

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

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

DECEMBER 31, 2010

Westfield Senior Citizens Urban Renewal Partnership, L.P.

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
BALANCE SHEET	4
STATEMENT OF OPERATIONS	6
STATEMENT OF PARTNERS' EQUITY (DEFICIT)	7
STATEMENT OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9

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, 2010, and the related statements of operations, partners' equity (deficit) 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2010, and the results of its operations, the changes in partners' equity (deficit) and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Bethesda, Maryland
March 3, 2011

Westfield Senior Citizens Urban Renewal Partnership, L.P.

BALANCE SHEET

December 31, 2010

ASSETS

Investment in rental property held for lease		
Buildings		\$ 11,707,743
Equipment (furniture and fixtures)		<u>232,088</u>
		11,939,831
Less accumulated depreciation		<u>6,694,166</u>
		5,245,665
Other assets		
Cash	\$	68,352
Available for sale investments		119,756
Capital replacement reserve		702,621
Tenant security deposits		93,254
Operating reserve		210,368
Prepaid expenses and receivables		<u>26,756</u>
		<u>1,221,107</u>
		<u>\$ 6,466,772</u>

(continued)

Westfield Senior Citizens Urban Renewal Partnership, L.P.

BALANCE SHEET - CONTINUED

December 31, 2010

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

Liabilities applicable to investment in rental property held for lease		
Mortgage payable		\$ 5,200,000
Accrued interest payable - mortgage		1,136,125
Accrued PILOT		<u>954,096</u>
		7,290,221
Other liabilities		
Accounts payable	\$ 10,180	
Tenant security deposits payable	93,254	
Due to affiliate	<u>23,494</u>	
		126,928
Contingency		-
Equity		
Accumulated other comprehensive income		40,918
Partners' equity (deficit)		<u>(991,295)</u>
		<u>(950,377)</u>
		<u>\$ 6,466,772</u>

See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

STATEMENT OF OPERATIONS

Year ended December 31, 2010

Revenue		
Rental income		\$ 1,310,961
Laundry		6,651
Interest income		<u>27,668</u>
		1,345,280
Expenses		
Administration	\$ 115,788	
Salaries and employee costs	448,945	
Maintenance and repairs	69,906	
Maintenance contracts	55,980	
Utilities	202,355	
Management fee	65,881	
PILOT	78,658	
Miscellaneous taxes and fees	2,936	
Insurance	42,498	
Interest on mortgage - Bank of America	4,319	
Interest on mortgage - affiliate	156,000	
Depreciation and amortization	<u>446,975</u>	
		<u>1,690,241</u>
Net income (loss)		<u>\$ (344,961)</u>

See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

Year ended December 31, 2010

Limited Partners

	<u>General partner</u>	<u>Transamerica Life Insurance Co.</u>	<u>Monumental Life Insurance Co.</u>	<u>Accumulated other comprehensive income</u>	<u>Total</u>
Partners' equity (deficit), beginning	\$ (60,180)	\$ (396,689)	\$ (189,465)		\$ (646,334)
Comprehensive income- unrealized gain from investment securities				\$ 40,918	\$ 40,918
Net loss	<u>(3,450)</u>	<u>(231,124)</u>	<u>(110,388)</u>		<u>(344,961)</u>
Partners' equity (deficit), end	<u>\$ (63,630)</u>	<u>\$ (627,813)</u>	<u>\$ (299,853)</u>	<u>\$ 40,918</u>	<u>\$ (950,377)</u>

See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

STATEMENT OF CASH FLOWS

Year ended December 31, 2010

Cash flows from operating activities	
Net income (loss)	\$ (344,961)
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation and amortization	446,975
Decrease in prepaid expenses	39
Decrease in accounts payable	(23,870)
Increase in accrued interest payable - mortgage	66,083
Increase in accrued PILOT	78,658
	<hr/>
Net cash provided by operating activities	222,924
	<hr/>
Cash flows from investing activities	
Deposits to operating reserve	(7,862)
Investment in furniture and fixtures	(7,994)
Net investment activity	(79,516)
	<hr/>
Net cash used in investing activities	(95,372)
	<hr/>
Cash flows from financing activities	
Mortgage principal payments	(137,411)
Decrease in amount due to affiliate	(11,257)
	<hr/>
Net cash used in financing activities	(148,668)
	<hr/>
NET DECREASE IN CASH	(21,116)
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Cash, beginning	89,468
	<hr/>
Cash, end	\$ 68,352
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Supplemental disclosure of cash flow information	
Cash paid for interest during the year	\$ 94,236
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See notes to financial statements

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Westfield Senior Citizens 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, 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 5. In addition, Westfield I made a mortgage loan to the partnership in the amount of \$5,200,000, as described in note 4.

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

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

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 straight-line and accelerated methods.

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. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts, 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 during the year ended December 31, 2010.

Amortization

Financing costs are amortized over the term of the first mortgage using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

In 2010, amortization costs are \$10,386. As of December 31, 2010, all financing costs had been amortized.

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

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 owners 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

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

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.

Certificates of Deposit

The partnership has invested in a certificate of deposit (CD) which is carried at cost including accrued interest. The CD bears interest at 2.35% and matures on March 18, 2011. The certificate of deposit is in the capital replacement reserve.

Investments

Investments include Federal Home Loan Mortgage Corporation callable notes and mutual funds. When individual investment securities are acquired and at each balance sheet date, management determines the appropriate classification of investments held by the partnership. Since the partnership does not buy investment securities in anticipation of short-term fluctuation in market prices, management has classified the investment in marketable equity securities as available-for-sale and are reported at fair value. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as a separate component of Partners Equity, as Accumulated Other Comprehensive Income. Realized gains and losses are reported in earnings based on the adjusted cost of the specific security sold. The callable notes and mutual funds are in the capital replacement reserve, other investments and operating reserve accounts on the balance sheet.

Fair Value

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosure about fair value measurements. Fair value is defined by the accounting standard for fair value measurement and disclosures as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value the Partnership's uses when measuring fair value:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Partnership has the ability to access;
- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety. The fair value of the marketable securities as of December 31, 2010 is classified within level 1 of the fair value hierarchy in accordance with generally accepted accounting principles. No other assets or liabilities are measured at fair value as of December 31, 2010.

The following table presents the financial asset that the partnership measured at fair value on a recurring basis at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government securities	-	23,109	-	23,109
Mutual funds	981,364	-	-	981,364
	<u>\$ 981,364</u>	<u>\$ 23,109</u>	<u>\$ -</u>	<u>\$ 1,004,473</u>

The cost basis of the above investments is as follows:

Government securities: \$ 23,000
 Mutual funds: \$ 940,555

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 2 - 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 revenue. The partnership has invested \$822,376 in a brokerage account consisting of cash, certificates of deposit and mutual funds.

During 2010, the partnership designated \$702,621 of the \$822,376 of these assets as the capital replacement reserve. The remaining balance of \$119,756 is shown as mutual fund investments on the balance sheet.

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 necessary. As of December 31, 2010, there is \$210,368 in the operating reserve account. The operating reserve account consists of cash and mutual funds.

NOTE 3 - 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 6).

NOTE 4 - MORTGAGES PAYABLE

In 2010, the partnership satisfied the first mortgage note in the original amount of \$1,500,000. The first mortgage was obtained through the Federal Home Loan Bank of New York Affordable Housing Program and was collateralized by the partnership's leasehold interest in the rental property. The note bore interest at the rate of 6% and was 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, an affiliate, 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

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

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. Through December 31, 2010, Westfield has made no payments toward the original \$5,200,000 mortgage due to a lack of excess operating revenue.

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

NOTE 5 - TRANSACTIONS WITH RELATED PARTIES

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 income. Management fees charged to operations during 2010 were \$65,881.

Due to Westfield I

During the year ended December 31, 2010, the partnership repaid funds advanced by Westfield I in the amount of \$11,257. As of December 31, 2010, the balance due to Westfield I was \$23,494. This advance does not bear interest and is payable on demand.

NOTE 6 - PAYMENT IN LIEU OF REAL ESTATE TAXES (PILOT)

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

<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 2010, \$78,658 was charged to operations as PILOT expense.

Westfield Senior Citizens Urban Renewal Partnership, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 10 - SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the partnership through March 03, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.