

**Union Affordable, LP
NJHMFA Project No.: 374**

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

December 31, 2023 and 2022

Union Affordable, LP
NJHMFA Project No.: 374

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Independent Auditor's Report

To the General Partner
Union Affordable, LP

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Union Affordable, LP, which comprise the statements of assets, liabilities and partners' equity (deficit) as of December 31, 2023 and 2022, and the related statements of operations, partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets, liabilities, and partners' equity (deficit) of Union Affordable, LP as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the New Jersey Housing and Mortgage Finance Agency ("NJHMFA") as described in Note 2.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Union Affordable, LP 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.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by Union Affordable, LP in accordance with accounting practices prescribed or permitted by the NJHMFA, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the NJHMFA. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices prescribed or permitted by the NJHMFA. Management is also responsible 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 Union Affordable, LP's ability to continue as a going concern for one year after the date that the financial statements are available to be 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 and *Government 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 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 and *Government 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 Union Affordable, LP'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 Union Affordable, LP'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 audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The NJHMFA-required financial data templates are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the NJHMFA-required financial data templates are fairly stated in all material respects in relation to the financial statements as a whole.

Restriction on Use

Our report is intended solely for the information and use of Union Affordable, LP and NJHMFA and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 23, 2024, on our consideration of Union Affordable, LP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Union Affordable, LP's internal control over financial reporting and compliance.

CohnReznick LLP

Bethesda, Maryland
May 23, 2024

Union Affordable, LP
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Statements of Assets, Liabilities and Partners' Equity
December 31, 2023 and 2022

	<u>Assets</u>	
	<u>2023</u>	<u>2022</u>
Current assets		
Cash	\$ 33,291	\$ 261,257
Accounts receivable - tenants, net of allowance of \$183,785 and \$197,457, respectively	170,348	130,392
Accounts receivable - federal government	145,701	126,559
Prepaid expenses	111,813	81,396
Total current assets	<u>461,153</u>	<u>599,604</u>
Deposits held in trust - funded		
Tenant security deposits	45,627	46,580
Restricted deposits and funded reserves		
P.I.L.O.T escrow	46,332	44,343
Insurance and MIP escrow	65,139	95,198
Operating reserve	19	19
Replacement reserve	438,327	402,917
Other escrows/reserves		
Minimum escrow	24,169	24,169
Total restricted deposits and funded reserves	<u>573,986</u>	<u>566,646</u>
Rental property		
Land	2,378,623	2,378,623
Land improvements	475,987	475,987
Building	14,982,433	14,942,869
Furniture, fixtures and equipment	459,065	398,394
Total rental assets	18,296,108	18,195,873
Less accumulated depreciation	<u>5,483,958</u>	<u>5,046,157</u>
Total net rental property	<u>12,812,150</u>	<u>13,149,716</u>
Other assets		
Tax credit monitoring fees, net of accumulated amortization of \$40,014 and \$37,131, respectively	3,226	6,109
Total other assets	<u>3,226</u>	<u>6,109</u>
Total assets	<u>\$ 13,896,142</u>	<u>\$ 14,368,655</u>

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Statements of Assets, Liabilities and Partners' Equity
December 31, 2023 and 2022

Liabilities and Partners' Equity (Deficit)

	2023	2022
Current liabilities		
First mortgage payable, current maturities	\$ 200,078	\$ 191,912
Accrued interest, current	6,389	7,057
Accounts payable	113,698	40,623
Accrued P.I.L.O.T	23	23
Prepaid rents	92,814	99,071
Accrued management fee payable	-	6,528
Other current liabilities	317,228	49,399
Total current liabilities	730,230	394,613
Deposits liability		
Tenant security deposits	41,114	45,198
Total deposits liability	41,114	45,198
Long-term liabilities		
Mortgages payable, less current maturities net of unamortized debt issuance costs	6,494,336	6,687,560
Notes payable, less current maturities	6,106,224	6,106,224
Accrued interest, long-term	1,143,601	874,928
Total long-term liabilities	13,744,161	13,668,712
Partners' equity (deficit)		
Unrestricted	(1,057,690)	(142,785)
Restricted for repairs and replacement	438,327	402,917
Total partners' equity (deficit)	(619,363)	260,132
Total liabilities and partners' equity (deficit)	\$ 13,896,142	\$ 14,368,655

See Notes to Financial Statements.

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Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Revenue		
Gross potential	\$ 1,496,698	\$ 1,512,980
Less vacancies	(224,930)	(117,258)
Less collection losses	(83,935)	(220,958)
Net rental revenue	1,187,833	1,174,764
Interest income	1,531	706
Other	-	15,125
Total operating income	1,189,364	1,190,595
Expenses		
Administrative expenses	276,420	136,216
Salaries and related charges	200,121	220,179
Maintenance and repairs	96,532	79,824
Maintenance contracts	303,403	124,543
Utilities	226,110	251,364
Property management fee	70,992	70,992
Payment in lieu of real estate taxes (P.I.L.O.T)	110,000	110,000
Property insurance	105,454	85,739
Total operating expenses	1,389,032	1,078,857
Net operating income (loss)	(199,668)	111,738
Other income (expenses)		
Interest on mortgages	(355,896)	(363,711)
Debt service subsidies	148,548	148,548
Fees and charges	(22,292)	(24,896)
Asset management fee	(9,529)	(8,955)
Miscellaneous other income	26	-
Loss before depreciation and amortization and provision for (withdrawals from) repairs and replacement reserve	(438,811)	(137,276)
Depreciation expense (equal to long-term debt principal amortization)	(191,913)	(184,081)
Amortization and depreciation (in excess of mortgage amortization)	(248,771)	(243,482)
Provision for repairs and replacement reserve	(57,270)	(45,150)
Withdrawals from repairs and replacement reserve	21,860	400,474
Net loss	\$ (914,905)	\$ (209,515)

See Notes to Financial Statements.

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Statements of Partners' Equity (Deficit)
Years Ended December 31, 2023 and 2022

Unrestricted

	<u>General partner</u>	<u>Limited partner (BC TCF XXXII)</u>	<u>Limited partner (BC TCF XXXIII)</u>	<u>Total</u>
Partners' equity (deficit) December 31, 2021	\$ (322)	\$ 8,879	\$ 58,173	\$ 66,730
Net loss	<u>(21)</u>	<u>(27,761)</u>	<u>(181,733)</u>	<u>(209,515)</u>
Partners' equity (deficit) December 31, 2022	(343)	(18,882)	(123,560)	(142,785)
Net loss	<u>(91)</u>	<u>(121,225)</u>	<u>(793,589)</u>	<u>(914,905)</u>
Partners' equity (deficit) December 31, 2023	<u>\$ (434)</u>	<u>\$ (140,107)</u>	<u>\$ (917,149)</u>	<u>\$ (1,057,690)</u>
Partners' percentage of losses	<u>0.01%</u>	<u>13.25%</u>	<u>86.74%</u>	<u>100.00%</u>

Restricted for Repairs and Replacement

Balance, December 31, 2021	\$ 758,241
Additions during year	44,796
Withdrawals during year	(400,474)
Interest earned	<u>354</u>
Balance, December 31, 2022	402,917
Additions during year	56,264
Withdrawals during year	(21,860)
Interest earned	<u>1,006</u>
Balance, December 31, 2023	<u>\$ 438,327</u>

See Notes to Financial Statements.

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Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net loss	\$ (914,905)	\$ (209,515)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation	437,801	424,680
Amortization	2,883	2,883
Amortization of debt issuance costs	6,855	6,812
Collection losses	83,935	220,958
Provision for repairs and replacement reserve	57,270	45,150
Withdrawals from repairs and replacement reserve	(21,860)	(400,474)
Changes in assets and liabilities		
(Increase) decrease in assets		
Accounts receivable - tenants	(123,891)	(196,016)
Accounts receivable - federal government	(19,142)	(99,495)
Prepaid expenses	(30,417)	(15,598)
Increase (decrease) in liabilities		
Accrued interest	268,005	268,033
Accounts payable	73,075	10,156
Prepaid rents	(6,257)	44,923
Asset management fee payable	9,529	8,955
Property management fee payable	(6,528)	-
Tenant security deposit liability	(4,084)	(2,340)
	(187,731)	109,112
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Net deposits to P.I.L.O.T escrow	(1,989)	(2,818)
Net withdrawals from insurance and MIP escrow	30,059	5,235
Net withdrawals from operating reserve	-	409,101
Deposits to repairs and replacement reserve	(57,270)	(45,150)
Withdrawals from repairs and replacement reserve	21,860	400,474
Net purchases of rental property	(100,235)	(739,506)
	(107,575)	27,336
Net cash (used in) provided by investing activities		

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Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from financing activities		
Principal payments on mortgages payable	(191,913)	(184,081)
Affiliate advances	258,300	-
Net cash provided by (used in) financing activities	66,387	(184,081)
Net decrease in cash and restricted cash	(228,919)	(47,633)
Cash and restricted cash, beginning	307,837	355,470
Cash and restricted cash, end	\$ 78,918	\$ 307,837
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 81,036	\$ 88,866

See Notes to Financial Statements.

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Notes to Financial Statements
December 31, 2023 and 2022

Note 1 - Organization and nature of operations

Union Affordable, LP (the "Partnership") is a New Jersey Limited Partnership formed on January 27, 2010, for the purpose of acquiring, rehabilitating, owning, maintaining and operating an 87-unit government assisted multi-family, low- and moderate-income housing development for the elderly. On April 1, 2010, the Partnership acquired Union Gardens (the "Project"). The Project is located in Montclair, New Jersey. Financing of the Project has been provided by the New Jersey Housing and Mortgage Finance Agency ("NJHMFA"), and under agreement with NJHMFA, the Project is intended primarily for low-income tenants.

The Partnership shall continue until December 31, 2060, unless dissolved by law or pursuant to the Second Amended and Restated Agreement of Limited Partnership (the "partnership agreement").

The Partnership consists of four partners, Brookside General Partner LLC, a Maryland limited liability company (the "general partner"), who owns .01% of the outstanding membership interest in the Partnership, BCCC, Inc. (the "special limited partner") who does not maintain a percentage interest in the Partnership, BF Garden Corporate Tax Credit Fund XXXIII, LP, a Massachusetts limited partnership and BF garden Corporate Tax Credit Fund XXXII, LP, a Massachusetts limited partnership (collectively the "investment limited partners"), who own 86.74% and 13.25%, of the outstanding membership interest in the Partnership, respectively.

Cash distributions are limited by agreement between the Partnership and New Jersey Housing and Mortgage Finance Agency ("NJHMFA") to 4% per year of the amount originally invested to the extent of surplus cash, not to exceed \$131,231 annually, as defined by NJHMFA. Undistributed amounts are cumulative and may be distributed in subsequent years if future operations provide surplus cash in excess of current requirements. No such distributions were made for the years ended December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, there were no asset management fees paid to the special limited partner. Unpaid distributions at December 31, 2023 and 2022 amounted to \$1,483,552 and \$1,352,321, respectively.

The Project has been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42 ("Section 42"), which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. The Project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. In addition, Union Affordable, LP has executed an Extended Use Agreement, which requires the utilization of the Project pursuant to Section 42 for a minimum of 25 years, even if the Partnership disposes of the Project. In order to qualify for the credits, the Partnership must maintain compliance with certain requirements.

Note 2 - Significant accounting policies

Basis for presentation

The accompanying financial statements have been prepared in accordance with the NJHMFA Policies and Procedures Manual, revised July 1, 1997.

The accounting practices prescribed or permitted by NJHMFA for transactions of the reserve for repairs and replacements differ from accounting principles generally accepted in the United States of America as follows:

- Funding of the reserve for repairs and replacements is recorded as an expense.

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- Reimbursements from the reserve for repairs and replacements are recorded as income when approved by NJHMFA, as opposed to when the actual expenditure is made by the Partnership.
- Interest earned by the reserve fund is recorded directly in the fund balance.

Rental property

Rental property, which is comprised of land, building and improvements, site improvements, and furniture and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the methods described below. For income tax purposes, accelerated lives and methods are used.

	<u>Estimated life</u>	<u>Method</u>
Buildings and improvements	15 - 40 years	Straight-line
Site improvements	15 years	Straight-line
Furniture and equipment	5 - 7 years	Straight-line

Tenant receivables and bad debts

Tenant receivables were previously charged to bad debt expense when they were determined to be uncollectible based upon a periodic review of the accounts by management. During the year ended December 31, 2022, management changed their accounting policy. Effective January 1, 2022, tenant receivables are reported net of an allowance of 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. As of December 31, 2023 and 2022, the allowance was \$183,785 and \$197,457, respectively. It is reasonably possible that management's estimate of the allowance will change.

Impairment of long-lived assets

The Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized through December 31, 2023.

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. During the years ended December 31, 2023, and 2022, \$6,855 and \$6,812, respectively, of such amortization is included as a component of interest expense.

Tax credit monitoring fees and amortization

Tax credit monitoring fees of \$43,240 are amortized over 15 years using the straight-line method. Accumulated amortization was \$40,014 and \$37,131 at December 31, 2023 and 2022, respectively.

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Amortization expense for each of the years ended December 31, 2023, and 2022, was \$2,883. Estimated amortization expense for each of the ensuing years through December 31, 2025, is \$2,883 and \$343, respectively.

Rental income

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

Advertising costs

Advertising costs are charged to operations when incurred. As of December 31, 2023 and 2022, \$0 and \$57, respectively of such costs were incurred.

Income taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions, and tax credits are passed through to and are reported by its partners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes, and the Partnership has no other tax positions which must be considered for disclosure. Income tax returns filed by the Partnership are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2020 remain open.

Use of estimates

The preparation of financial statements, in conformity with NJHMFA policy and procedures manual, 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 these estimates.

Reclassification

Certain amounts in the 2022 statements have been reclassified to conform with the 2023 presentation.

Note 3 - Housing assistance payments contract

On February 1, 2017, the Partnership entered into a 20-year Project Based Rental Assistance ("PBRA") contract under HUDs Rental Assistance Demonstration ("RAD") program. The PBRA contract covers 55 units and expires on January 31, 2037; however, the annual payments are subject to appropriations by HUD. The rental assistance payments recognized on the contract during the years ended December 31, 2023, and 2022, was \$430,086 and \$525,919, respectively, and is included in gross potential revenue for financial statement presentation purposes.

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Note 4 - Mortgage notes payable

On August 24, 2010, the Partnership entered into a multi-tranche loan ("First Mortgage Note I") with New Jersey Housing and Mortgage Finance Agency ("NJHMFA") in the original amount of \$3,698,352. The note is comprised of two separate tranches ("Tranche A") and ("Tranche B"), in the amounts of \$2,171,352 and \$1,527,000, respectively. Tranche A and Tranche B mature on September 1, 2040, and January 1, 2025, respectively. Tranche A and Tranche B amounts bear interest at 4.55% and 4% per annum, respectively. The Project receives principal and interest subsidy payments for Tranche B from NJHMFA under Section 236. Principal and interest payments in the amounts of \$11,067 and \$11,679 are payable monthly on Tranche A and Tranche B, respectively, before subsidy payments. Federal interest subsidies for each of the years ended December 31, 2023, and 2022, was \$148,548. Interest incurred during the years ended December 31, 2023, and 2022, amounted to \$87,223 and \$95,038, respectively, of which \$6,855 and \$6,812, respectively, pertained to amortization of debt issuance costs. Accrued interest at December 31, 2023 and 2022, was \$6,389 and \$7,057, respectively. The balance outstanding on Tranche A and Tranche B at December 31, 2023, amounted to \$1,554,626 and \$148,344, respectively, and is included in mortgage payable. The balance outstanding on Tranche A and Tranche B at December 31, 2022, amounted to \$1,615,186 and \$279,697, respectively, and is included in mortgage notes payable.

Under agreements with NJHMFA, the Partnership is required to make monthly escrow deposits of \$18,525 for P.I.L.O.T. taxes and insurance and \$6,600 for the replacement of project assets, and is subject to restrictions as to operating policies, rental charges, operating expenditures and distributions to partners. All escrows and reserves were funded as required during each of the years ended December 31, 2023, and 2022 (see Schedule D).

The Partnership was required to fund an operating deficit reserve at closing in the initial amount of \$395,270. The operating reserve was initially funded as required (see Schedule D). Release of funds may be made in order to pay appropriate operating expenses, as approved by the special limited partner. At both December 31, 2023 and 2022, the balance of the operating reserve was \$19.

Debt issuance costs, net of accumulated amortization, totaled \$74,672 and \$81,527 as of December 31, 2023, and 2022, respectively, and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed interest rate of approximately 5%.

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Aggregate annual maturities of mortgages payable over each of the next five years and thereafter are as follows:

	First mortgage Note I (Tranche A)	First mortgage Note I (Tranche B)	Total
December 31, 2024	\$ 63,374	\$ 136,704	\$ 200,078
2025	66,318	11,640	77,958
2026	69,399	-	69,399
2027	72,623	-	72,623
2028	75,998	-	75,998
Thereafter	1,206,914	-	1,206,914
Total balance due	\$ 1,554,626	\$ 148,344	1,702,970
Unamortized debt issuance costs			(74,672)
Net balance			\$ 1,628,298

The liability of the Partnership under the mortgage notes is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender.

Note 5 - Grants

The Partnership was awarded \$4,636,116 from the NJHMFA Tax Credit Committee for participation in the Tax Credit Exchange ("TCX") Program. The award is not required to be repaid as long as the property remains in compliance with Section 1602 of the American Recovery and Reinvestment Act ("ARRA") of 2009, Section 42 of the Internal Revenue Code, and NJHMFAs TCX Program selection criteria through maturity on May 1, 2040. The balance outstanding at both December 31, 2023, and 2022, amounted to \$4,636,116 and is included in mortgage notes payable.

During 2012, the Partnership was awarded \$430,000 from the Federal Home Loan Bank of New York ("FHLB"). The award is not required to be repaid as long as the Partnership remains in compliance with Affordable Housing Program ("AHP") Regulations during a 15-year retention period, as defined. The balance outstanding at both December 31, 2023 and 2022, amounted to \$430,000 and is included in mortgage notes payable.

Note 6 - Notes payable - affiliates

On April 5, 2010, the Partnership entered into a loan ("seller loan") with National Foundation for Affordable Housing Solutions, Inc. ("NFAHS"), an affiliate, in the original amount of \$5,650,000. The loan bears interest at 4.4% per annum. Interest payments are due in annual installments from available cash flow, as defined. Such annual installments shall commence at the end of the first year in which the property generates surplus cash, until maturity on December 31, 2050, at which time any principal and all accrued but unpaid interest becomes due. Interest incurred during each of the years ended December 31, 2023, and 2022, amounted to \$237,390, respectively. No interest was paid during the years ended December 31, 2023, and 2022. Accrued interest at December 31, 2023, and 2022, was \$713,459 and \$476,069, respectively. The balance outstanding at each of the years ended December 31, 2023, and 2022, amounted to \$5,395,236.

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Notes to Financial Statements
December 31, 2023 and 2022

On April 5, 2010, the Partnership entered into a loan (cash flow note) with NFAHS in the original amount of \$710,988. The loan bears interest at 4.4% per annum. Interest payments are due in annual installments from available cash flow, as defined. Such annual installments shall commence at the end of the first year in which the property generates surplus cash, until maturity on December 31, 2040, at which time any principal and all accrued but unpaid interest becomes due. Interest incurred during each of the years ended December 31, 2023, and 2022, amounted to \$31,283. Accrued interest at December 31, 2023, and 2022, was \$430,142 and \$398,859, respectively. The balance outstanding at both December 31, 2023, and 2022, amounted to \$710,988.

Note 7 - Related party transactions

Asset management fee

The Partnership is obligated to pay a cumulative annual fee to the special limited partner, or an affiliate thereof, for services in connection with the Partnership's accounting matters. The annual fee of \$6,525 commenced in 2011 and is payable from available cash flow, as defined. In the event available cash flow does not exist, the general partner shall be required to advance the amount to the Partnership as a subordinated loan. Such fee shall be indexed annually for inflation. Such fee incurred during the years ended December 31, 2023, and 2022, amounted to \$9,529 and \$8,955, respectively. As of December 31, 2023, and 2022, \$58,928 and \$49,399, respectively, remains payable.

Partnership management fee

Pursuant to the partnership agreement, the general partner is entitled to receive a noncumulative partnership management fee in the amount of \$6,525. The fee commenced in 2011 and is only payable to the extent of cash flow available for distribution. During each of the years ended December 31, 2023, and 2022, no such fees were incurred.

Operating deficit loans

Pursuant to the partnership agreement, the general partner is required to loan the Partnership during the Subordinated Loan Period, as defined, amounts to fund any operating deficits, as defined. The operating deficit loans shall not exceed \$750,000 (the "Maximum Subordinated Loan Obligation"). Upon reaching certain milestones, as defined, the general partner may request reductions in the Maximum Subordinated Loan Obligations. The loans are to be repaid, without interest, from available cash flow. No such loans were required to be made through December 31, 2023.

Affiliate advance

During the year ended December 31, 2023, an affiliate of the general partner made \$258,300 in advances to pay for operating expenses. Amounts are unsecured, noninterest-bearing, and due on demand. As of December 31, 2023, the entire amount remains payable and is included in other current liabilities.

Union Affordable, LP
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Notes to Financial Statements
December 31, 2023 and 2022

Note 8 - Statements of cash flows

The following table provides a reconciliation of cash and restricted cash reported within the balance sheets that sum to the total of the same such amounts in the statements of cash flows:

	2023	2022
Cash	\$ 33,291	\$ 261,257
Tenant security deposits	45,627	46,580
 Total cash and restricted cash shown in the statements of cash flows - regulatory basis	 \$ 78,918	 \$ 307,837

The amount included in restricted cash consists of security deposits held in trust for the future benefit of tenants upon moving out of the property as required by regulatory authority.

Note 9 - Property management fee

The property is managed by an unrelated party under an agreement approved by NJHMFA, which provides for a management fee of \$68 per-unit, per-month. During each of the years ended December 31, 2023, and 2022, \$70,992 was charged to operations, of which \$0 and \$6,528, remain payable at December 31, 2023, and 2022, respectively.

The management agent advanced \$6,000 to the Partnership to fund operating expenses. The advances are unsecured, noninterest-bearing and due on demand. At both December 31, 2023 and 2022, \$6,000 remains payable and is included in accounts payable and accrued expenses.

Note 10 - Tax abatement agreement

The Partnership has entered into an agreement with the Township of Montclair (the "City"), which exempts the Project from real estate taxes during the entire term of the first mortgage. In lieu of the tax, the Partnership is to pay the City an annual service charge, or payment in lieu of taxes ("P.I.L.O.T."), for municipal services equal to the greater of \$100,000 or 7.12% of the Project revenue, as defined. During the year ended December 31, 2020, and thereafter, the payment increased to the greater of \$110,000 or 7.12% of the Project revenue, as defined. P.I.L.O.T incurred during each of the years ended December 31, 2023, and 2022, was \$110,000, respectively. Accrued P.I.L.O.T at both December 31, 2023, and 2022, was \$23.

Note 11 - Allocation of partnership profits, losses and distributions

Net cash flow, as defined by the partnership agreement, shall be applied as follows:

- To the repayment to the investor limited partners of the full amount (including interest) of any credit recovery loans.
- To repay the asset management fee for such fiscal year and for any previous fiscal year(s) as to which the asset management fee shall not yet have been paid in full.
- To repay any unpaid portion of the development fee.

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Notes to Financial Statements
December 31, 2023 and 2022

- To repay the seller loan until fully paid, and then to the payment of the cash flow loan until fully paid.
- To repay any subordinate loans.
- Of the remaining balance, 50.01% to the investor limited partners as a distribution.
- To repay the partnership management fee for such fiscal year.
- Any remaining balance, to the general partner as a distribution.

Note 12 - Surplus cash

The Partnership's surplus cash of December 31, 2023 and 2022, calculated per the terms of the partnership agreement, is as follows:

	2023	2022
Cash	\$ 78,918	\$ 307,837
Accounts receivable - subsidy	145,701	126,559
	224,619	434,396
Accrued mortgage interest payable	6,389	7,057
Delinquent mortgage principal payments	-	-
Delinquent deposits to reserve for replacements	-	-
Accounts payable (due within 30 days)	113,698	40,623
Loans and notes payable (due within 30 days)	-	-
Deficient tax, insurance or MIP escrow deposits	-	-
Accrued expenses (not escrowed)	-	6,528
Prepaid revenue	92,814	99,071
Tenant security deposits liability	41,114	45,198
	254,015	198,477
Less total current obligations	254,015	198,477
Surplus cash (deficiency)	\$ (29,396)	\$ 235,919
Amount available for distribution during next fiscal period	\$ (29,396)	\$ 235,919

Note 13 - Concentration of credit risk

The Partnership maintains cash and cash equivalents with financial institutions. All escrows and reserves are held in trust accounts in the Partnership's name. At times, these balances may exceed the federal insurance limits; however, the Partnership 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 balances as of December 31, 2023, or 2022.

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Notes to Financial Statements
December 31, 2023 and 2022

Note 14 - Current vulnerability due to certain concentrations

The Partnership's principal asset is an 87-unit apartment project. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of state agencies, including, but not limited to, NJHMFA. 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 15 - Contingencies

The Projects' low-income housing 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 investor limited partners.

Note 16 - Subsequent events

Events that occur after the statements of assets, liabilities and partners' equity 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 statements of assets, liabilities and partners' equity date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statements of assets, liabilities and partners' equity date require disclosure in the accompanying notes. Management evaluated the activity of the Partnership through May 23, 2024 (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 is required in the notes to the financial statements.

Supplementary Information
Supporting Data Required by NJHMFA

Union Affordable, LP
NJHMFA Project No.: 374

Supplementary Information
Years Ended December 31, 2023 and 2022

	2023	2022
Schedule A - Receivables Other Than from Tenants		
Accounts receivable - federal government	\$ 145,701	\$ 126,559

	2023	2022
Schedule B - Accounts Payable and Accrued Expenses		
Administrative expenses	\$ 34	\$ 1,437
Maintenance and repairs	107,113	1,135
Utilities	551	28,715
Payment in lieu of real estate taxes (P.I.L.O.T)	23	23
Management company advances	6,000	6,000
Miscellaneous current liabilities	-	3,336
	\$ 113,721	\$ 40,646

	2023	2022
Schedule C - Loans, Notes or Mortgages Payable (Other Than the Mortgage Payable to NJHMFA)		
National Foundation for Affordable Housing Solutions, Inc. (NFAHS) (seller loan) (see Note 6)	\$ 5,395,236	\$ 5,395,236
NFAHS (cash flow note) (see note 6)	710,988	710,988
	\$ 6,106,224	\$ 6,106,224

Union Affordable, LP
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Supplementary Information
Years Ended December 31, 2023 and 2022

Schedule D - Changes in Reserve Balances

	Balance December 31, 2022	Additions	Withdrawals	Interest earned	Balance December 31, 2023
P.I.L.O.T escrow	\$ 44,343	\$ 111,900	\$ (110,000)	\$ 89	\$ 46,332
Insurance and MIP escrow	95,198	98,608	(129,103)	436	65,139
Operating reserve	19	-	-	-	19
Replacement reserve	402,917	56,264	(21,860)	1,006	438,327
Minimum escrow	24,169	-	-	-	24,169
	<u>\$ 566,646</u>	<u>\$ 266,772</u>	<u>\$ (260,963)</u>	<u>\$ 1,531</u>	<u>\$ 573,986</u>
	Balance December 31, 2021	Additions	Withdrawals	Interest earned	Balance December 31, 2022
P.I.L.O.T escrow	\$ 41,525	\$ 112,800	\$ (110,000)	\$ 18	\$ 44,343
Insurance and MIP escrow	100,433	103,812	(109,149)	102	95,198
Operating reserve	409,120	-	(409,331)	230	19
Replacement reserve	758,241	44,796	(400,474)	354	402,917
Minimum escrow	24,169	-	-	-	24,169
	<u>\$ 1,333,488</u>	<u>\$ 261,408</u>	<u>\$ (1,028,954)</u>	<u>\$ 704</u>	<u>\$ 566,646</u>

**Union Affordable, LP
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**Supplementary Information
Years Ended December 31, 2023 and 2022**

Schedule E - Changes in Fixed Asset Accounts

	Assets			Accumulated depreciation					Net book value
	Balance December 31, 2022	Additions	Dispositions	Balance December 31, 2023	Balance December 31, 2022	Current provision	Dispositions	Balance December 31, 2023	
Land	\$ 2,378,623	\$ -	\$ -	\$ 2,378,623	\$ -	\$ -	\$ -	\$ -	\$ 2,378,623
Land improvements	475,987	-	-	475,987	364,918	31,732	-	396,650	79,337
Building	14,942,869	39,564	-	14,982,433	4,341,429	385,941	-	4,727,370	10,255,063
Furniture, fixtures and equipment	398,394	60,671	-	459,065	339,810	20,128	-	359,938	99,127
	<u>\$ 18,195,873</u>	<u>\$ 100,235</u>	<u>\$ -</u>	<u>\$ 18,296,108</u>	<u>\$ 5,046,157</u>	<u>\$ 437,801</u>	<u>\$ -</u>	<u>\$ 5,483,958</u>	<u>\$ 12,812,150</u>

	Assets			Accumulated depreciation					Net book value
	Balance December 31, 2021	Additions	Dispositions	Balance December 31, 2022	Balance December 31, 2021	Current provision	Dispositions	Balance December 31, 2022	
Land	\$ 2,378,623	\$ -	\$ -	\$ 2,378,623	\$ -	\$ -	\$ -	\$ -	\$ 2,378,623
Land improvements	475,987	-	-	475,987	333,186	31,732	-	364,918	111,069
Building	14,203,363	739,506	-	14,942,869	3,954,339	387,090	-	4,341,429	10,601,440
Furniture, fixtures and equipment	398,394	-	-	398,394	333,952	5,858	-	339,810	58,584
	<u>\$ 17,456,367</u>	<u>\$ 739,506</u>	<u>\$ -</u>	<u>\$ 18,195,873</u>	<u>\$ 4,621,477</u>	<u>\$ 424,680</u>	<u>\$ -</u>	<u>\$ 5,046,157</u>	<u>\$ 13,149,716</u>

Union Affordable, LP
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Supplementary Information
Years Ended December 31, 2023 and 2022

	2023	2022
Schedule F - Other Income		
Late charges and other	\$ -	\$ 15,125

	2023	2022
Schedule G - Administrative Expenses		
Stationery supplies	\$ 5,568	\$ 1,942
Telephone	10,279	11,651
Postage	403	436
Other office expenses	616	27,358
Other insurance	-	2,789
Other taxes	13,312	7,304
Professional fees	13,752	18,089
Legal services	160,212	17,556
Auditing and tax	12,395	12,400
Bookkeeping / accounting	8,432	7,339
Computer charges	8,968	6,352
Miscellaneous administrative expenses	42,483	23,000
	\$ 276,420	\$ 136,216

**Union Affordable, LP
NJHMFA Project No.: 374**

**Supplementary Information
Years Ended December 31, 2023 and 2022**

	2023	2022
Schedule H - Salaries and Related Charges		
Office and administrative salaries	\$ 68,997	\$ 57,976
Maintenance salaries	105,008	134,402
Employee benefits	4,084	8,959
Employer's payroll taxes	14,351	11,438
Workmen's compensation	7,466	7,404
Fidelity bonds	215	-
	\$ 200,121	\$ 220,179

	2023	2022
Schedule I - Maintenance and Repairs		
Plumbing	\$ 36,069	\$ 3,960
Electrical	2,860	9,043
Kitchen equipment	-	13,658
Elevator	11,766	5,618
Snow removal	2,474	9,789
Painting and decorating	10,857	14,592
Janitorial supplies	8,521	6,536
Miscellaneous maintenance supplies	15,238	13,511
Other	8,747	3,117
	\$ 96,532	\$ 79,824

Union Affordable, LP
NJHMFA Project No.: 374

Supplementary Information
Years Ended December 31, 2023 and 2022

	2023	2022
Schedule J - Maintenance Contracts		
Monitoring and protection services	\$ 7,789	\$ 360
Cleaning	1,859	200
Elevator	13,659	16,902
Rubbish removal	-	2,016
Heating and air conditioning	1,347	-
Grounds, parking and landscaping	749	3,283
Exterminating	3,572	6,717
Other maintenance contracts	274,428	95,065
	\$ 303,403	\$ 124,543
	2023	2022
Schedule K - Utilities		
Water	\$ 30,522	\$ 28,174
Sewer charges	38,288	42,361
Electricity	105,298	112,223
Gas	52,002	68,606
	\$ 226,110	\$ 251,364
	2023	2022
Schedule L - Computation of Management Fee		
Base fee per unit per month	\$ 68	\$ 68
Months managed	12	12
Number of units	87	87
	70,992	70,992
Bonus approved by NJHMFA	-	-
Total management fee expense	\$ 70,992	\$ 70,992
Accrued management fee, beginning	\$ (6,528)	\$ (6,528)
Management fee expense	70,992	70,992
Less: payments	(64,464)	(70,992)
Accrued management fee, end	\$ -	\$ (6,528)

Union Affordable, LP
NJHMFA Project No.: 374

Supplementary Information
Years Ended December 31, 2023 and 2022

Schedule M - Computation of Payment in Lieu of Taxes ("PILOT")

	<u>2023</u>	<u>2022</u>
Net rental income	\$ 1,187,833	\$ 1,174,764
Less: Utilities		
Electricity	(105,298)	(112,223)
Water	(30,522)	(28,174)
Gas	(52,002)	(68,606)
Sewer	(38,288)	(42,361)
Project revenue	<u>\$ 961,723</u>	<u>\$ 923,400</u>
Municipal service charge	7.12% <u>\$ 68,475</u>	<u>\$ 65,746</u>
Greater of calculated P.I.L.O.T. or \$110,000	\$ 110,000	\$ 110,000
Accrued (prepaid) amount as of January 1	23	23
Payments	(110,000)	(110,000)
Expense for the period	<u>110,000</u>	<u>110,000</u>
Accrued (prepaid) amount as of December 31	<u>\$ 23</u>	<u>\$ 23</u>

Schedule N - Cumulative Return on Equity

The maximum return on equity is \$131,231 annually. Undistributed amounts are cumulative and may be distributed in subsequent years.

	<u>2023</u>	<u>2022</u>
Annual distributions earned during fiscal year covered by the financial statements	\$ 131,231	\$ 131,231
Distributions accrued and unpaid as of the end of the prior fiscal period	<u>1,352,321</u>	<u>1,221,090</u>
Distributions earned but unpaid as of the end of the current fiscal year	<u>\$ 1,483,552</u>	<u>\$ 1,352,321</u>

Schedule O - Related Party Transactions

All related party transactions are disclosed in Note 7 to the financial statements.

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the General Partner
Union Affordable, LP

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Union Affordable, LP, which comprise the statement of assets, liabilities and partners' equity (deficit) as of December 31, 2023, and the related statements of operations, partners' equity (deficit) and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Union Affordable, LP's internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Union Affordable, LP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Union Affordable, LP's internal control over financial reporting. In addition, we have also obtained an understanding of internal control over compliance as required by the U.S. Department of Housing and Urban Development ("HUD") "*Consolidated Audit Guide for Audits of HUD Programs*." Our procedures included tests of compliance with certain program requirements.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Union Affordable, LP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Furthermore, during the performance of our audit of the financial statements of Union Affordable, LP, nothing came to our attention that caused us to believe that:

- Union Affordable, LP had not filed and paid its federal, state and local income taxes (including payroll taxes) in a timely manner; and
- Union Affordable, LP made any cash distributions to the partners which were not duly authorized by the New Jersey Housing and Mortgage Finance Agency ("NJHMFA").

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Bethesda, Maryland
May 23, 2024

**Union Affordable, LP
NJHMFA Project No.: 374**

**Schedule of the Status of Prior Audit Findings,
Questioned Costs and Recommendations
December 31, 2023**

1. Audit report issued on April 14, 2023, for the year ended December 31, 2022, issued by CohnReznick LLP.

Finding No. 2022-1

During the procedures applied to a sample of 8 tenant lease files, we noted the following instances of noncompliance with HUD regulations regarding tenant eligibility and the maintenance of lease files.

In connection with lease file testing, we noted 6 out of 8 tenant files did not have annual tenant recertification Form 50059 completed timely.

1 out of 8 tenants tested did not have an accurate HUD Form 50059 in their lease files.

2 out of 8 tenants tested did not have documentation in their lease file that their income was verified.

Status

In response to the finding, management has implemented additional policies and procedures and altered staffing to ensure that recertifications are performed timely and file documentation is maintained to meet compliance requirements at all times.

2. There were no reports issued by HUD OIG or other federal agencies or contract administrators during the period covered by this audit.
3. Physical Inspection Summary Report issued March, 16 2023, by HUD Real Estate Assessment Center ("REAC") titled Inspection Summary Report.

Findings

REAC had findings related to the overall condition of the property. The Project received a score of 87c* on the REAC physical inspection.

Status

Management has satisfactorily corrected and cleared all findings noted in the REAC physical inspection as part of its' ongoing maintenance program.



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