

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**WESTFIELD SENIOR CITIZENS
URBAN RENEWAL PARTNERSHIP, L.P.**

DECEMBER 31, 1997



Reznick Fedder & Silverman

Westfield Senior Citizens Urban Renewal Partnership, L.P.

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INDEPENDENT AUDITORS' REPORT

To the Partners
Westfield Senior Citizens
Urban Renewal Partnership, L.P.

We have audited the accompanying balance sheet of Westfield Senior Citizens Urban Renewal Partnership, L.P., as of December 31, 1997, and the related statements of operations, partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westfield Senior Citizens Urban Renewal Partnership, L.P., as of December 31, 1997, and the results of its operations, the changes in partners' equity and cash flows for the year then ended, in conformity with generally accepted accounting principles.

Bethesda, Maryland
March 7, 1998

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Westfield Senior Citizens Urban Renewal Partnership, L.P.

BALANCE SHEET

December 31, 1997

ASSETS

INVESTMENT IN RENTAL PROPERTY HELD FOR
LEASE

Building	\$ 11,718,793
Equipment	<u>141,355</u>

11,860,148

Less accumulated depreciation	<u>1,007,388</u>
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10,852,760

OTHER ASSETS

Cash and cash equivalents	\$ 320,974	
Tenant security deposits	74,795	
Certificate of deposit, due May, 1998, 5.9%	28,000	
Operating reserve	200,000	
Developer escrow	206,305	
Prepaid expenses and receivables	8,454	
Financing costs, net of accumulated amortization of \$27,010	159,980	
Organization costs, net of accumulated amortization of \$41,381	<u>54,112</u>	<u>1,052,620</u>

\$ 11,905,380

(continued)

Westfield Senior Citizens Urban Renewal Partnership, L.P.

BALANCE SHEET - CONTINUED

December 31, 1997

LIABILITIES AND PARTNERS' EQUITY

LIABILITIES APPLICABLE TO INVESTMENT IN
RENTAL PROPERTY HELD FOR LEASE

Development fee payable		\$	67,164
Construction fee payable			194,352
First mortgage payable			1,363,012
Second mortgage payable			5,200,000
Accrued interest payable - mortgages			490,418
Accrued real estate taxes			<u>99,425</u>

7,414,371

OTHER LIABILITIES

Accounts payable	\$	19,594	
Tenant security deposits payable		74,795	
Due to Westfield I		<u>4,218</u>	98,607

CONTINGENCY

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PARTNERS' EQUITY

4,392,402

\$ 11,905,380

See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

STATEMENT OF OPERATIONS

Year ended December 31, 1997

Revenues			
Rental income		\$	892,412
Laundry			5,137
Investment income			31,187
Westfield Foundation Grant			3,500
Security deposit interest			<u>670</u>
			932,906
Expenses			
Administrative	\$	78,802	
Salaries and related charges		262,854	
Maintenance and repairs		29,390	
Maintenance contracts		32,809	
Utilities		115,204	
Managing agent's fee		46,645	
Real estate taxes		53,853	
Insurance		18,294	
Interest on mortgage - Summit Bank		83,996	
Interest on mortgage - Westfield I		156,000	
Depreciation and amortization		<u>489,447</u>	<u>1,367,294</u>
NET LOSS			<u>\$ (434,388)</u>

See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

STATEMENT OF PARTNERS' EQUITY

Year ended December 31, 1997

	<u>General partner</u>	<u>Investor limited partner</u>	<u>Total</u>
Partners' equity, beginning	\$ (5,438)	\$ 3,928,836	\$ 3,923,398
Third limited partner contribution	-	903,392	903,392
Net loss for year	<u>(4,344)</u>	<u>(430,044)</u>	<u>(434,388)</u>
Partners' equity, end	<u>\$ (9,782)</u>	<u>\$ 4,402,184</u>	<u>\$ 4,392,402</u>

See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

STATEMENT OF CASH FLOWS

Year ended December 31, 1997

Cash flows from operating activities	
Net loss	\$ (434,388)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation and amortization	489,447
Decrease in prepaid expenses and receivables	113
Increase in accounts payable	12,730
Increase in accrued interest payable - mortgages	148,807
Net tenant security deposits	515
Increase in accrued real estate taxes	53,853
Decrease in due to Westfield I	<u>(115,720)</u>
Net cash provided by operating activities	<u>155,357</u>
Cash flows from investing activities	
Deposits to escrows	(200,000)
Increase in investments	(28,000)
Additions to rental property	(38,698)
Withdrawal from escrow and reserve accounts	314,685
Payment of easement	(100,000)
Payment of development fee	(512,636)
Payment of construction fee	<u>(278,738)</u>
Net cash used in investing activities	<u>(843,387)</u>
Cash flows from financing activities	
Payment of loan fee	(78,000)
Mortgage principal payments	(73,363)
Contributions by partner	<u>903,392</u>
Net cash provided by financing activities	<u>752,029</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	63,999
Cash and cash equivalents, beginning	<u>256,975</u>
Cash and cash equivalents, end	<u>\$ 320,974</u>
Supplemental disclosure of cash flow information	
Cash paid for interest during the year	<u>\$ 91,189</u>
Significant noncash transaction (See note F)	
Reduction of development fee	\$ 500,000
Reduction of building basis	<u>(500,000)</u>
	<u>\$ -</u>

See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 1997

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Westfield Senior Citizen Urban Renewal Partnership, L.P., (the partnership) was formed in December 1993 to construct and operate 130 apartment units providing affordable housing to low-income senior citizens. The project is located in Westfield, New Jersey, and was placed in service on October 19, 1995.

The general partner of the partnership is Second Westfield Senior Citizens Housing Corporation (Westfield II), a New Jersey not-for profit corporation organized for the purpose of operating the project. The project is on land adjacent to a low and moderate income senior citizen project which has been in existence since 1978 and which is operated by Westfield Senior Citizens Housing Corp. (Westfield I). Both projects are situated on property owned by the Town of Westfield. Although Westfield I and Westfield II are not under common control, they do cooperate closely, and Westfield I advances funds for some partnership expenditures, for which it is repaid on a current basis. They share costs of various activities and Westfield I acts as manager of the partnership as described in note G. In addition, Westfield I has made a mortgage loan to the partnership in the amount of \$5,200,000, as described in note F.

The project has qualified and been allocated low-income housing 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, the partnership has executed a Deed of Easement and Restrictive Covenant for Extended Low-Income Occupancy which requires the utilization of the project pursuant to Section 42 for a minimum of 30 years, even if the partnership disposes of the project.

Use of Estimates

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

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1997

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Rental Property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line and accelerated methods.

Amortization

Financing costs are amortized over the term of the first mortgage using the straight-line method.

Organization costs are being amortized over 60 months using the straight-line method.

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.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually.

Cash Equivalents

For purposes of the statement of cash flows, the partnership considers all money market accounts to be cash equivalents.

NOTE B - ESCROW

In accordance with the development agreement, the partnership established a restricted escrow account in the amount of \$500,000, to provide for the payment of the remainder of the construction fee less any valid claims against the developer under the development agreement. During 1997, payments of \$278,736 were made to the developer. Further disbursements will be made in accordance with the agreement (see note F).

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1997

NOTE C - RESERVES

Capital Replacement Reserve

In accordance with the partnership agreement, the partnership is required to establish a capital replacement reserve to be funded annually beginning in 1995 with an amount equal to 3.6% of the partnership's gross revenues. During 1997, the partnership designated the certificate of deposit of \$28,000 and \$30,186 of cash and cash equivalent as capital replacement reserve funds.

Operating Reserve

Pursuant to the partnership agreement, the partnership is required to establish an operating reserve in the amount of \$200,000. Funds may be disbursed from the reserve as the general partner deems to be necessary.

NOTE D - LAND LEASE

The partnership has leased the property on which the rental property has been constructed from the Town of Westfield for a period of 33 years, expiring December 31, 2026. The annual rent is \$1 plus an annual charge as defined in the financial agreement with the Town of Westfield (see note G).

NOTE E - MORTGAGES PAYABLE

The first mortgage note in the original amount of \$1,500,000 through the Federal Home Loan Bank of New York Affordable Housing Program is payable to Summit Bank and is collateralized by the partnership's leasehold interest in the rental property. The note bears interest at the rate of 6% and is payable by the partnership in monthly principal and interest installments of \$12,658 through maturity on December 1, 2010.

The second mortgage note in the original amount of \$5,200,000 is payable to Westfield I and collateralized by a mortgage on the partnership's leasehold interest in the rental property, subordinated to the first mortgage. The note bears interest at the rate of 3%. The principal is payable in equal monthly installments along with the accrued interest to the extent of excess operating revenue as defined in the mortgage note until maturity on December 22, 2025.

The liability of the partnership under the mortgage notes is limited to the underlying value of the real estate collateral.

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1997

NOTE E - MORTGAGES PAYABLE (Continued)

Aggregate estimated annual maturities of the mortgages payable over each of the next five years, assuming there is excess operating revenue, are as follows:

	<u>First mortgage loan</u>	<u>Second mortgage loan</u>	<u>Total</u>
December 31, 1998	\$ 71,716	\$ 173,333	\$ 245,049
1999	76,139	173,333	249,472
2000	80,834	173,333	254,167
2001	85,821	173,333	259,154
2002	91,116	173,333	264,449

NOTE F - TRANSACTIONS WITH RELATED PARTIES

Operating Deficit Advances

Westfield I agreed to make loans up to an aggregate of \$650,000 to fund any operating deficits incurred during the guaranty period. The loans are repayable without interest from operating cash flow. No loans have been required.

Westfield I, pursuant to the operating and development deficit agreement, agreed to make available to the partnership a line of credit up to \$300,000 per annum in order to fund operating deficits of the partnership during the guaranty period. Loans made under the agreement are repayable without interest from operating cash flow. No loans have been required.

Project Management

The property is managed by Westfield I pursuant to a management agreement. The current management agreement provides for a management fee of 5% of monthly gross rental revenue. Management fees charged to operations during 1997 were \$46,645.

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1997

NOTE F - TRANSACTIONS WITH RELATED PARTIES (Continued)

Construction Fee

Pursuant to a development agreement, the former special limited partner is to receive \$860,000 as a construction fee. At the completion of construction \$360,000 was paid, and the remaining \$500,000 was placed into an escrow account for one year (the claims period). During 1997, \$278,738 of claims were incurred. At December 31, 1997, the partnership owed \$194,352 to the developer.

Development Fee

Westfield Senior Citizen Development Corp., a related party, is to receive \$1,079,800 as a fee for its services in connection with the development of the property. In accordance with the development agreement, if costs of development exceed the budget, the excess cost will reduce the development fee. During 1997, Westfield Senior Citizen Development Corp. agreed to reduced the fee by \$500,000. An additional \$512,636 was paid in 1997, leaving a balance due of \$67,164 at December 31, 1997.

Loan Fee

Westfield I is to receive a loan fee of \$78,000. During 1997, the loan fee was paid.

Easement Fee

Westfield I is to receive \$100,000 for granting an easement. During 1997, the \$100,000 was paid.

NOTE G - FINANCIAL AGREEMENT

The partnership has entered into an agreement with the Town of Westfield whereby the project is required at the end of each year to pay, in lieu of real estate taxes, 6% of gross tenant revenue, through December 31, 2010. Thereafter the payment will be as follows:

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1997

NOTE G - FINANCIAL AGREEMENT

<u>Period</u>	
January 1, 2011 - December 31, 2016	Greater of 6% of gross tenant revenue or 20% of normal real estate tax
January 1, 2017 - December 31, 2022	Greater of 6% of gross tenant revenue or 40% of normal real estate tax
January 1, 2023 - December 31, 2025	Greater of 6% of gross tenant revenue or 60% of normal real estate tax

During 1997, \$53,853 was charged as real estate taxes to operations. Although accrued, the 1997 real estate taxes have not been paid pending negotiations with the Town of Westfield to reduce the liability.

NOTE H - DISTRIBUTION OF OPERATING CASH FLOW

Operating cash flow, as defined by the partnership agreement, is distributable as follows:

First, additions to the capital replacement reserve;

Second, to repay any operating deficit loans made by the general partner;

Third, to pay the current and accrued interest, and principal on the Westfield I loan;

Fourth, to pay in the following order of priority other partnership expenses, reserves other than the capital replacement reserve and additional service charges, if any, due under the financial agreement; and

Fifth, any balance remaining distributed 50% to the general partner as an incentive management fee and 50% to the limited partner.

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 1997

NOTE I - GRANT INCOME

During 1997, the partnership received \$3,500 from The Westfield Foundation (a City of Westfield charitable organization) to provide gardens accessible to the handicapped.

NOTE J - CONTINGENCY

The project's 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 partner.