

78 Easton Ave Urban Renewal, LLC

December 7, 2021

VIA CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Leslie Zeledon
City Clerk

Mayor and Governing Body of the City of New Brunswick
City Hall
78 Bayard Street
New Brunswick, New Jersey 08901

**Re: 2021 Post-Closing Audit Report
78 Easton Ave Urban Renewal, LLC
88 Easton Avenue
Blocks 56 Lot 1.04**

Dear Ms. Zeledon:

Pursuant to Section 7.2 of the Financial Agreement by and Between the City of New Brunswick and 78 Easton Ave Urban Renewal, LLC, enclosed please find the Auditor's Post-Closing Audit Report prepared for the period commencing on January 1, 2021 and ending on September 9, 2021. The Audit Report is simultaneously being provided to the City's Director of the Department of Planning, Community and Economic Development, Chief Financial Officer, Tax Collector, Tax Assessor, and City Attorney.

Should you have any questions, please do not hesitate to contact me.

Sincerely,



Russell M. Reiter, Esq.

Enclosures

cc:

Daniel Dominguez, Director, Planning, Community, and Economic Development (*via Certified Mail*)
Richard Mulrine, Chief Financial Officer (*via Certified Mail*)
T. K. Shamy, City Attorney (*via Certified Mail*)
Marilyn Chetrancolo, Tax Collector (*via Certified Mail*)
Philip Duchesneau, Tax Assessor (*via Certified Mail*)

6/2/22


EISNERAMPER

78 EASTON AVE
URBAN RENEWAL, LLC
(a New Jersey limited liability Company)

FINANCIAL STATEMENTS

SEPTEMBER 9, 2021



ON AVE URBAN RENEWAL, LLC
(New Jersey limited liability company)

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INDEPENDENT AUDITORS' REPORT

To the Members of
78 Easton Ave Urban Renewal, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of 78 Easton Ave Urban Renewal, LLC (the "Company"), which comprise the statement of net assets in liquidation as of September 9, 2021, and the related statements of operations, members' equity, and cash flows for the period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets in liquidation of 78 Easton Ave Urban Renewal, LLC as of September 9, 2021, and the results of its operations and its cash flows for the period then ended, in accordance with accounting principles generally accepted in the United States of America.



"EisnerAmper" is the brand name under which EisnerAmper LLP and Eisner Advisory Group LLC provide professional services. EisnerAmper LLP and Eisner Advisory Group LLC are independently owned firms that practice in an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable law, regulations and professional standards. EisnerAmper LLP is a licensed CPA firm that provides attest services, and Eisner Advisory Group LLC and its subsidiary entities provide tax and business consulting services. Eisner Advisory Group LLC and its subsidiary entities are not licensed CPA firms.

Emphasis of Matter

As more fully discussed in Note B, the Company sold its property in September 2021 and has ceased operations and, therefore, the Company determined that liquidation is imminent. As a result, the Company changed its basis of accounting on September 9, 2021, from the going-concern basis to a liquidation basis. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of the calculation of net profit in accordance with the Financial Agreement for Long-Term Tax Exemption with the City of New Brunswick for the period ended September 9, 2021 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, except as described in Note A to the supplementary schedule. 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 accordance with the basis of accounting described in Note A to the supplementary schedule.

EisnerAmper LLP

EISNERAMPER LLP
New York, New York
December 3, 2021

11 AVE URBAN RENEWAL, LLC
(New Jersey limited liability company)

Statement of Net Assets in Liquidation
September 9, 2021
(liquidation basis)

ASSETS

Cash	
Escrows held by title company	\$ 3,723,397
Tenant accounts receivable	3,025,537
Other assets	242,553
	<u>144,030</u>
Total assets	<u>7,135,517</u>

LIABILITIES

Accounts payable, accrued expenses and other liabilities	
	<u>859,173</u>
Total liabilities	<u>859,173</u>
Net assets in liquidation	<u><u>\$ 6,276,344</u></u>

ON AVE URBAN RENEWAL, LLC
 (New Jersey limited liability company)

Statement of Operations
Period Ended September 9, 2021
(going-concern basis)

Revenue:

Base rent

Other income

\$ 5,790,816

743,931

6,534,747

Expenses:

Utilities

Reimbursed payroll

Office and administration

Advertising, marketing and promotion

Service charge in lieu of property taxes

Contract services

Legal and professional

Insurance

Management fees

Repairs and maintenance

Bad debt expense

571,915

539,284

336,355

321,450

293,230

250,055

192,614

190,388

188,696

147,927

39,020

3,070,934

3,463,813

(2,444,940)

(1,559,272)

35,538,222

31,534,010

\$ 34,997,823

Income before interest, depreciation and amortization and gain on sale of Property

Interest expense, including amortization of deferred financing costs of \$932,391

Depreciation and amortization

Gain on sale of Property, see Note A

Net income

78 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

Statement of Members' Equity
Period Ended September 9, 2021
(going-concern basis)

Balance - December 31, 2020	\$ 27,385,129
Net income	34,997,823
Members' distributions	<u>(56,106,608)</u>
Balance - September 9, 2021	<u>\$ 6,276,344</u>

78 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

Statement of Cash Flows
Period Ended September 9, 2021
(going-concern basis)

Cash flows from operating activities:	
Net income	\$ 34,997,823
Adjustments to reconcile income	
to net cash provided by operating activities:	
Gain on sale of Property	(35,538,222)
Depreciation and amortization	2,491,663
Changes in assets and liabilities:	
Tenant accounts receivable	(199,583)
Prepaid expenses and other assets	8,321
Accounts payable, accrued expenses and other liabilities	(200,026)
Net cash provided by operating activities	<u>1,559,976</u>
Cash flows from investing activities:	
Proceeds from sale of Property	46,600,995
Additions to real estate	(5,005,608)
Net cash provided by investing activities	<u>41,595,387</u>
Cash flows from financing activities:	
Distributions to members	(56,106,608)
Repayment of mortgage payable	(57,257,450)
Proceeds from mortgage payable	75,400,000
Deferred financing costs	(658,639)
Net cash used in financing activities	<u>(38,622,697)</u>
Increase in cash and restricted cash	4,532,666
Cash and restricted cash at beginning of year	<u>2,216,268</u>
Cash and restricted cash at end of year	\$ 6,748,934
Supplemental disclosure of cash flow information:	
Interest paid	<u>\$ 1,419,124</u>
Supplemental disclosure of noncash financing activities:	
Assumption of loan by buyer of Property	<u>\$ 75,400,000</u>
The following table provides a reconciliation of cash and restricted cash reported within the balance sheet:	
Cash	\$ 3,723,397
Escrows held by title company	<u>3,025,537</u>
Total cash and restricted cash	<u>\$ 6,748,934</u>

See notes to financial statements

8 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

Notes to Financial Statements
September 9, 2021

NOTE A - ORGANIZATION AND NATURE OF BUSINESS

78 Easton Ave, LLC was formed on June 26, 2017 as a limited liability company in the State of New Jersey. On August 4, 2017, the entity name was amended with State of New Jersey to 78 Easton Ave Urban Renewal, LLC (the "Company"). On March 14, 2018 (the "Closing Date"), the Company acquired 78, 92 and 94 Easton Avenue in New Brunswick, New Jersey (the "City"). The purpose of the Company is to develop and operate a student housing project located in the City (the "Property"). The Property consists of a 9-story residential building consisting of a total of 181 units with 578 bedrooms for lease with a parking garage with 134 parking spaces as well as community amenities such as a pool, fitness center, lounge, and conference rooms. In addition to the residential portion of the Property, there is also approximately 9,000 sq. feet of retail space. The Company was formed to do business under the provisions of the New Jersey Long Term Tax Exemption Law with the City of New Brunswick, New Jersey.

On September 9, 2021 (the "Sale Date"), the Property was sold for a price of \$124,500,000 to an unrelated party (the "Buyer"), less closing costs of \$2,963,562, of which \$464,557 was accrued by the Company as of September 9, 2021. The Company paid approximately \$164,000 for legal and professional fees to an affiliate of the Company, which is included in the closing costs for the sale of the Property. In conjunction with the sale of the Property, the Buyer assumed the outstanding mortgage note payable of \$75,400,000.

The gain on the sale of the Property is as follows:

Selling price	
Property, net of accumulated depreciation	\$ 124,500,000
Closing costs, including transfer taxes of \$1,503,925	(85,952,940)
Leasing commissions	(2,963,562)
	<u>(45,276)</u>
Gain on sale	<u>\$ 35,538,222</u>

The Company intends to wind up its affairs as soon as practicable and has, in all material respects, ceased operations.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of presentation:

The Company prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). As a result of the sale of the Property, the Company has adopted the liquidation basis of accounting as of September 9, 2021. This basis of accounting is considered appropriate when liquidation of a company is imminent. Under the liquidation basis of accounting, assets are valued at their net realizable value, which is the non-discounted amount of cash, or its equivalent into which an asset is expected to be converted in the due course of business less direct costs. Liabilities are stated at their estimated settlement amount, which is the non-discounted amount of cash, or its equivalent, expected to be paid to liquidate and obligation in the due course of business, including indirect costs.

2] Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the accompanying notes to the financial statements. Significant items subject to such estimates and assumptions include the allocation of the Property's development costs and determination of useful lives of real estate. Actual results could differ from those estimates.

78 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

Notes to Financial Statements
September 9, 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Concentration of credit risk:

The Company maintains cash at financial institutions. Such amounts may, at times, exceed the federally insured limit.

[4] Real estate:

Real estate was carried at cost less accumulated depreciation. Depreciation was calculated using the straight-line method over the estimated useful lives as follows:

	<u>Method</u>	<u>Estimated Useful Life</u>
Building and building improvements	Straight-line	40 years
Furniture, fixtures and equipment	Straight-line	5-7 years

Depreciation expense for the period ended September 9, 2021 amounted to \$1,559,272.

In accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 360, the Property is evaluated for impairment whenever indicators of impairment exist. If an indicator of impairment exists, the estimated future cash flows of the Property are compared, on an undiscounted basis, to its carrying value. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment write-down is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow analysis or an income capitalization model. There was no impairment recognized for the period ended September 9, 2021.

[5] Advertising costs:

Advertising costs were expensed as incurred and amounted to approximately \$321,000 for the period ended September 9, 2021.

[6] Revenue recognition:

Rental income is derived from leases with tenants which typically range for a period of twelve months or less and other income is comprised primarily of miscellaneous other amounts charged to tenants. Such amounts are recognized as earned on a monthly basis over the life of the lease or as charged to a tenant.

[7] Income taxes:

The Company has been formed as a New Jersey limited liability company and, as such, is taxed as a partnership for federal and state purposes. The profits, losses, credits and certain deductions of the Company are passed through to its individual members.

Pursuant to the accounting guidance concerning uncertain income tax positions contained in ASC Topic 740-10, there are no uncertain tax positions. The Company's policy is to recognize income tax related interest and penalties in interest expenses, of which there were none for the period ended September 9, 2021.

78 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

Notes to Financial Statements
September 9, 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Deferred financing costs:

Deferred financing costs are recorded at cost and consist of loan fees and other direct costs incurred in issuing debt. Amortization of deferred financing costs is computed using a method that approximates the effective interest method over the term of the related debt and is included in interest expense in the statement of operations.

[9] Leasing commissions:

Leasing commissions are amortized using the straight line method over the term of the related lease. For the period ended September 9, 2021, there was no amortization expense of leasing commissions.

[10] Subsequent events:

The Company has evaluated subsequent events through December 3, 2021, which is the date the financial statements were available to be issued.

NOTE C - FINANCIAL AGREEMENT

Under the Financial Agreement for Long Term Tax Exemption (the "Agreement") with the City dated January 9, 2018, the Company was to make a payment in lieu of taxes to the City in a sum equal to 15% of gross revenue as defined in the Agreement. The Agreement was effective as of September 28, 2020 ("Substantial Completion Date") and will remain in effect for 30 years following Substantial Completion Date of the Property.

Per the Agreement, the Company would be obligated to pay an annual service charge in quarterly installments equal to the greater of 15% of the annual gross revenues or \$1,097,762 (the "Minimum Annual Service Charge") commencing the first full month following Substantial Completion Date. During the initial eight quarters following the Substantial Completion Date (the "Lease Up Period") the quarterly Minimum Annual Service Charge shall be adjusted to the following amounts:

1 st Quarter	\$ 62,500
2 nd Quarter	125,000
3 rd Quarter	187,500
4 th Quarter	187,500
5 th Quarter	187,500
6 th Quarter	187,500
7 th Quarter	250,000
8 th Quarter	250,000

The annual service charge may be adjusted throughout the life of the Agreement and the Company is also subject to limitations on profits and reserves, as defined in the Agreement. Profits in excess of allowable net profits must be paid to the City as an additional service charge. The Agreement requires the Company to submit annual audited financial statements to the City.

As of the Sale Date, the Agreement with the City was assumed by the Buyer of the Property.

78 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

Notes to Financial Statements
September 9, 2021

NOTE D - NOTE PAYABLE

On the Closing Date, the Company entered into a construction loan agreement (the "Construction Loan Agreement") with an institutional lender (the "Lender") for \$64,185,000 to fund the construction for the building (the "Construction Loan"). The Construction Loan, which was collateralized by the Property and an assignment of its leases, required interest only payments through January 5, 2021 (the "2021 Refinance Date") on the unpaid principal amount equal to the Daily LIBOR Rate, as defined in the Construction Loan Agreement, plus a spread of 2.75%.

On the 2021 Refinance Date, the Company entered into a loan agreement (the "2021 Loan Agreement") with an institutional lender (the "2021 Lender"), to borrow \$75,400,000 (the "2021 Loan"). On the 2021 Refinance Date, proceeds of the Construction Loan were used to repay the outstanding balance of the Construction Loan, as well as to pay for the related closing costs, unpaid interest, establish escrows and other reserves. On the Sale Date, the balance in all escrow accounts were transferred to the Buyer.

The 2021 Loan, which is collateralized by the Property and an assignment of its rents and leases, requires interest only payments equal to 2.85% plus monthly 30-Day Compounded SOFR, based on a 360-day year. At September 9, 2021, the interest rate was 2.90%.

On the 2021 Refinance Date, the Company purchased an interest rate protection cap with a SOFR strike price of 3% and a notional amount equal to the 2021 Loan amount. At September 9, 2021, the cost of this cap was included in deferred financing costs which were fully amortized on the Sale Date and included in interest expense on the statement of operations.

On the Sale Date, the 2021 Loan was assumed by the Buyer, releasing the Company from any and all obligations under the mortgage. The Company incurred an assumption fee of \$25,000, which was included in deferred financing costs that were written off and included in interest expense on the statement of operations.

SUPPLEMENTARY INFORMATION

78 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

**Annual Calculation of Allowable Net Profit and Excess Profit Charge per N.J.S.A 40A:20-3(a)
and (c) for the Period Ended September 9, 2021**

Gross Revenue:

Total gross revenue per audited statement of operations	\$ 6,534,747
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Adjustments:

Insurance, operating and maintenance expenses paid by tenant which are ordinarily paid by a landlord	-
Vacancy reserves in excess of the allowable reserve of 10% of gross revenues	(331,438)
Rental income from an affiliate related to the project	-

Adjusted total gross revenue	6,203,309
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Expenses:

Total expenses per audited statement of operations	7,075,146
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Adjustments:

Depreciation or obsolescence	(1,559,272)
Amortization of project costs*	1,862,798
Debt Service*, **	3,242,639
Interest on debt, except interest which is part of debt service	(2,444,940)
Income taxes	-
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	-
Payments for services rendered in excess of reasonable and customary payments to an affiliate or related party	-
Amortization in excess of allowable reserve	-

Adjusted total expenses	8,176,371
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Statutory net profit (loss)	(1,973,062)
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Less allowable net profit (loss)* (allowable profit rate of 12% x total project cost)	6,706,074
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Excess service charge	\$ (8,679,137)
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Total project cost (See Supplemental Note B)	\$ 80,796,075
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* For the period from January 1, 2021 through September 9, 2021

** Calculated using average principal balance from January 1, 2021 through September 9, 2021

78 EASTON AVE URBAN RENEWAL, LLC
(a New Jersey limited liability company)

Notes to Supplementary Schedule
September 9, 2021

NOTE A - BASIS OF PRESENTATION

78 Easton Avenue Urban Renewal, LLC (the "Company") is subject to a Financial Agreement for Long Term Tax Exemption (the "Agreement") with the City of New Brunswick ("City") dated January 9, 2018. The schedule of the calculation of net profit in accordance with the Financial Agreement for Long Term Tax Exemption with the City is presented in accordance with the New Jersey Revenue Statute (N.J.S.A) 40A:20-3 and presents revenues and expenses for the purposes of determining the amount, if any, of additional annual service charges to be paid to the City pursuant to the Agreement.

Revenues and expenses in accordance with N.J.S.A 40A:20-3 differ from the amounts presented in the basic financial statements prepared in accordance with accounting principles generally accepted in the United States of America and are to include all annual service charges paid, all payments of excess profit, an amount sufficient to amortize total project costs and mortgage principal over the term of the Agreement (30 years), all reasonable operating expenses, payments of rent, and debt service charges while excluding depreciation, interest on debt except interest that is part of the debt service, income taxes, and salaries and bonuses paid directly to members.

Profits in excess of allowable net profits must be paid to the City as an additional service charge.

On September 9, 2021, the underlying property that was subject to the Agreement was sold and the Agreement was assumed by the buyer of the property.

NOTE B - ALLOWABLE NET PROFIT (LOSS)

Allowable net profit (loss) is determined by multiplying the allowable net profit rate times the total allowable project costs. Pursuant to the Agreement, the allowable net profit rate is calculated at 12% per annum. The total allowable project costs were computed pursuant to the Agreement as follows under N.J.S.A. 40A:20-3(h):

Cost of land and improvements	\$ 10,500,000
Architects, engineers, and attorney fees incurred in connection with the planning, construction, and financing of the project	3,549,989
Surveying and testing charges	268,775
Construction costs, including site preparation	60,612,492
Insurance, interest and finance costs during construction	1,871,995
Commissions and other expenses paid or payable in connection with initial leasing	45,951
Costs of obtaining initial permanent financing	671,664
Real estate taxes during construction	244,585
Developer's overhead	<u>3,030,625</u>
	<u>\$ 80,796,075</u>

Total allowable project costs are amortized over the term of the Agreement for a period of 30 years from the commencement date of the annual service charge.

Included in costs of obtaining initial permanent financing were \$576,564 of costs, which were incurred in January 2021. These 2021 costs were excluded from the calculation of amortization of project costs and allowable net profit (loss) in 2020.