

Financial Statements

PWA CAMBRIDGE APARTMENTS, LP

DECEMBER 31, 2019



Outside the box. Within the lines.



PWA CAMBRIDGE APARTMENTS, LP
DECEMBER 31, 2019

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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, 2019, the related statement of operations, changes in partners' deficiency 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 the 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, 2019, 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 31, 2020

PWA CAMBRIDGE APARTMENTS, LP
BALANCE SHEET
AS OF DECEMBER 31, 2019

ASSETS

Real estate	
Land, building and improvements	\$ 8,518,957
Accumulated depreciation	<u>(3,239,753)</u>
Real estate, net	5,279,204
Cash and cash equivalents	165,902
Rent receivables	8,141
Partner receivables	38,526
Mortgage escrow	60,396
Tenant security deposits	29,288
Utility deposits	19,039
Other assets, net	<u>4,648</u>
Total Assets	<u><u>\$ 5,605,144</u></u>

LIABILITIES AND PARTNERS' DEFICIENCY

Mortgage payable, net	\$ 11,239,517
Accounts payable	62,303
Other accrued expenses	83,546
Tenant security deposits	<u>29,288</u>
Total Liabilities	11,414,654
Partners' Deficiency	<u>(5,809,510)</u>
Total Liabilities and Partners' Deficiency	<u><u>\$ 5,605,144</u></u>

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

PWA CAMBRIDGE APARTMENTS, LP
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2019

Operating Revenues:	
Rental income, net	\$ 1,706,488
Operating cost reimbursement	129,419
Other income	<u>1,212</u>
Total Operating Revenue	1,837,119
Operating Expenses:	
Real estate taxes	171,870
Property operating expenses	637,246
General and administrative	<u>249,351</u>
Total Operating Expenses	<u>1,058,467</u>
Operating Income	778,652
Depreciation and amortization expense	(282,811)
Other Income (Expense):	
Interest expense	<u>(578,597)</u>
Total Other Income (Expense)	<u>(578,597)</u>
Net Loss	<u><u>\$ (82,756)</u></u>

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

PWA CAMBRIDGE APARTMENTS, LP
STATEMENT OF CHANGES IN PARTNERS' DEFICIENCY
YEAR ENDED DECEMBER 31, 2019

	General Partner	Limited Partners	Total
Partners' Deficiency, January 1, 2019	\$ (1,683,118)	\$ (4,043,636)	\$ (5,726,754)
Net loss	(818)	(81,938)	(82,756)
Partners' Deficiency, December 31, 2019	\$ (1,683,936)	\$ (4,125,574)	\$ (5,809,510)
Ownership Percentage	1%	99%	

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, 2019

Cash Flows from Operating Activities:	
Net loss	\$ (82,756)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	308,094
Changes in assets and liabilities:	
Mortgage escrow	(20,702)
Tenant security deposits	(746)
Rent receivables	(29)
Prepaid expenses	15,722
Accounts payable	20,826
Other accrued expenses	3,989
Tenant security deposits	746
	327,900
Total adjustments	327,900
Net Cash Provided by (Used in) Operating Activities	245,144
Cash Flows from Investing Activities:	
Real estate additions	(145,435)
	(145,435)
Net Cash Provided by (Used In) Investing Activities	(145,435)
Net Increase (Decrease) in Cash and Cash Equivalents	99,709
Cash and Cash Equivalents, beginning of year	66,193
	66,193
Cash and Cash Equivalents, end of year	\$ 165,902
<u>Supplemental Disclosure of Cash Flow Information:</u>	
Cash paid during the year for interest	\$ 528,031

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

PWA CAMBRIDGE APARTMENTS, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019 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 operations.

Other Assets, net - Organizational costs are capitalized and are being amortized on a straight-line basis. Amortization expense charged to operations was \$1,536 for the year ended December 31, 2019, and future yearly amortization is estimated to be \$1,536 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 \$21,503 for the year ended December 31, 2019.

PWA CAMBRIDGE APARTMENTS, LP
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments - Rent receivables, partner 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, 2019 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 - REVENUE RECOGNITION

On January 1, 2019, the Partnership adopted accounting standards update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* for all contracts using the modified retrospective method. No cumulative adjustment to the opening balance of retained earnings was made as a result of initially applying this new ASU.

Adoption of the ASU had no impact on the Partnership's balance sheet, results of operations, partners' capital, or cash flows as of the adoption date, and the Partnership does not expect any further material impact to its financial statements on an ongoing basis as a result of adopting the ASU. The Partnership's lease revenue continues to be recognized on a monthly basis over the life of the lease. We have determined that each month represents a distinct performance obligation. Prices are fixed at the time of lease signing and are recognized on a monthly basis over the life of the lease. Payments are typically due on a monthly basis. Reimbursements for utilities are separate non-lease performance obligations. An estimated monthly charge is recorded, with an annual true-up after year end. This results in an estimated matchup of costs and associated reimbursements resulting in an immaterial timing difference. Various month-to-month fees are separate non-lease performance obligations and due on a monthly basis.

The Partnership has included the disclosures required by the ASU below. The following table disaggregates the Partnership's revenue by source for the year ended December 31, 2019.

Revenue Source

Building Rent	\$ 1,650,779
Additional Fees	89,189
Utility Billbacks	92,081
Other	5,070
	<hr/>
	\$ 1,837,119
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PWA CAMBRIDGE APARTMENTS, LP
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 4 - REAL ESTATE, NET

Real estate is comprised of the following as of December 31, 2019:

Land	\$ 664,800
Buildings	7,402,275
Building improvements	426,462
Parking lot	25,420
	8,518,957
Less: Accumulated depreciation	(3,239,753)
	\$ 5,279,204

Depreciation expense charged to operations was \$281,275 for the year ended December 31, 2019.

NOTE 5 - MORTGAGE PAYABLE

In October 2018, the Partnership refinanced its previous mortgage. The new mortgage bears interest at 4.76% and has an outstanding principal balance of \$11,465,000 as of December 31, 2019. The mortgage is incurring monthly interest-only payments through November 2020, at which point monthly installments of principal and interest of \$59,876 commence with a balloon payment due in November 2028. The mortgage contains various covenants concerning the overall operations of the Partnership. As of December 31, 2019, the Partnership fully complied with these covenants. The mortgage is collateralized by the building and guaranteed by the General Partner.

Future minimum principle payments are as follows:

<u>Year ending December 31,</u>	
2020	\$ 14,938
2021	177,298
2022	185,924
2023	194,970
2024	204,455
Thereafter	10,687,415
	11,465,000
Less: Deferred financing fees, net	(225,483)
Mortgage payable, net	11,239,517
Less: Current portion of mortgage payable	(14,938)
Long-term portion of mortgage payable	\$ 11,224,579

PWA CAMBRIDGE APARTMENTS, LP
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 5 - MORTGAGE PAYABLE - Continued

Deferred financing fees are amortized on the straight-line basis over the life of the corresponding mortgage. Amortization of deferred financing fees is reported as interest expense on the statement of operations, and totaled \$25,283 for the year ended December 31, 2019.

NOTE 6 - RELATED PARTY TRANSACTION

The Partnership has entered into a management agreement with JMS Capital Group whereby a management fee is paid based on the monthly rentals collected. The Partnership incurred management fees of \$36,338 during the year ended December 31, 2019 with \$1,951 remaining payable as of December 31, 2019.

During 2018, the Partnership advanced a combined \$38,526 to the limited partners, interest free and with no maturity date. Repayment remains outstanding as of December 31, 2019.

NOTE 7 - 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 8 - SUBSEQUENT EVENTS

Management evaluated all activities of the Partnership through March 31, 2020, the date the financial statements were available to be issued, and determined one material subsequent event has occurred:

The World Health Organization declared the coronavirus (COVID-19) to be a Public Health Emergency of International Concern on January 30, 2020. On March 13, 2020, President Donald Trump declared the COVID-19 outbreak in the United States a national emergency and the Centers for Disease Control and Prevention ("CDC") has issued various guidelines and directives for communities and businesses to follow to prevent the spread of the virus. These directives and guidelines have resulted in the closure of schools and non-essential businesses which have significantly disrupted commerce domestically. The direct and indirect impact of this situation on the Partnership is difficult to determine because of the number of variables outside the control of management and the challenge of predicting how and when commerce will return to normal. Accordingly, as of the date of this report, management was unable to fully quantify the impact, which may be material, of COVID-19 on operations and financial performance of the Partnership.