



**NEW STREET APARTMENTS URBAN
RENEWAL ASSOCIATES LLC**

**FINANCIAL REPORT
DECEMBER 31, 2021**

6/2/22 



INDEPENDENT AUDITORS' REPORT

To the Members of
New Street Apartments Urban Renewal Associates LLC
New Brunswick, New Jersey

Opinion

We have audited the accompanying financial statements of New Street Apartments Urban Renewal Associates, LLC the "Company") which comprise the balance sheet as of December 31, 2021 and the related statements of income and change in member's 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 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 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.

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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 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

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC

BALANCE SHEET

DECEMBER 31, 2021

ASSETS

REAL ESTATE:		
Land	\$ 2,231,100	
Building and improvements	20,152,804	
Accumulated depreciation	<u>(2,708,302)</u>	\$ 19,675,602
OTHER ASSETS:		
Cash	108,307	
Restricted cash - tenant security deposits	72,068	
Mortgage escrows	91,094	
Prepaid insurance and other assets	80,866	
Accounts receivable, less allowance for doubtful accounts of \$18,176	<u>48,844</u>	<u>401,179</u>
Total other assets		<u>\$ 20,076,781</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES:		
Mortgage note payable, (net of unamortized debt issuance costs of \$44,668 at December 31, 2021)	\$ 17,375,907	
Accounts payable and accrued expenses	131,726	
Tenant security deposits	69,825	
Prepaid rent	<u>69,045</u>	\$ 17,646,503

COMMITMENTS AND CONTINGENCIES

2,430,278

MEMBERS' EQUITY

\$ 20,076,781

See accompanying notes to financial statements.

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC
STATEMENT OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2021

REVENUES:		
Rental income	\$ 1,820,457	
Miscellaneous fee income	<u>87,065</u>	
		\$ 1,907,522
OPERATING REVENUES		
OPERATING EXPENSES:		
Payment in lieu of taxes	215,003	
(including real estate taxes on land)	33,964	
Advertising	135,212	
Repairs and maintenance	146,738	
Payroll and related costs	6,345	
Vehicle	57,383	
Management fees	9,441	
Office expense	160,989	
Telephone & utilities	56,645	
Professional fees	76,536	
Insurance	10,921	
Bad debt expense	<u>4,145</u>	
Miscellaneous		<u>913,322</u>
		994,200
INCOME FROM OPERATIONS		
OTHER EXPENSES:		
Interest including debt amortization expense of \$27,728	(707,696)	
Depreciation	<u>(509,276)</u>	
		<u>(1,216,972)</u>
		(222,772)
NET LOSS		<u>2,653,050</u>
MEMBERS' EQUITY, BEGINNING OF YEAR		<u>\$ 2,430,278</u>
MEMBERS' EQUITY, END OF YEAR		

See accompanying notes to financial statements.

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$	(222,772)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation		509,276
Interest expense related to debt issuance costs		27,728
Provision for bad debt		10,921
Change in assets and liabilities		(11,414)
Prepaid insurance and other assets		(26,755)
Accounts receivable		5,898
Accounts payable and accrued expenses		(12,173)
Tenant security deposits		(10,306)
Prepaid rent		
Net cash flows used in operating activities	\$	270,403
CASH FLOWS FROM FINANCING ACTIVITY -		(334,896)
Payments on mortgage payable		(334,896)
Net cash flows used in financing activity		(64,493)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR		335,962
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$	<u>271,469</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -		
Interest paid	\$	<u>679,970</u>

See accompanying notes to financial statements.

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC

NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Business and Significant Accounting Policies:

Nature of Business - New Street Apartments Urban Renewal Associates LLC was formed as a limited liability company under the laws of the state of New Jersey in March 2011, 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").

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 leases property to residential tenants. 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 Liability Company - Each member's liability is limited to their respective member's equity plus any debt for which a personal guarantee has been given. Under the terms of the Limited Liability Operating Agreement, the Company's existence is perpetual or will terminate sooner as provided for in the agreement.

Estimates and Uncertainties - The preparation of 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 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.

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.

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 they are determined to be uncollectible. Management estimated an allowance for uncollectible accounts of \$18,176 as of December 31, 2021.

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC

NOTES TO FINANCIAL STATEMENTS

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 \$149,414. Amortization expense for the year ended December 31, 2021, totaled \$27,728.

Expected future amortization is as follows:

2022	\$ 27,728
2023	16,940
	<u>\$ 44,668</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 \$509,276.

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 March 2013. 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 \$33,964 for the year ending December 31, 2021.

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.

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC

NOTES TO FINANCIAL STATEMENTS

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 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 assumed a note from a bank in the amount of \$18,128,000. The borrowings bear interest at the 3.81% and is collateralized by substantially all assets of the Company. The outstanding principal balance plus all accrued or unpaid interest shall be payable in full October 2023.

A summary of long-term debt follows:

	Interest Rate	Loan Balance	Unamortized Debt Issuance Cost	Net Debt
Mortgage note payable to a bank in monthly installment \$84,572 of principal and interest until October 2023.	3.81%	\$ 17,420,575	\$ 44,668	\$ 17,375,907

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

2022	\$ 348,064
2023	17,072,511
	<u>\$ 17,420,575</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 \$57,383.

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC

NOTES TO FINANCIAL STATEMENTS

Note 4 - 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.

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 statement of cash flows.

Cash	\$ 108,307
Restricted cash - tenant security deposits	72,068
Mortgage escrows	<u>91,094</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 271,469</u>

NEW STREET APARTMENTS URBAN RENEWAL ASSOCIATES LLC

SUPPLEMENTARY INFORMATION

EXCESS PROFIT (LOSS)

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

YEAR ENDED DECEMBER 31, 2021

		\$ 1,907,522
Total gross revenues		
	\$ 2,130,294	
Total operating expenses		
Less (if included in expenses above):	(537,002)	
Depreciation and amortization		
Add:	334,896	
Principal payments on mortgage note payable	<u>1,269,931</u>	
Allowable amortization of project costs		<u>3,198,119</u>
		(1,290,597)
Net profit (loss) in accordance with N.J.S.A. 40A:20-1		<u>4,571,750</u>
Less: Allowable annual net profit (12% of Project Costs)		(5,862,347)
Excess loss		<u>(23,671,084)</u>
Excess loss, beginning of year		\$ <u>(29,533,431)</u>
Excess loss, end of year		
 Allowable Amortization of Project Costs		
Total project costs amortized over life of the abatement:		\$ 38,097,915
Total project costs		30 years
Term of abatement (in years)		<u>\$ 1,269,931</u>
Allowable annual amortization		

See accompanying notes to financial statements.