beginning	838,746	531,684
Cash and restricted cash, ending	<u>\$ 767,558</u>	<u>\$ 838,746</u>

Providence Square Urban Renewal Associates, L.P.
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Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net income	\$ 96,821	\$ 2,715,030
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	267,890	267,890
Amortization of debt issuance costs	14,104	4,731
Bad debts	2,038	16,822
Forgiveness of debt income	-	(2,578,058)
Accrued payroll forgiveness	(31,432)	-
Changes in:		
Tenant accounts receivable	57	(11,790)
Accounts receivable - subsidy	(7,109)	8,686
Prepaid expenses	(2,303)	(6,348)
Real estate tax and insurance escrow	81,572	(78,206)
Accounts payable	(14,283)	83,403
Accrued interest payable - mortgages, net of debt forgiveness and conversion to principal	(275)	(30,771)
Real estate taxes payable	-	(10,467)
Tenant security deposits liability, net	7,061	4,722
Prepaid rent	(46,570)	38,360
Net cash provided by operating activities	<u>\$ 367,571</u>	<u>\$ 424,004</u>

See Notes to Financial Statements.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

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.

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, 2021 and 2020, the allowance was \$3,290 and \$2,968, respectively.

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

**Providence Square Urban Renewal Associates, L.P.
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**Notes to Financial Statements
December 31, 2021 and 2020**

For tax purposes, accelerated methods are used to depreciate the cost of furniture, furnishings and equipment over five to seven 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.

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.

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, 2021 and 2020.

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 2018 remain open.

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.

**Providence Square Urban Renewal Associates, L.P.
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**Notes to Financial Statements
December 31, 2021 and 2020**

Adjustment to prior period financial statements

In the year 2020 the Partnership erroneously used the caption "Extraordinary item" on the statements of operations for the \$2,578,058 gain in relation to forgiveness of debt (see Note 6). In the current year's financial statement, the Partnership have appropriately used the caption "Other income (expense)" on the statements of operations.

Note 3 - Restricted deposits and funded reserves

Pursuant to various agreements with Truist Bank, 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, 2021 and 2020:

Real estate tax and insurance escrow

	2021	2020
Balance, January 1	\$ 121,186	\$ 42,980
Deposits	161,377	262,053
Interest earnings	-	186
Payments	(242,949)	(184,033)
Balance, December 31	<u>\$ 39,614</u>	<u>\$ 121,186</u>

Replacement reserves

	2021	2020
Balance, January 1	\$ 319,088	\$ 50,299
Deposits	-	334,087
Interest earnings	-	302
Withdrawals	(96,497)	(65,600)
Balance, December 31	<u>\$ 222,591</u>	<u>\$ 319,088</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:

	2021	2020
Cash	\$ 449,070	\$ 430,822
Tenant security deposits	95,897	88,836
Replacement reserve	222,591	319,088
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 767,558</u>	<u>\$ 838,746</u>

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

**Notes to Financial Statements
December 31, 2021 and 2020**

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 and the replacement reserve for project betterments, as required by the partnership agreement.

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 the years ended December 31, 2021 and 2020, \$91,593 and \$86,977, respectively, were incurred under the contract.

The Management Company provides payroll and other administrative services on a reimbursement basis. During 2021 and 2020, \$230,817 and \$140,791, 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 2021 and 2020, \$7,296 and \$7,296, 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 2021 and 2020, \$8,232 was incurred.

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, 2021 and 2020, \$2,500 has been incurred and paid. During 2021 and 2020, \$2,500 and \$2,500, respectively, was paid from surplus cash.

During 2020, the Management Company received a loan under the Paycheck Protection Program ("PPP") which was created through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan program includes a provision for forgiveness if certain criteria are met with respect to employment and pay levels. To the extent the Management Company is granted forgiveness of its loan, it will forgive a proportionate amount of payroll reimbursement due from the Partnership. As of December 31, 2020, there is \$31,432 of payroll reimbursement due to the Management Company which is included in accounts payable on the balance sheets and expected to be forgiven if the Management Company's PPP loan is forgiven. During the year ended December 31, 2021, the amount was forgiven and recorded within entity income.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

Note 6 - Mortgages payable

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

First mortgage - Truist Bank

Truist Bank issued permanent financing on July 17, 2020, in the initial amount of \$4,200,000 for a period of 16 years, maturing August 1, 2036, at which time any outstanding principal and interest are due in full. The loan bears interest at a rate of 2.68% with monthly principal and interest payments due in the amount of \$19,225. Interest expense for the years ended December 31, 2021 and 2020 was \$125,416 and \$52,349, respectively, which includes debt issuance costs amortization of \$14,104 and \$4,731, respectively. Accrued interest as of December 31, 2021 and 2020 was \$9,328 and \$9,603, respectively. The principal outstanding as of December 31, 2021 and 2020 was \$4,042,003 and \$4,161,115, respectively.

	<u>2021</u>	<u>2020</u>
Mortgage payable - first mortgage	\$ 4,042,003	\$ 4,161,115
Less unamortized debt issuance costs (based on an imputed rate of 3.17%)	<u>(176,638)</u>	<u>(190,742)</u>
Mortgage payable - first mortgage, net	<u>\$ 3,865,365</u>	<u>\$ 3,970,373</u>

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

2022	\$ 123,947
2023	127,310
2024	130,764
2025	134,612
2026	137,956
Thereafter	<u>3,387,414</u>
Total	4,042,003
Less current maturities	<u>(123,947)</u>
Net long-term portion	<u>\$ 3,918,056</u>

First mortgage - Columbia Bank

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.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

Effective July 1, 2013, the loan was modified to reduce the interest rate to 3.375%. Monthly principal and interest payments were due in the amount of \$11,679. During 2019, the bank extended the maturity date of the loan to March 25, 2020, during 2020 the mortgage was refinanced with Truist Bank. Interest expense for the years ended December 31, 2021 and 2020 was \$0 and \$39,132.

Second mortgage

The City of New Brunswick (the "City") 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 bore 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 was due on December 31, 2023.

In 2020 a debt modification agreement was executed whereby the City accepted \$1,157,558 for payment in full of the outstanding loan balances of \$2,315,115, with the unpaid balance being forgiven. Additionally, the City issued a new mortgage note for half of then outstanding accrued interest amount (\$651,907), with the balance being forgiven. Interest expense for the years ended December 31, 2021 and 2020 was \$0 and \$21,849, respectively. The loan and accrued interest payable were paid in full as of December 31, 2020.

Third mortgage

The New Brunswick Development Corporation ("Devco"), through the City, issued a commitment to lend \$1,537,189 for a period of 30 years. The loan was 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. In 2020 a debt modification agreement was executed to forgive half of the outstanding amount with the other half of the amount being repaid with funds from the refinancing of the first mortgage. The principal outstanding as of December 31, 2021 and 2020 was \$0, respectively.

Fourth mortgage

In conjunction with the refinancing of the first mortgage, and the debt modification agreements for the second and third mortgage, the City issued a promissory note in the amount of \$651,901 on July 17, 2020. The note is noninterest-bearing, and will mature on November 1, 2036. The principal amount of the note is payable from Net Cash Flow, as defined, in equal annual payments of \$65,191 amortized over 10 years. Annual payments are due from available Net Cash Flow, with the entire outstanding balance due in full at maturity. As of December 31, 2021 and 2020, the outstanding balance is \$586,715 and \$651,907, respectively.

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

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

**Notes to Financial Statements
December 31, 2021 and 2020**

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.

Note 8 - Surplus cash

As of December 31, 2021, the Partnership's surplus cash position based on the balance sheet was as follows:

Cash	\$ 449,070
Tenant security deposits	95,897
Outstanding replacement reserve withdrawal	<u>20,271</u>
Total	<u>565,238</u>
Accounts payable	64,681
Tenant security deposits	95,897
Prepaid rent	<u>5,055</u>
Total	<u>165,633</u>
Surplus cash	<u><u>\$ 399,605</u></u>

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

**Notes to Financial Statements
December 31, 2021 and 2020**

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 2021 and 2020, the assessed value was greater than gross revenue. This alternative tax totaled \$79,043 and \$92,680 in 2021 and 2020, respectively.

	2021	2020
Assessed value	\$ 2,690,000	\$ 2,690,000
Tax rate	0.02423	0.02423
Tax factor	60%	60%
Assessed tax (minimum expense)*	39,107	39,107
Land taxes paid	66,477	66,134
Quarterly PILOT payments	12,864	25,728
Adjustment	(298)	818
Total real estate tax expense	<u>\$ 79,043</u>	<u>\$ 92,680</u>

* In the event land taxes and quarterly PILOT payments are in excess of the minimum expense, no additional PILOT will be due.

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 \$794,680 and \$733,589 in 2021 and 2020, respectively, which is approximately 59% and 57%, respectively, of total residential rents.

Note 11 - Commercial lease agreement

The Partnership leases certain portions of the project under non-cancellable operating leases for an original term of five years, which are now being renewed annually. For the years ended December 31, 2021 and 2020, rental revenue earned under the agreements was \$83,356 and \$70,799, respectively.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

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 - Contingency

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of lease revenue and other material adverse effects to the Partnership's financial position, results of operations, and cash flows. The Partnership is currently unable to fully determine the extent of COVID-19's impact on its business in future periods. The Partnership's performance in future periods will be heavily influenced by the timing, length, and intensity of any business disruptions from COVID-19 and the related effects on the Partnership's operations. Management continues to monitor the results of operations to evaluate the actual and potential economic impact on the project.

Note 14 - 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 March 29, 2022 (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, 2021 and 2020

	2021	2020
Rental income		
Rent revenue - gross potential	\$ 542,844	\$ 552,415
Tenant assistance payments	794,680	733,589
Commercial rent revenue	83,356	70,799
Total rental income	<u>\$ 1,420,880</u>	<u>\$ 1,356,803</u>
Vacancies and concessions		
Apartment vacancies	\$ 13,610	\$ 28,490
Rental concessions	-	4,175
Total vacancies and concessions	<u>\$ 13,610</u>	<u>\$ 32,665</u>
Other operating income		
Laundry and vending	\$ 11,153	\$ 8,227
Damages income	1,497	1,108
Late fees	129	233
Miscellaneous other income	3,417	16,953
Total other operating income	<u>\$ 16,196</u>	<u>\$ 26,521</u>
Salaries and employee benefits		
Salaries - administrative	\$ 100,025	\$ 77,571
Salaries - maintenance	61,946	58,769
Payroll taxes	13,701	11,906
Health insurance and other benefits	15,726	12,708
Workmen's compensation insurance	10,096	7,938
Total salaries and employee benefits	<u>\$ 201,494</u>	<u>\$ 168,892</u>
Repairs and maintenance		
Exterminating	\$ 9,133	\$ 6,674
Grounds	14,049	40,993
Fire protection	2,098	3,823
Security services/contract	-	2,992
Supplies	1,703	944
HVAC expense	12,408	12,098
Painting, decorating and cleaning	2,350	3,019
Repairs and maintenance - other than contracts	47,940	100,863
Repairs and maintenance - contracts	28,509	25,400
Carpeting	27,013	25,889
COVID-19	714	3,291
Total repairs and maintenance	<u>\$ 145,917</u>	<u>\$ 225,986</u>

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

Schedules of Certain Income and Expenses
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Utilities		
Electricity	\$ 32,543	\$ 30,011
Water	23,811	18,218
Sewer	24,802	20,761
Trash removal	10,602	13,138
Gas	<u>6,946</u>	<u>7,243</u>
Total utilities	<u>\$ 98,704</u>	<u>\$ 89,371</u>
Miscellaneous operating expenses		
Office supplies and expense	\$ 3,746	\$ 3,255
Training and travel	3,164	1,509
Telephone and answering service	4,466	3,798
Computer supplies and expense	13,954	13,639
Bad debt expense	2,038	16,822
Administrative fee	7,296	7,296
Miscellaneous administrative	7,565	7,395
Rent free unit	14,724	14,719
Advertising and newspaper	3,522	3,035
Legal	7,042	-
Audit	7,415	7,415
Other professional fees	9,039	13,997
Other taxes, licenses and insurance	<u>10,464</u>	<u>17,196</u>
Total miscellaneous operating expenses	<u>\$ 94,435</u>	<u>\$ 110,076</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, 2021**

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 2021:

Gross Revenue:

(1) Total Gross Revenue per audited Statements of Operations (less subsidy of \$794,680)	\$ 628,786
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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))	628,786

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>	1,358,077
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Adjustments:

(7) Depreciation or obsolescence	267,890
(8) Interest on debt, except interest which is part of debt service	-
(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))	1,087,687
(14) Statutory Net Profit (Line (5) less (13))	(458,901)
(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.



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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Providence Square Urban Renewal Associates, L.P., which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Providence Square Urban Renewal Associates, L.P. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Providence Square Urban Renewal Associates, L.P. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Providence Square Urban Renewal Associates, L.P.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Providence Square Urban Renewal Associates, L.P.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Providence Square Urban Renewal Associates, L.P.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of certain income and expenses and excess net profit computation for New Brunswick and Redevelopment Authority presented for purposes of additional analysis and are 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 audit 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
March 29, 2022