



**SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021**

6/2/22 P



INDEPENDENT AUDITORS' REPORT

To the Partners of
Skyline Tower Urban Renewal Associates L.P. and subsidiaries
New Brunswick, New Jersey

Opinion

We have audited the accompanying consolidated financial statements of Skyline Tower Urban Renewal Associates L.P. and subsidiaries (the "Company") which comprise the consolidated balance sheet as of December 31, 2021 and the related consolidated statements of income and change in member equity and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operation and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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, including omissions, 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.

WISS & COMPANY, LLP

In performing an audit in accordance with generally accepted auditing standards, 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 the Company'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 the Company'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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Excess Profit (Loss) 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 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.

Wiss & Company

WISS & COMPANY, LLP

Florham Park, New Jersey
March 31, 2022

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2021

ASSETS

REAL ESTATE:

Building and improvements	\$ 11,884,587	
Accumulated depreciation	<u>(1,698,298)</u>	
		\$ 10,186,289

OTHER ASSETS:

Cash	222,777	
Restricted cash - tenants security deposits	31,081	
Mortgage escrows	74,256	
Accounts receivable, less allowance for doubtful accounts of \$36,724	71,892	
Prepaid insurance	<u>3,720</u>	
Total other assets		<u>403,726</u>
		<u>\$ 10,590,015</u>

LIABILITIES AND PARTNERS' EQUITY

LIABILITIES:

Mortgage note payable, (net of unamortized debt issuance costs of \$59,669 at December 31, 2021)	\$ 9,800,946	
Accounts payable and accrued expenses	78,803	
Tenant security deposits	35,896	
Prepaid rent	<u>70,043</u>	
		\$ 9,985,688

COMMITMENTS AND CONTINGENCIES

PARTNERS' EQUITY	<u>604,327</u>	
		<u>\$ 10,590,015</u>

See accompanying notes to the consolidated financial statements.

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF OPERATIONS AND
CHANGES IN PARTNERS' EQUITY**

YEAR ENDED DECEMBER 31, 2021

REVENUES:		
Rental income	\$ 1,313,809	
Miscellaneous fee income	<u>87,837</u>	
OPERATING REVENUES		\$ 1,401,646
OPERATING EXPENSES:		
Payment in lieu of taxes (including real estate taxes on land)	121,487	
Bad debt expense	7,420	
Advertising	29,959	
Repairs and maintenance	132,290	
Payroll and related costs	77,362	
Management fees	40,783	
Telephone and utilities	216,372	
Insurance	51,741	
Professional fees	33,587	
Miscellaneous	<u>32,087</u>	
		<u>743,088</u>
INCOME FROM OPERATIONS		658,558
OTHER EXPENSES:		
Interest including debt amortization expense of \$12,792	(414,764)	
Depreciation	<u>(320,902)</u>	
		<u>(735,666)</u>
NET LOSS		(77,108)
PARTNERS' EQUITY, BEGINNING OF YEAR		821,435
DISTRIBUTIONS		<u>(140,000)</u>
PARTNERS' EQUITY, END OF YEAR		<u>\$ 604,327</u>

See accompanying notes to the consolidated financial statements.

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (77,108)	
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	320,902	
Interest expense related to debt issuance costs	12,792	
Bad debt expense	7,420	
Change in assets and liabilities:		
Accounts receivable	(22,734)	
Accounts payable and accrued expenses	3,538	
Tenant security deposits	(26,270)	
Prepaid rent	19,779	
Net cash flows provided by operating activities	<u>\$ 235,201</u>	

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on mortgage payable	(27,385)	
Partners' distributions	<u>(140,000)</u>	
Net cash flows used for financing activities		(167,385)

NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH 67,816

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR 260,298

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR \$ 328,114

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -

Interest paid	<u>\$ 401,972</u>
---------------	-------------------

See accompanying notes to the consolidated financial statements.

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Nature of Business and Significant Accounting Policies:

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Skyline Tower Urban Renewal Associates, L.P. ("Urban Renewal") and its wholly owned subsidiaries, Skyline Lessor, LLC ("Lessor") and Skyline Lessee, LLC ("Lessee"), collectively ("the Company"). All significant intercompany balances have been eliminated.

Nature of Business - Skyline Tower Urban Renewal Associates L.P. was formed as a limited partnership under the laws of the state of New Jersey in October 2001, as an Urban Renewal Entity, as said term is defined in accordance with the provisions of N.J.S.A. 40A:20-1 et seq, known as the Long Term Tax Exemption Law (the "Exemption Law"). Lessor and Lessee were formed as a limited liability companies under the laws of the State of New Jersey in October 2001. The Company has been formed to construct and operating a residential housing project consisting of 56 market rate units and 14 affordable housing units for families.

In addition, the Company has been organized to serve a public purpose and to operate under and in accordance with the Exemption Law and to engage in the following activities: to acquire, own, lease, develop and/or re-develop development property (the "Property") located within and forming a part of the New Brunswick (the "Municipality"). Additionally, the Company was formed to sell, lease, operate and manage the property in accordance with the Exemption Law. The Company has an agreement with the Municipality whereby it is exempt from taxation of the improvements. Instead, the Municipality receives annual service charges in lieu of property taxes. This agreement is subject to certain terms and conditions and is in effect for a period of thirty years from the date of issuance of the last Certificate of Occupancy for the Project. The term of the agreement shall not be more than thirty-five years from the date of its execution. After the expiration of the agreement, the tax exemption shall expire and the property and improvements will be assessed and taxed in accordance with the general law applicable to other non-exempt property in the Municipality.

Limited Partnership - Each partner's liability is limited to their respective partner's equity. Under the terms of the Limited Partnership agreement, the Limited Partnership's existence is perpetual or will terminate sooner as provided for in the partnership agreement.

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

Restricted Cash - Tenant Security Deposits - The Company requires a tenant security deposit from each tenant which is generally equal to one or two month's rent. The security deposit is held by a bank and interest is credited to the tenant. The security deposit will be returned to the tenant at the lease expiration less any unit damages or rentals due.

Mortgage Escrows - Cash paid in addition to the mortgage payable to be used towards the payment of real estate taxes, insurance, and other various reserves.

Accounts Receivable - Accounts receivable are recorded on the first of the month in accordance with the tenant lease agreements or when tenants pay in advance. The Company calculates an allowance based on its history of write-offs, level of past-due accounts, and its relationships with, and the economic status of, its tenants. Accounts receivable are written-off when management deems them to be uncollectible. Management estimated an allowance for uncollectible accounts of \$36,724 as of December 31, 2021.

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition - Generally accepted accounting principles requires operating leases to be recorded on a straight-line basis over the terms of the related leases. Rent is charged on the first of every month. Monthly rental amounts due are based upon each individual lease agreement. In a prior year, the Company adopted FASB ASC 606 which establishes the accounting for revenues with customers and determined that it did not have a material impact on the financial statements in the year of adoption.

Concentrations of Credit Risk - The Company maintains their cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation up to \$250,000 each. At times, such balances may be in excess of the FDIC insurance limit.

Deferred Financing Costs - Costs related to obtaining the Company's mortgage note payable (see Note 2) are netted against the mortgage note payable and amortized over the term of the related debt using the straight-line method. Accumulated amortization at December 31, 2021 was \$68,223. Amortization expense for the year ended December 31, 2021, totaled \$12,792.

Expected future amortization is as follows:

2022	\$ 12,792
2023	12,792
2024	12,792
2025	12,792
2026	8,501
	<u>\$ 59,669</u>

Building and Improvements - Building and improvements are stated at cost. Buildings and improvements are depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance, repairs, and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Depreciation expense for 2021 was \$320,902.

Long-Lived Assets - The Company evaluates all long-lived assets for impairment. Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the carrying amount is not fully recoverable, an impairment loss is recognized to reduce the carrying amount to fair value, and is charged to expense in the period of impairments. At December 31, 2021, management has determined that these assets are not impaired.

Payment in Lieu of Real Estate Taxes and Excess Profits - The Company entered into a Financial Agreement with the Municipality whereby the Municipality will accept an annual service charge in lieu of the payment of real estate taxes on the property. The exemption is for a 30-year period from 2004. The Financial Agreement also provides for a limitation on Company profits, which requires any profits, in excess of the allowable net profits, all as defined in the Financial Agreement, to be remitted to the Municipality as an additional service charge. Allowable net profit is defined as the amount arrived at by applying the allowable profit rate to the total project costs. For the year ended December 31, 2021, there was no excess profit.

Advertising - Advertising costs are expensed as incurred and totaled \$29,959 for the year ending December 31, 2021.

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes - The Company is a limited liability company not subject to income taxes. No provision has been made for federal and state income taxes since these taxes are the personal responsibility of the members. The most significant jurisdictions in which the Company is required to file income tax returns include U.S. Federal jurisdictions and the state of New Jersey. The Company is no longer subjected to U.S. Federal income tax examinations for the year-ends prior to December 31, 2018. The Company is no longer subject to state income tax examinations for the years prior to December 31, 2017.

Recent Accounting Pronouncements - In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which replaces the existing guidance in ASC 840 – Leases. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset and for operating leases, the lessee would recognize a straight-line total lease expense. Additionally, the ASU addresses the accounting for lessors. The Company is currently evaluating the impact of this adoption on its consolidated financial statements. This ASU is effective for fiscal years beginning after December 15, 2021.

Subsequent Events - Management has reviewed and evaluated all events and transactions from December 31, 2021 through March 31, 2022, the date that the financial statements were available for issuance. The effects of those events and transactions that provide additional pertinent information about conditions that existed at the balance sheet date have been recognized in the accompanying financial statements.

Note 2 - Mortgage Note Payable:

During September of 2016, the Company obtained note from a bank in the amount of \$9,888,000. The borrowings bear interest at the 4.01%. The outstanding principal balance plus all accrued or unpaid interest shall be payable in full October 2026. The first principal payment was due in November 2021.

A summary of long-term debt follows:

	Interest Rate	December 31, 2020		
		Loan Balance	Unamortized Debt Issuance Cost	Net Debt
Mortgage note payable to a bank in monthly installment of \$34,143 , interest only through October 2021; \$47,264 of principal and interest until October 2026.	4.01%	\$ 9,860,615	\$ 59,669	\$ 9,800,946

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The mortgage payable at December 31, 2021 matures as follows:

2022	\$ 169,411
2023	176,429
2024	182,647
2025	191,303
2026	<u>9,140,825</u>
	<u>\$ 9,860,615</u>

Note 3 - Related Party Transaction:

Property Management Agreement - The Company entered into a Real Estate Management Agreement with a related party in September 2016, whereby the Company contracted with the manager as the Company's exclusive renting and management agent. The management company will receive a management fee of 3% of all rents received for each month. The term of the agreement is for one year from the commencement date and will be renewed automatically for successive 1-year periods unless given written notice. The total amount paid for 2021 was \$40,783.

Operating Lease - Urban Renewal entered into a sublease with Lessor, on November 1, 2001, expiring in November 2061. The lease requires \$46,668 monthly rent based on the percentage of units that are occupied on the first day of each month. Monthly rent will increase 10% every 5 years upon expiration. Lessor charged the Urban Renewal \$745,360 in 2021. All amounts are eliminated upon consolidation.

Note 4 - Commitments and Contingencies:

Excess Profits - During the period of tax exemption, the Company is subject to a limitation of its profits pursuant to the provisions of N.J.S.A. 40A:20-15. The limitation applies to the gross revenues received by the entity. The allowable profit rate is the greater of 12% or the percentage per annum arrived at by adding 1¼% to the annual interest percentage rate payable on the Company's initial permanent mortgage financing and it is applied to the total project cost in order to calculate the allowable net profit. If the net profits of the Company exceed the allowable net profits for the period, the Company must pay the excess net profits to the Municipality within 90 days of the close of that fiscal year, provided however, that the Company may maintain a reserve against reasonable contingencies in an amount up to 10% of the gross revenues for the last full fiscal year preceding the year and may retain such part of the excess net profits as is necessary to eliminate a deficiency in that reserve. At December 31, 2021, the Company had no net profits and as such there were no amounts due to the Municipality for the year then ended.

In March 2020, the World Health Organization declared a novel strain of coronavirus ("COVID-19") a global pandemic which caused significant business disruptions in the United States. Additionally, given the uncertainty of any future business disruption relating to another surge of COVID-19 such disruption could have a material adverse effect on the results of operations, financial position and cash flows. Notwithstanding, the Company continues to monitor regional developments and proceeds with proactive strategies to minimize any impact to its current and future operations.

Land Lease - The Company has subleased land from the Housing Authority of the City of New Brunswick. The lease is for a term of 99 years, terminating on December 31, 2100. The annual base rent is \$10 per annum.

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Reconciliation of Restricted Cash:

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position at December 31, 2021 that sum to the total of the same such amounts shown in the consolidated statement of cash flows.

Cash	\$ 222,777
Restricted cash - tenant security deposits	31,081
Mortgage escrows	<u>74,256</u>
Total cash, cash equivalents, and restricted cash	
shown in the consolidated statement of cash flows	<u>\$ 328,114</u>

SKYLINE TOWER URBAN RENEWAL ASSOCIATES L.P. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION

EXCESS PROFIT (LOSS)

N.J.S.A. 40A:20-1

YEAR ENDED DECEMBER 31, 2021

Total gross revenues		\$ 1,401,646
Total operating expenses	\$ 1,478,754	
Less (if included in expenses above):		
Depreciation and amortization	(333,694)	
Add:		
Principal payments on mortgage note payable	27,385	
Allowable amortization of project costs	<u>438,258</u>	
		<u>1,610,703</u>
Net profit (loss) in accordance with N.J.S.A. 40A:20-1		(209,057)
Less: Allowable annual net profit (12% of Project Costs)		<u>1,577,730</u>
Excess loss		(1,786,787)
Excess loss, beginning of year		<u>(7,989,013)</u>
Excess loss, end of year		<u>\$ (9,775,800)</u>
Allowable Amortization of Project Costs		
Total project costs amortized over life of the abatement:		
Total project costs	\$ 13,147,751	
Term of abatement (in years)	<u>30 years</u>	
Allowable annual amortization	<u>\$ 438,258</u>	

See accompanying notes to the consolidated financial statements.