

**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

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

October 31, 2021 and 2020

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**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

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Independent Auditor's Report

To the Managing Member
Providence Square Housing Urban Renewal, LLC

Opinion

We have audited the financial statements of Providence Square Housing Urban Renewal, LLC, which comprise the balance sheets as of October 31, 2021 and 2020, and the related statements of operations, changes in members' 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 Housing Urban Renewal, LLC as of October 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 Housing Urban Renewal, LLC 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 Housing Urban Renewal, LLC'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 Housing Urban Renewal, LLC'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 Housing Urban Renewal, LLC'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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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.

CohnReznick LLP

Baltimore, Maryland
January 6, 2022

Balance Sheets
October 31, 2021 and 2020

See Notes to Financial Statements.

**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

**Statements of Operations
Years Ended October 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Revenue		
Rental income	\$ 604,940	\$ 548,539
Vacancies and concessions	(7,704)	(5,277)
Other operating income	<u>6,693</u>	<u>12,123</u>
Total revenue	<u>603,929</u>	<u>555,385</u>
Operating expenses		
Salaries and employee benefits	101,195	86,582
Repairs and maintenance	130,300	91,762
Utilities	45,280	49,227
Property management fee	39,127	37,932
Real estate taxes	40,000	40,000
Property insurance	36,756	31,682
Miscellaneous operating expenses	<u>60,573</u>	<u>45,177</u>
Total operating expenses	<u>453,231</u>	<u>382,362</u>
Net operating income	<u>150,698</u>	<u>173,023</u>
Other income (expense)		
Interest income	4,159	9,514
Interest expense - first mortgage	(39,384)	(39,443)
Interest expense - mortgages	(5,955)	(5,896)
Forgiveness of tax credit exchange loan	96,424	96,424
Incentive management fees	(44,431)	(33,940)
Depreciation	(360,763)	(367,523)
Amortization	<u>(19,662)</u>	<u>(19,662)</u>
Total other income (expense)	<u>(369,612)</u>	<u>(360,526)</u>
Net loss	<u>\$ (218,914)</u>	<u>\$ (187,503)</u>

See Notes to Financial Statements.

**Providence Square Housing Urban Renewal, LLC
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**Statements of Changes in Members' Equity (Deficit)
Years Ended October 31, 2021 and 2020**

	Managing Member	Special Member	Investment Member	Total members' equity (deficit)
Balance, October 31, 2019	\$ (84,247)	\$ (260)	\$ 3,246,601	\$ 3,162,094
Net loss	(20)	(18)	(187,465)	(187,503)
Distributions	<u>(4,243)</u>	<u>-</u>	<u>(4,242)</u>	<u>(8,485)</u>
Balance, October 31, 2020	(88,510)	(278)	3,054,894	2,966,106
Net loss	(22)	(22)	(218,870)	(218,914)
Distributions	<u>(9,663)</u>	<u>(1)</u>	<u>(9,660)</u>	<u>(19,324)</u>
Balance, October 31, 2021	<u><u>\$ (98,195)</u></u>	<u><u>\$ (301)</u></u>	<u><u>\$ 2,826,364</u></u>	<u><u>\$ 2,727,868</u></u>
Members' percentage of company losses	<u><u>0.01%</u></u>	<u><u>0.01%</u></u>	<u><u>99.98%</u></u>	<u><u>100.00%</u></u>

See Notes to Financial Statements.

Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square

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

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities	\$ 588,278	\$ 547,549
Rental receipts	6,693	12,123
Other operating receipts	4,159	9,514
Interest income	(116,733)	(71,044)
Salaries and employee benefits paid	(123,305)	(79,648)
Repairs and maintenance paid	(53,681)	(43,277)
Utilities paid	(38,563)	(39,099)
Property management fee paid	(40,000)	(40,000)
Real estate taxes paid	(38,421)	(36,195)
Property insurance paid	(57,445)	(51,394)
Miscellaneous operating expenses paid	(3,781)	(4,862)
Net mortgage escrow (deposits)	1,270	1,207
Tenant security deposits (paid) received	(35,841)	(35,924)
Interest expense paid	(44,431)	(33,940)
Incentive management fees paid	<u>48,199</u>	<u>135,010</u>
Net cash provided by operating activities		
Cash flows from investing activities	<u>23,285</u>	<u>(58,593)</u>
Change in replacement reserve	<u>23,285</u>	<u>(58,593)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities	(19,324)	(8,485)
Distributions to members	(21,374)	(19,079)
Principal payments on mortgage payable	<u>(40,698)</u>	<u>(27,564)</u>
Net cash used in financing activities		
Net increase in cash and restricted cash	30,786	48,853
Cash and restricted cash, beginning	<u>758,620</u>	<u>709,767</u>
Cash and restricted cash, end	<u>\$ 789,406</u>	<u>\$ 758,620</u>

Providence Square Housing Urban Renewal, LLC
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Statements of Cash Flows
Years Ended October 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities	\$ (218,914)	\$ (187,503)
Net loss		
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	360,763	367,523
Amortization	19,662	19,662
Forgiveness of tax credit exchange loan	(96,424)	(96,424)
Amortization of debt issuance costs	3,602	3,602
Changes in:		
Tenant accounts receivable, net	(1,666)	2,606
Accounts receivable - subsidy	(1,420)	589
Accounts receivable - other	(1,701)	-
Prepaid expenses	(1,665)	(4,513)
Real estate tax and insurance escrow	(3,781)	(4,862)
Accounts payable	(13,252)	26,218
Accrued interest payable - other mortgages	5,896	5,813
Tenants' security deposits (paid) received	1,270	1,207
Prepaid rent	(4,171)	1,092
	<u>\$ 48,199</u>	<u>\$ 135,010</u>
Net cash provided by operating activities		

See Notes to Financial Statements.

**Providence Square Housing Urban Renewal, LLC
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**Notes to Financial Statements
October 31, 2021 and 2020**

Note 1 - Organization and nature of operations

Providence Square Housing Urban Renewal, LLC (the "Company") was formed as a limited liability company under the laws of the State of New Jersey on February 11, 2009. The purpose of the Company is to develop and operate a newly constructed affordable housing project (the "project") consisting of 53 rental units for low-income families. The property is located in New Brunswick, New Jersey. The Company began rental operations on October 20, 2010 and no significant activity occurred prior to this date.

Items of Company income or loss are generally allocated 99.98% to the Investment Member, 0.01% to the Special Member, and 0.01% to the Managing Member. However, specific allocations are determined and governed by the amended and restated operating agreement.

By agreement, the Company shall continue in full force and effect until December 31, 2107 unless the Company is dissolved sooner by law or in accordance with the provisions of the operating agreement.

The major activities of the Company are governed by the operating agreement and Internal Revenue Code Section 42 ("Section 42"). Each building of the project has qualified for and been 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 must meet the provisions of these regulations during each of 15 consecutive years through 2024 in order to continue to qualify to receive the tax credits. In addition, the Company has executed a Deed of Easement and Restrictive Covenant for Extended Low-Income Occupancy, which requires the utilization of the project pursuant to Section 42 for a minimum of 40 years, even if the Company disposes of the project.

Note 2 - Significant accounting policies

Basis for accounting

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

Tenant accounts receivables

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of October 31, 2021 and 2020, the allowance for doubtful accounts is \$5,671 and \$1,672, respectively.

Rental property

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

Buildings and improvements	40 years
Land improvements	15 years
Furniture and equipment	5 - 7 years

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

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.

For tax purposes, accelerated methods are used to depreciate the land improvements and equipment over shorter useful lives. The cost of the building is depreciated on a straight-line basis over a shorter period.

Impairment of long-lived assets

The Company 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 for the years ended October 31, 2021 and 2020.

Debt issuance costs

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

Deferred costs and amortization

Costs related to obtaining low-income housing tax credits are being amortized over the mandatory 15-year compliance period.

Costs related to the ground lease are being amortized over the 90-year lease term.

Amortization is more fully described in Note 4.

Rental income

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

Advertising costs

Advertising costs are charged to operations when incurred.

Income taxes

The Company 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 Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to take any tax positions in order to qualify as a pass-through entity. The Company 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 Company has no other tax positions which must be considered for disclosure. Income tax returns filed by the Company 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.

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

Use of estimates

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

Forgiveness of tax credit exchange loan

The Company recognizes forgiveness of tax credit exchange loans based on the specific terms of forgiveness set forth in the loan documents. The terms of the Company's tax credit exchange loan provide for forgiveness based on a schedule at the rate of 6.67% per year subject to compliance with the provisions of the loan agreement. All amounts of the loan for which forgiveness is recognized are considered tax credit exchange funds and accounted for as a government grant related to assets. The Company will record the portions of the loan which will be forgiven as a deferred liability which will be recognized as income based on the total amount of the loan expected to be forgiven amortized on a straight-line basis over the 40-year depreciable life of the buildings.

Note 3 - Restricted deposits and funded reserves

Pursuant to the regulatory and operating agreement, certain sums of monies have been placed on restricted deposit. Their withdrawal for use for purposes such as project maintenance or betterments is subject to regulatory authority approval.

A summary of balances as of October 31, 2021 and 2020 is as follows:

Replacement reserve

In accordance with the regulatory and operating agreement, restricted funds are to be held by the Company to be used for replacing or improving capital assets. The reserves shall be funded by an initial deposit and subsequent monthly deposits.

	2021	2020
Balance, November 1	\$ 121,802	\$ 63,209
Deposits	51,900	67,358
Interest earnings	-	523
Withdrawals	(75,185)	(9,288)
Balance, as of October 31	<u>\$ 98,517</u>	<u>\$ 121,802</u>

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**Notes to Financial Statements
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Real estate tax and insurance escrow

In accordance with the regulatory and operating agreement, restricted funds are to be held by the Company to be used for property insurance and tax payments.

	2021	2020
Balance, November 1	\$ 47,086	\$ 42,224
Deposits	70,544	95,720
Interest earnings	-	337
Payments	(66,763)	(91,195)
Balance, as of October 31	<u>\$ 50,867</u>	<u>\$ 47,086</u>

Operating deficit reserve

In accordance with the operating agreement, the Managing Member shall establish an operating deficit reserve account with a federally insured bank. The operating deficit reserve shall be funded at the time of the third capital contribution in the amount of \$210,000. The operating deficit reserve shall be maintained for the duration of the compliance period and shall be used exclusively to pay for operating deficits incurred by the Company. If the balance falls below \$100,000, distributions shall be made from net cash flow to maintain a minimum balance of \$100,000.

	2021	2020
Balance, November 1	\$ 216,343	\$ 213,501
Interest	1,546	2,842
Balance, as of October 31	<u>\$ 217,889</u>	<u>\$ 216,343</u>

Affordability reserve

In accordance with the regulatory and operating agreement, the affordability reserve shall be established in the initial amount of \$280,000. The affordability reserve shall be used to fund the entire amount of any payment shortfall resulting from a lack of payment of the full operating subsidy payment.

	2021	2020
Balance, November 1	\$ 289,241	\$ 285,427
Interest	2,068	3,814
Balance, as of October 31	<u>\$ 291,309</u>	<u>\$ 289,241</u>

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

Working capital reserve

In accordance with the operating agreement, and the development budget contained therein, the Company established a working capital reserve with excess development sources. The balance is as follows:

	2021	2020
Balance, November 1	\$ 76,066	\$ 75,107
Interest	544	959
Balance, as of October 31	<u>\$ 76,610</u>	<u>\$ 76,066</u>

Note 4 - Other assets

At October 31, 2021 and 2020, other assets are comprised of the following:

	Method	Period	2021	2020
Tax credit fees	Straight-line	15 years	\$ 261,600	\$ 261,600
Less accumulated amortization			<u>(191,840)</u>	<u>(174,400)</u>
			<u>\$ 69,760</u>	<u>\$ 87,200</u>
Prepaid ground lease	Straight-line	90 years	\$ 200,000	\$ 200,000
Less accumulated amortization			<u>(21,850)</u>	<u>(19,628)</u>
			<u>\$ 178,150</u>	<u>\$ 180,372</u>

Annual amortization expense for each of the next four years will be \$19,662 and \$2,222 for year five.

Note 5 - Forgivable loan under tax credit exchange program

During 2009, the Company applied for and received a loan in the original amount of \$3,856,953, which was funded with tax credit exchange ("TCE") funds from the New Jersey Housing and Mortgage Finance Agency ("NJHMFA") pursuant to Section 1602 of the American Recovery and Reinvestment Act of 2009. Under Section 1602, state housing agencies can exchange allocations of low-income housing tax credits ("LIHTC") which have been allocated to their state under Section 42 of the Internal Revenue Code for cash at a prescribed rate of up to \$0.85 for each dollar of LIHTC. In turn, the state housing agencies can use Section 1602 funds to make forgivable loans to properties that qualify for LIHTC. As of October 31, 2021 and 2020, the unamortized balance of the loan is \$1,071,378 and \$1,328,508, respectively.

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

The Company's loan does not bear interest and matures on November 1, 2050. Upon maturity, the mortgage and lien created shall become void and be discharged and satisfied. Forgiveness is subject to the Company maintaining compliance with Section 42. Prior to being forgiven, the remaining outstanding portion of the loan that has not been forgiven is subject to repayment in the event the Company fails to maintain compliance. The annual forgiveness is expected to be \$257,130 over the next seven years. However, the amount of annual debt forgiveness recognized will be limited to the amount of depreciation attributable to the assets produced by the exchange proceeds, \$96,424 for the years ended October 31, 2021 and 2020. The amount of deferred revenue at October 31, 2021 and 2020 was \$1,740,982 and \$1,580,276, respectively. No principal payments are required to be paid during the loan term. The loan agreement provides NJHMFA with a security interest in the buildings and improvements.

Note 6 - Related party transactions

The Company contracted with Pennrose Management Company (the "Management Company"), an affiliate of the Managing Member, to manage the day-to-day operations of the property. The Management Company is entitled to receive a fee of \$46 per occupied unit per month, increased by 3% per year. During 2021 and 2020, the fees were \$62 and \$60 per unit, respectively. Management fee expense for the years ended October 31, 2021 and 2020 was \$39,127 and \$37,932, respectively, of which \$564 and \$0, respectively, remain payable.

The Management Company also received an administrative fee equal to \$329 per month of \$3,948 and \$3,948, respectively, for the years ended October 31, 2021 and 2020, which was incurred and paid.

Further, the Management Company provides payroll and other administrative services on a reimbursement basis. For the years ended October 31, 2021 and 2020, \$125,583 and \$77,047, respectively, was reimbursed.

The Company advanced funds to an affiliate of the Managing Member for operating costs. The amounts are noninterest-bearing and due on demand. As of October 31, 2021 and 2020, \$1,701 and \$0, respectively, remain due.

Pennrose Management Company - Capital Improvement Division, an affiliate of the Managing Member, provides maintenance oversight to the project totaling \$7 a unit per month. For the years ended October 31, 2021 and 2020, \$4,452 and \$4,452, respectively, was incurred.

For services rendered in supervising the managing agent, commencing with the year rental achievement occurs as defined in the operating agreement, the Company shall pay the Managing Member, solely from the net cash flow of the Company available for distribution, an annual noncumulative incentive management fee equal to 80% of net cash flow of the Company not to exceed 8% of gross effective income per year. For the years ended October 31, 2021 and 2020, \$44,431 and \$33,940, respectively, was incurred and paid.

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Notes to Financial Statements
October 31, 2021 and 2020

Note 7 - Cash and restricted cash (Company controlled)

Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the property and other reserves including the operating deficit reserve, affordability reserve, and working capital reserve as required by regulatory authority and the operating agreement. 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	\$ 172,719	\$ 147,361
Tenant security deposits	30,879	29,609
Operating deficit reserve	217,889	216,343
Affordability reserve	291,309	289,241
Working capital reserve	76,610	76,066
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 789,406</u>	<u>\$ 758,620</u>

Note 8 - Mortgages payable

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

The Company has executed a mortgage note with NJHMFA under the tax credit assistance program ("TCAP") in the amount of \$3,757,257. The loan bears interest at 1% compounded annually and will mature on December 1, 2050. Interest began accruing on August 1, 2012, the amortization date. Beginning on the amortization date, annual payments are due in the amount of 50% of project cash flow, as defined in the note. Upon maturity, the entire unpaid balance of the principal sum, together with all accrued interest thereon, shall be due. For the years ended October 31, 2021 and 2020, interest incurred totaled \$39,384 and \$39,443, respectively, which includes debt issuance cost amortization of \$3,602 and \$3,602, respectively. During 2021 and 2020, payments of \$57,215 and \$55,003, respectively, were made from surplus cash and applied to accrued interest and principal. As of October 31, 2021 and 2020, the outstanding principal balance is \$3,535,981 and \$3,557,355, respectively.

	2021	2020
Mortgage payable - first mortgage	\$ 3,535,981	\$ 3,557,355
Unamortized debt issuance costs (debt issuance cost based on imputed interest rate of 1.09%)	(104,477)	(108,079)
Mortgage payable, net	<u>\$ 3,431,504</u>	<u>\$ 3,449,276</u>

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

The Housing Authority of the City of New Brunswick issued a commitment to lend \$800,000. The loan bears interest at a rate of 1.0%, compounded annually. The outstanding principal balance plus all accrued interest shall be due and payable November 1, 2060. Interest expense for the years ended October 31, 2021 and 2020 was \$5,955 and \$5,896, respectively. Accrued interest payable was \$61,468 and \$55,513, respectively, at October 31, 2021 and 2020. The outstanding principal balance as of October 31, 2021 and 2020 was \$540,000.

The above mortgages are collateralized by all the rental property of the Company.

Note 9 - Distributable cash flow

Cash flow is defined as the excess of cash receipts over all cash expenditures, and all expenses unpaid but properly accrued to the applicable fiscal year, which have been incurred in the operation of the Company's business. Cash flow shall be determined separately for each fiscal year or portion thereof and shall be applied in the following order of priority:

1. Beginning with net cash flow attributable to the earlier to occur of (A) the fiscal year following the tenth anniversary of the date of the issuance of a final certificate of occupancy for the project or (B) the fiscal year in which any deferred developer fee has been paid in full, up to 50% of remaining net cash flow to payment of the second mortgage loan from NJHMFA;
2. In the event that any operational reduction amount is due and owing pursuant to the terms of the operating agreement, or the Managing Member has not made any required payments pursuant to the terms of the operating agreement, an amount equal to the payment due and owing shall be distributed to the Investment Member in satisfaction of such obligation;
3. An amount equal to the payment necessary to maintain the operating deficit reserve minimum;
4. To the payment of amounts due with respect to any operating deficit loans until such loans are repaid;
5. Any remaining amount up to an amount equal to 80% of remaining net cash flow: (A) first to payment of the development fee until fully paid, (B) next to the payment to the Managing Member in an aggregate amount equal to and in satisfaction of the incentive management fee, which is not to exceed 8% of Gross Effective Income, and (C) next to the Managing Member until there shall have been cumulative distributions under this clause in the aggregate equal to the Managing Member's special capital contribution, if any;
6. Any remaining amount up to an amount equal to 50% of remaining net cash flow to the Managing Member; and
7. Any remaining amount to the members in accordance with their respective interests.

Unless otherwise consented to by the Special Member and as provided above with respect to the Managing Member's special capital contribution, if any, no net cash flow shall be paid to the Managing Member as a return of equity contributed to the Company. Notwithstanding the foregoing, the total amount of net cash flow which may be distributed to the members with respect to any fiscal year shall not exceed surplus cash.

**Providence Square Housing Urban Renewal, LLC
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**Notes to Financial Statements
October 31, 2021 and 2020**

Note 10 - Surplus cash

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

Cash	\$ 172,719
Tenant security deposits	30,879
Accounts receivable - subsidy	1,420
Accounts receivable - other	1,701
Outstanding reimbursements from tax escrow	10,000
Outstanding releases from replacement reserve	<u>15,108</u>
Total	<u>231,827</u>
Accounts payable	41,387
Accrued interest payable - first mortgage	35,782
Current maturities - first mortgage	51,210
Tenant security deposits	30,879
Prepaid rent	<u>890</u>
Total	<u>160,148</u>
Surplus cash	<u><u>\$ 71,679</u></u>

Note 11 - Ground lease

The Company has leased land from an affiliate. The lease shall terminate on the latest to occur of the following: the minimum period which the public housing units are required by law to be operated as public housing, the expiration of forty (40) years from the date the project becomes available for occupancy (October 20, 2010), or the day immediately preceding the ninetieth (90th) anniversary of the commencement date, December 11, 2099. For consideration upon entering the lease, an up-front payment was made in the amount of \$200,000. The annual base rent is one dollar (\$1) per annum. As of the execution of the lease, the lessor acknowledged receipt of the rent due for the entire term of the lease. In addition, the ground lease includes the provision for the payment of additional rents, as defined. No additional rents were incurred or paid for the years ended October 31, 2021 and 2020.

Note 12 - Rent revenue

Tenant rents for 11 of the 53 units are subsidized by the New Brunswick Housing and Redevelopment Authority ("PHA") through the U.S. Department of Housing and Urban Development ("HUD") under its Section 8 Housing Assistance Payments ("HAP") 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 PHA to provide rent subsidies through October 2050. Housing assistance income for the years ended October 31, 2021 and 2020 was \$234,458 and \$211,783, respectively, which represents 39% and 39%, respectively, of total rent revenue.

**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

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

Note 13 - Operating subsidy

The New Brunswick Housing and Redevelopment Authority through HUD contracted with the Company to make subsidy payments to the Company on behalf of the qualified tenants. The program restricts assistance to those tenants who qualify by meeting certain established criteria, including maximum income limitations, as specified in the regulatory agreement and requires the designation of 26 units as public housing units. The subsidy is in effect for the period covering the regulatory agreement. This is for a period of 40 years, expiring October 2050. For the years ended October 31, 2021 and 2020, subsidy income was \$152,944 and \$128,155, respectively, which represents 25% and 23%, respectively, of total rent revenue.

Note 14 - PILOT agreement

The Company has entered into a Payment in Lieu of Taxes ("PILOT") Agreement with the City of New Brunswick. The agreement exempts the Company from taxation on its improvements for a term of thirty (30) years from the completion of the project. In consideration of the exemption, the Company shall make a payment in lieu of taxes (annual service charge) to the City in a sum equal to 10% of gross revenue, which includes all tenant rents and commercial revenue generated by the project. The Company is obligated to pay no less than the minimal annual service charge, defined in the agreement as \$40,000. Real estate taxes paid on the land in the last four preceding quarterly installments are credited against the annual service charge.

For the years ended October 31, 2021 and 2020, PILOT expense was \$40,000 and \$40,000, respectively.

	2021	2020
Revenue		
Residents' rent	\$ 217,538	\$ 208,601
Other income	6,693	12,123
Vacancies and concessions	<u>(7,704)</u>	<u>(5,277)</u>
Total revenue	216,527	215,447
PILOT tax rate	<u>10%</u>	<u>10%</u>
Total PILOT tax expense	21,653	21,545
Adjustment for annual amount, per state statute	<u>18,347</u>	<u>18,455</u>
Minimum annual service charge	<u>40,000</u>	<u>40,000</u>
	<u>\$ 40,000</u>	<u>\$ 40,000</u>

**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

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

Note 15 - Contingency

The Company's low-income housing tax credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Investment Member.

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 Company's financial position, results of operations, and cash flows. The Company is currently unable to fully determine the extent of COVID-19's impact on its business in future periods. The Company'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 Company's operations. Management continues to monitor the results of operations to evaluate the actual and potential economic impact on the project.

Note 16 - Low-income housing tax credits

The Company received an allocation of low-income housing tax credits from the State of New Jersey in the amount of \$777,301 per year. The annual allocation is expected to be claimed each year from 2010 through 2020 with 2010 and 2020 being partial years.

Note 17 - Current vulnerability due to certain conditions

The Company's principal asset is a 53-unit apartment project. The Company's operations are concentrated in the multifamily real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrative directives, rules and regulations of federal, state, and local agencies, including but not limited to, HUD and the New Brunswick Housing and Redevelopment Authority. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD or the state or local agency. 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 18 - Concentration of credit risk

The Company maintains its cash and restricted deposits and funded reserves in several accounts in various banks. At times, these balances may exceed the federal insurance limits; however, the Company has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of October 31, 2021.

**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

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

Note 19 - 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 Company through January 6, 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 Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

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

	2021	2020
Rental income		
Rent revenue	\$ 217,538	\$ 208,601
Tenant assistance payments	234,458	211,783
Operating subsidy	152,944	128,155
	<u>\$ 604,940</u>	<u>\$ 548,539</u>
Total rental income		
Vacancies and concessions		
Apartments vacancies	\$ 7,704	\$ 3,052
Rental concessions	-	2,225
	<u>\$ 7,704</u>	<u>\$ 5,277</u>
Total vacancies and concessions		
Other operating income		
Laundry and vending	\$ 2,665	\$ 3,863
Cable contract revenue	(282)	-
Security deposit forfeitures	1,405	-
Damages income	-	77
Late fees	(2)	613
Application fees	225	75
Services income	225	-
Miscellaneous other income	2,457	7,495
	<u>\$ 6,693</u>	<u>\$ 12,123</u>
Total other operating income		
Salaries and employee benefits		
Salaries - administrative	\$ 51,256	\$ 39,896
Salaries - maintenance	30,623	29,639
Payroll taxes	6,584	5,885
Health insurance and other benefits	7,505	6,929
Workmen's compensation insurance	5,227	4,233
	<u>\$ 101,195</u>	<u>\$ 86,582</u>
Total salaries and employee benefits		

**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

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

	2021	2020
Repairs and maintenance		
Exterminating	\$ 2,544	\$ 2,445
Grounds	19,734	7,335
Fire protection	5,946	3,082
Supplies	1,159	730
HVAC expense	4,378	3,672
Painting, decorating and cleaning	1,871	700
Repairs and maintenance - other than contracts	14,231	9,486
Repairs and maintenance - contracts	14,853	13,594
Elevator	18,817	14,592
Carpeting	17,968	21,234
Miscellaneous maintenance expenses	28,799	14,892
	<u>\$ 130,300</u>	<u>\$ 91,762</u>
Total repairs and maintenance		
Utilities		
Electricity	\$ 14,355	\$ 16,116
Water	10,029	11,666
Sewer	10,989	13,000
Trash removal	2,972	1,990
Gas	4,014	3,189
Cable	2,921	3,266
	<u>\$ 45,280</u>	<u>\$ 49,227</u>
Total utilities		
Miscellaneous operating expenses		
Office supplies and expense	\$ 4,415	\$ 623
Training and travel	2,021	1,244
Telephone and answering service	4,165	3,758
Computer supplies and expense	7,217	8,023
Bad debt expense	4,209	-
Miscellaneous administrative	9,107	5,519
Advertising and newspaper	1,761	1,558
Legal	8,421	6,939
Audit	7,415	7,415
Administrative fee	3,948	3,948
Other professional fees	3,780	4,007
Other taxes, licenses and insurance	4,114	2,143
	<u>\$ 60,573</u>	<u>\$ 45,177</u>
Total miscellaneous operating expenses		

See Independent Auditor's Report.

Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square

Financial Data Required by the New Brunswick Housing and Redevelopment Authority
Years Ended October 31, 2021 and 2020

	2021			2020		
	Public Housing Units (26 Units)	Nonpublic Housing Units (27 Units)	Total	Public Housing Units (26 Units)	Nonpublic Housing Units (27 Units)	Total
<u>Calculation of Operating Surplus</u>						
Tenant rental income	\$ 58,282	\$ 159,256	\$ 217,538	\$ 51,202	\$ 157,399	\$ 208,601
HAP subsidy	-	234,458	234,458	-	211,783	211,783
Public housing operating subsidy	152,944	-	152,944	128,155	-	128,155
Total rental income	211,226	393,714	604,940	179,357	369,182	548,539
Vacancies and concessions	(2,742)	(4,962)	(7,704)	(1,254)	(4,023)	(5,277)
Other operating revenue	3,283	3,410	6,693	5,947	6,176	12,123
Total property income	211,767	392,162	603,929	184,050	371,335	555,385
Salaries and employee benefits	49,643	51,552	101,195	42,474	44,108	86,582
Repairs and maintenance	63,921	66,379	130,300	45,015	46,747	91,762
Utilities	22,213	23,067	45,280	24,149	25,078	49,227
Property management fee	19,194	19,933	39,127	18,608	19,324	37,932
Real estate taxes	19,623	20,377	40,000	19,623	20,377	40,000
Property insurance	18,031	18,725	36,756	15,542	16,140	31,682
Miscellaneous operating expenses	29,715	30,858	60,573	22,162	23,015	45,177
Total operating expenses	222,340	230,891	453,231	187,573	194,789	382,362
Net operating revenue	(10,573)	161,271	150,698	(3,523)	176,546	173,023
Other items included in calculation	11,423	11,862	23,285	(28,744)	(29,849)	(58,593)
Replacement reserve deposits, net	\$ 850	\$ 173,133	\$ 173,983	\$ (32,267)	\$ 146,697	\$ 114,430
Net operating surplus						
<u>Reserve Balances</u>						
Replacement reserve	\$ 48,329	\$ 50,188	\$ 98,517	\$ 59,752	\$ 62,050	\$ 121,802
Operating deficit reserve	106,889	111,000	217,889	106,131	110,212	216,343
Affordability reserve	291,309	-	291,309	289,241	-	289,241
Working capital reserve	37,562	39,028	76,610	37,315	38,751	76,066

See Independent Auditor's Report.

**Providence Square Housing Urban Renewal, LLC
D/B/A 55 Harvey at Providence Square**

**Excess Net Profit Calculation for the
New Brunswick Housing and Redevelopment Authority
Year Ended October 31, 2021**

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:

10/31/2021

Gross Revenue:

- (1) Total Gross Revenue as defined per N.J.S.A 40A:20-3

\$ 224,231

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))

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-

224,231

Expenses:

- (6) Total Expenses per audited Statement of Operations
*(The statutes N.J.S.A. 40A:20-15 do not expressly identify what items
are to be deducted from gross revenues. City's position is that
these statutes be read in pari-materia with N.J.S.A 40A:20-3.)*

453,231

Adjustments:

- (7) Depreciation or obsolescence
- (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 proprietary ownership interest in the property
- (11) Payments for services rendered in excess of reasonable and
customary payments to an affiliate or related party
- (12) Amortization in excess of allowable reserve
- (13) Adjusted Total Expenses (Line (6) less lines (7) through (12))
- (14) Statutory Net Profit (Line (5) less (13))
- (15) Less allowable profit
(Allowable profit (per financial agreement) x Total Project Cost (Line 17))
- (16) Excess Service Charge (Line (14) less (15))
- (17) Total Project Cost (per "Computation of total Project Cost per
N.J.S.A 40A:20-3(h)" form)

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453,231

(229,000)

1,649,621

\$

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\$ 13,746,844

See Independent Auditor's Report.



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