

*Financial Statements*

**PWA CAMBRIDGE APARTMENTS, LP**

**DECEMBER 31, 2017**



**Outside the box.** Within the lines.



PWA CAMBRIDGE APARTMENTS, LP  
DECEMBER 31, 2017

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Income	4
Statement of Changes in Partners' Capital	5
Statement of Cash Flows	6
Notes to Financial Statements	7



Outside the box. Within the lines.<sup>SM</sup>

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Partners of  
PWA Cambridge Apartments, LP  
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of PWA Cambridge Apartments, LP (a limited partnership), which comprise the balance sheet as of December 31, 2017, the related statement of income, changes in partners' capital, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PWA Cambridge Apartments, LP as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Holsinger P.C.*

Wexford, Pennsylvania  
March 23, 2018

PWA CAMBRIDGE APARTMENTS, LP  
BALANCE SHEET  
DECEMBER 31, 2017

ASSETS

Real estate	
Land, building and improvements	\$ 8,373,627
Accumulated depreciation	<u>(2,677,492)</u>
Real estate, net	5,696,135
Cash and cash equivalents	473,222
Rent receivables	3,097
Prepaid expenses	15,204
Mortgage escrow and restricted cash	88,753
Tenant security deposits	27,574
Utility deposits	19,039
Other assets, net	<u>7,720</u>
Total Assets	<u><u>\$ 6,330,744</u></u>

LIABILITIES AND PARTNERS' CAPITAL

Mortgage payable	\$ 5,286,293
Accounts payable	17,832
Accrued distributions	49,586
Other accrued expenses	49,720
Tenant security deposits	<u>27,574</u>
Total Liabilities	5,431,005
Partners' Capital	<u>899,739</u>
Total Liabilities and Partners' Capital	<u><u>\$ 6,330,744</u></u>

The accompanying notes are an integral part of this financial statement.

PWA CAMBRIDGE APARTMENTS, LP  
STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 2017

Revenues:	
Rental income, net	\$ 1,543,556
Operating cost reimbursement	124,681
Other income	<u>3,886</u>
	1,672,123
Operating Expenses:	
Real estate taxes	127,834
Property operating expenses	471,574
General and administrative	<u>186,657</u>
Total	<u>786,065</u>
Operating Income	886,058
Depreciation and amortization expense	(277,914)
Other Income (Expense):	
Interest income	38
Interest expense	<u>(324,194)</u>
Total Other Expense	<u>(324,156)</u>
Net Income	<u><u>\$ 283,988</u></u>

The accompanying notes are an integral part of this financial statement.

PWA CAMBRIDGE APARTMENTS, LP  
STATEMENT OF CHANGES IN PARTNERS' CAPITAL  
YEAR ENDED DECEMBER 31, 2017

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Partners' Capital-January 1, 2017	\$ 7,624	\$ 806,470	\$ 814,094
Net income	2,807	281,181	283,988
Distributions	<u>(1,983)</u>	<u>(196,360)</u>	<u>(198,343)</u>
Partners' Capital-December 31, 2017	<u>\$ 8,448</u>	<u>\$ 891,291</u>	<u>\$ 899,739</u>
Ownership Percentage	<u>1%</u>	<u>99%</u>	

The accompanying notes are an integral part of this financial statement.

PWA CAMBRIDGE APARTMENTS, LP  
STATEMENT OF CASH FLOWS  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
YEAR ENDED DECEMBER 31, 2017

Cash Flows from Operating Activities:	
Net income	\$ 283,988
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	277,914
Changes in assets and liabilities:	
Mortgage escrow	(2,758)
Tenant security deposits	(844)
Rent receivables	(2,556)
Prepaid expenses	388
Accounts payable	13,974
Other accrued expenses	(7,202)
Tenant security deposits	844
Total adjustments	279,760
Net Cash Provided by (Used in) Operating Activities	563,748
Cash Flows from Investing Activities:	
Real estate additions	(138,653)
Net Cash Provided by (Used In) Investing Activities	(138,653)
Cash Flows from Financing Activities:	
Principal payments on mortgage payable	(93,509)
Distributions	(198,343)
Net Cash Provided by (Used in) Financing Activities	(291,852)
Net Increase (Decrease) in Cash and Cash Equivalents	133,243
Cash and Cash Equivalents, beginning of year	339,979
Cash and Cash Equivalents, end of year	\$ 473,222
<u>Supplemental Disclosure of Cash Flow Information:</u>	
Cash paid during the year for interest	\$ 324,194
<u>Supplemental Schedule of Noncash Financing Activities:</u>	
Accrued distributions	\$ (49,586)

The accompanying notes are an integral part of this financial statement.

PWA CAMBRIDGE APARTMENTS, LP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1 - ORGANIZATION

PWA Cambridge Apartments, LP (the "Partnership") was formed in March 2011 and was organized as a limited partnership under the laws of the Commonwealth of Pennsylvania. Income of the partnership is allocated to the partners in accordance with the terms of the Partnership's operating agreement.

The Partnership is an owner and operator of a residential apartment building consisting of 180 units located in suburban Athens, Georgia.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The Partnership prepares its financial statements on the accrual basis of accounting according to U.S. Generally Accepted Accounting Principles ("GAAP").

**Cash and Cash Equivalents** - The Partnership maintains its cash in bank deposit accounts at financial institutions located in Southwestern Pennsylvania. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC"). From time-to-time, the Partnership's cash balances may exceed the insured limits.

**Rent Receivables** - The Partnership performs periodic credit evaluations of its tenants and generally does not require collateral beyond a security deposit. No allowance for doubtful accounts or bad debt expense was recorded for the year ended December 31, 2017 by management.

**Mortgage Escrow** - The Partnership has amounts on deposit with its mortgage holder for various real estate taxes, insurance, and other reserves which is restricted for these uses.

**Real Estate, net** - Real estate is stated at cost less accumulated depreciation. The Partnership provides for depreciation of the real estate on a straight-line basis over their estimated useful lives of five to forty years. Expenses for repairs and maintenance are charged to operations as incurred; whereas significant renewals and betterments are capitalized. The Partnership capitalizes all expenditures in excess of \$5,000 that improve an asset or extend its useful life. The cost of real estate retired or otherwise disposed and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statement of income.

**Other Assets, net** - Organizational costs are capitalized and are being amortized on a straight-line basis for fifteen years. Amortization expense charged to operations was \$1,535 for the year ended December 31, 2017, and future yearly amortization is estimated to be \$1,535 through 2022.

**Compensated Absences** - Compensated absences for paid time off have not been accrued since they cannot be reasonably estimated. The Partnership's policy is to recognize these costs when paid.

**Revenue Recognition** - The Partnership leases residential units to tenants under short-term operating lease agreements. Revenue is recognized monthly as earned, which is not materially different than on a straight-line basis, as lease terms are generally for periods of one year or less. Contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses are generally included in operating costs reimbursement in the period when such expenses are recorded.

**Advertising** - Advertising costs are charged to operations when incurred, and totaled \$18,889 for the year ended December 31, 2017.

PWA CAMBRIDGE APARTMENTS, LP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments - Rent receivables, accounts payable, and other accrued expenses have been identified as short-term financial instruments. The related carrying amounts in the financial statements as of December 31, 2017 approximate fair values because of the relatively short time between the origination of the instrument and its expected realization/or liquidation.

Income Taxes - No income tax provision has been included in the financial statements because the income or loss of the Partnership is required to be reported by the respective partners in their tax returns.

The Partnership records a liability for uncertain tax positions, if any, based on management's judgment of the risk of loss for items that have been or may be challenged by taxing authorities. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions may affect the reported amount of assets and liabilities, the 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 vary from the estimates that were used.

NOTE 3 - REAL ESTATE, NET

Real estate is comprised of the following as of December 31, 2017:

Land	\$ 664,800
Buildings	7,402,275
Building improvements	281,132
Parking lot	<u>25,420</u>
	8,373,627
Less: Accumulated depreciation	<u>(2,677,492)</u>
	<u><u>\$ 5,696,135</u></u>

Depreciation expense charged to operations was \$276,379 for the year ended December 31, 2017.

NOTE 4 - MORTGAGE PAYABLE

The Partnership has a mortgage with interest payable at 6% and \$5,286,293 of principal outstanding as of December 31, 2017. The mortgage is payable in monthly installments of principal and interest of \$34,849 with a balloon payment of the remaining balance due in April 2021. The mortgage is collateralized by the building.

PWA CAMBRIDGE APARTMENTS, LP  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017

NOTE 4 - MORTGAGE PAYABLE - Continued

Future minimum principle payments for the next four years are as follows:

<u>Year ending December 31,</u>		
2018	\$	99,359
2019		105,574
2020		111,295
2021		<u>4,970,065</u>
Mortgage payable		5,286,293
Less: Current portion of mortgage payable		<u>(99,359)</u>
Long-term portion of mortgage payable		<u><u>\$ 5,186,934</u></u>

NOTE 5 - RELATED PARTY TRANSACTION

The Partnership has entered into a management agreement with a related party whereby a management fee is paid based on the monthly rentals collected. The Partnership incurred management fees of \$30,416 during the year ended December 31, 2017.

NOTE 6 - CONCENTRATION

The Partnership's operations are concentrated in a single residential real estate market, the economic viability of which can shift rapidly and is outside the control of the Partnership.

NOTE 7 - SUBSEQUENT EVENTS

Management evaluated all activities of the Partnership through March 23, 2018, the date the financial statements were available to be issued, and determined no subsequent events occurred.