CLINTON-HENRY HOUSING DEVELOPMENT FUND CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

CLINTON-HENRY HOUSING DEVELOPMENT FUND CORPORATION
DECEMBER 31, 2022 AND 2021

C O N T E N T S

Independent Auditor's Report

To the Board Directors of
Clinton-Henry Housing Development Fund Corporation

Opinion

I have audited the accompanying financial statements of Clinton-Henry Housing Development Fund Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clinton-Henry Housing Development Fund Corporation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Clinton-Henry Housing Development Fund Corporation and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Clinton-Henry Housing Development Fund Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted 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, including omissions, 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 generally accepted auditing standards, I:

- 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 Clinton-Henry Housing Development Fund Corporation'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Clinton-Henry Housing Development Fund Corporation's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

New York, New York
June 15, 2023

CLINTON-HENRY HOUSING DEVELOPMENT FUND CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Current assets		
Cash and cash equivalents	$ 1,318,513	$ 1,224,532
Tenant accounts receivable	75,388	104,994
Prepaid expenses	16,559	15,679
Total current assets	1,410,460	1,345,205
Deposits held in trust		
Security deposits - tenants	58,268	54,015
Fixed assets, net of accumulated depreciation of $104,642 in 2022 and $92,963 in 2021	250,935	244,614
Other assets		
Operating reserve	818,298	820,528
TOTAL ASSETS	$ 2,537,961	$ 2,464,362

LIABILITIES AND NET ASSETS

	2022	2021
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 23,638	$ 19,922
Prepaid Rent	6,236	-
Total current liabilities	29,874	19,922
Deposit Liabilities		
Security deposits - tenant	58,268	54,015
Total liabilities	88,142	73,937
Net Assets		
Net Assets without donor restrictions	2,449,819	2,390,425
TOTAL LIABILITIES AND NET ASSETS	$ 2,537,961	$ 2,464,362

The accompanying notes are an integral part of these financial statements.

CLINTON-HENRY HOUSING DEVELOPMENT FUND CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Revenues:		
Rental income	$ 381,016	$ 374,548
Interest income	15,729	13,375
Unrealized loss	(35,626)	-
Real estate tax reimbursement	5,431	4,376
Total revenues	366,550	392,299
Operating expenses:		
Management fees	42,725	36,563
Salaries	60,196	60,373
Payroll taxes and fringe	43,484	45,003
Utilities	31,943	26,873
Cleaning and maintenance supplies	7,117	3,782
Repairs and maintenance	45,779	17,298
Exterminating	1,030	936
Insurance	25,599	23,792
Real estate tax	4,897	4,901
Professional fees	11,935	9,461
Office expenses	559	718
Miscellaneous	3,712	4,788
Bad debts	3,214	1,176
Dues and permits	235	410
Water and sewer	12,902	12,425
Investment expenses	150	150
Depreciation	11,679	11,411
Total operating expenses	307,156	260,060
Increase in Net Assets	59,394	132,239
Net Assets without Donor Restrictions - Beginning of Year	2,390,425	2,258,186
Net Assets without Donor Restrictions - End of Year	$ 2,449,819	$ 2,390,425

The accompanying notes are an integral part of these financial statements.

CLINTON-HENRY HOUSING DEVELOPMENT FUND CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Increase in net assets	$ 59,394	$ 132,239
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	11,679	11,411
Bad debt expense	3,214	1,176
Unrealized loss	35,626	-
(Increase) Decrease in operating assets:		
Tenant accounts receivable	26,392	(16,983)
Prepaid expenses	(880)	(875)
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued expenses	3,716	(2,359)
Prepaid rent	6,236	-
Net cash provided by operating activities	145,377	124,609
Cash flows from investing activities:		
Purchase of fixed assets	(18,000)	(52,200)
Proceeds from sale of operating reserve	16,941	15,138
Net cash used in investing activities	(1,059)	(37,062)
Net increase in cash and restricted cash	144,318	87,547
Cash and restricted cash - Beginning of Year	1,664,804	1,577,257
Cash and restricted cash - End of Year	$ 1,809,122	$ 1,664,804
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ -	$ -

The accompanying notes are an integral part of these financial statements.

NOTE 1 - ORGANIZATION

Clinton-Henry Housing Development Fund Corporation (a not-for-profit corporation) (″the Corporation″) was organized to develop and operate a low income homeless housing project in New York City. The Corporation is tax exempt under Section 501 (c)(3) of the Internal Revenue Code.

The Corporation received a grant from New York State in connection with the rehabilitation and construction of a six-story building located at 204 Clinton Street. The grant was from the Homeless Housing and Assistance Corporation ("HHAC") under the Homeless Housing and Assistance Program ("HHAP"). Construction was completed in 1995 and the site provides 10 units of low income housing. The original cost of the rehabilitation and construction is not reflected in the accompanying financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Corporation are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

Net assets of the Corporation are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Net Assets without Donor Restrictions - Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net Assets with Donor Restrictions - Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Corporation. Certain restrictions may be needed to be maintained in perpetuity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Earnings related to restricted net assets will be included in net assets without donor restrictions unless otherwise specifically required to be included in donor-restricted net assets by the donor or by applicable state law.

All net assets of the Corporation at December 31, 2022 and 2021 were considered to be net assets without donor restrictions.

Investment Securities

Investment securities consist of government and corporate debt securities, which are classified as debt securities held-to-maturity. The securities are carried at cost, which approximates at fair market value. Because the Corporation has the ability and intent to hold these investments until a recovery of fair value, which is maturity, the Corporation does not consider these investments to be impaired at December 31, 2022 and 2021.

Capitalization and Depreciation

Fixed assets are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

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 straight-line method for financial reporting purposes. The fixed assets being depreciated over the estimated life of tax basis do not result in a material difference from GAAP basis. The estimated service lives of the assets for depreciation purposes may be different from their actual economic useful lives. For financial statement purposes, the following estimated useful lives are used.

	Estimated Life	Method
Building improvements	30.0 Years	Straight-line
Equipment	5.0 Years	Straight-line

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

The Corporation reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the properties, undiscounted and without interest charges, by the rental property including any estimated proceeds from the eventual disposition of the real estate 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2022 and 2021.

Risks and Uncertainties

The Corporation is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where property is located or by changes in federal low-income housing subsidies or the demand for such housing.

Income Taxes

The Corporation was organized under the New York State not-for-profit laws. The Corporation is exempt from Federal, New York State, and New York City income taxes.

Rental Income and Prepaid Rents

Rental income is recognized as rent becomes due. Rental incomes received in advance are deferred or classified as liabilities until earned.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tenant Accounts Receivable

Tenant accounts receivable are reported net of an allowance for 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. It is reasonably possible that management's estimate of the allowance will change. There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Included in cash equivalents are short-term investments in money market funds or marketable securities with original maturities of 90 days or less when purchased. The securities are carried at cost, which approximates fair market value.

Fair Values of Financial Instruments

The Corporation's financial instruments consist primarily of cash, accounts receivable, reserve deposit and accounts payable. The carrying values of cash, accounts receivable, reserve deposit and accounts payable are considered to be representative of their respective fair values.

Revenue Recognition

The Corporation's primary revenue stream is rent charge for residential units under leases. The Corporation records revenue for such leases at gross potential rent. The rental value of vacancies and other concessions are stated separately to present net rental income on the accrual basis. Subsidy revenue for low-income eligible tenants

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid by a tenant. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially subject to ASC 606. The Corporation believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Corporation on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending, and pet as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

Adoption Of Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements. The Corporation adopted FASB ASC 842 effective January 1, 2022. However, there is no adjustment necessary as of January 1, 2022 to be recognized under FASB ASC 842. With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements as of December 31, 2022 and the year then ended. The Corporation has no other leases other than leases with tenants. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions received and Contributions Made*. ASU 2018-08 clarifies and improves guidance for contributions concerning 1) the

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption Of Accounting Pronouncements (Continued)

determination whether a transaction should be accounted for as an exchange transaction or as a contributions, and 2) whether a contribution received is conditional. This standard establishes that Section 8 payments, although not a result of a reciprocal transaction, are instead to be considered as exchange transactions.

NOTE 3 - FIXED ASSETS

Fixed assets consist of the following as of December 31, 2022 and 2021:

	2022	2021
Building improvements	$ 344,318	$ 326,318
Equipment	11,259	11,259
	355,577	337,577
Less: accumulated depreciation	(104,642)	(92,963)
Net fixed assets	$ 250,935	$ 244,614

NOTE 4 - ENFORCEMENT MORTGAGE

The payment made by HHAC under the grant program totaling $1,330,116 is secured by a mortgage on the property. The Corporation agreed to provide housing for homeless people under a twenty five year agreement. The mortgage is only payable upon the event of default under the agreement. Upon completion by the Corporation of their obligations under this agreement, the mortgage will be deemed satisfied. The mortgage and the original construction and rehabilitation costs are not reflected in the accompanying financial statements. As of October 8, 2020, the enforcement mortgage has been satisfied.

NOTE 5 - TENANTS' SECURITY DEPOSITS

Tenants' security deposits are to be held in a separate bank account in the name of the Corporation. As of December 31, 2022 and 2021, the balance in the security account was $58,268 and $54,015 respectively.

NOTE 6 - OPERATING RESERVE

The Corporation maintains an operating reserve. The activities during 2022 and 2021 were as follows:

	2022	2021
Balance beginning of year	$ 820,528	$ 788,903
Additions during the year	18,898	19,075
Fees	(150)	(150)
Unrealized loss	(35,626)	-
Investment Income	14,648	12,700
Balance end of year	$ 818,298	$ 820,528

The operating reserve balance consists of the following:

	2022	2021
Cash	$ 490,609	$ 440,272
Government bonds	56,107	72,004
Corporate bonds	40,951	41,101
Mutual funds	230,631	267,151
	$ 818,298	$ 820,528

As of December 31, 2022 and 2021, the contractual maturities of all debt securities classified as government securities or corporate bonds are as follows:

	2022	2021
Maturing within one	$ -	$ 15,988
Maturing in 1-5 years	56,799	56,965
Maturing in 6-10 years	-	-
Maturing after 10 years	40,259	40,152
	$ 97,058	$ 113,105

NOTE 6 - OPERATING RESERVE (CONTINUED)

The operating reserve is maintained in an account with a brokerage firm. The account contains cash and securities. Balances are insured up to $500,000 (with a limit of $250,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on all cash, cash equivalents and securities held by the broker. This insurance does not cover any loss on market value of all cash, cash equivalents and securities held but losses due to the actions of the brokerage firm. The Corporation has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash, cash equivalents and securities.

NOTE 7 - HOUSING ASSISTANCE PAYMENTS

The Corporation receives a portion of its rental income from the Federal "Section 8" subsidy program administered by the New York City Department of Housing Preservation and Development (HPD).

Total Section 8 received during the years ended December 31, 2022 and 2021 was $93,383 and $82,911 respectively. This amount is included in rental income in the accompanying statements of activities. For the years ended December 31, 2022 and 2021, the Corporation received 26% and 21% respectively of its income in the form of Section 8 subsidies. The Corporation also receives subsidy rental payments from local public assistance.

NOTE 8 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Management fees are paid to The Lower East Side People’s Mutual Housing Association, Inc. (LESPMHA). The fee is 10% of the monthly rental collection. LESPMHA is a related party. Total management fees were $42,725 in 2022 and $36,563 in 2021 respectively. The Corporation also reimburses LESPMHA for superintendent services provided. The total costs reimbursed, including fringe benefits and other expenses, were $101,950 in 2022 and $106,594 in 2021.

The total amount owed to LESPMHA for management fees and reimbursable expenses at December 31, 2022 and 2021 is $11,632 and $9,163 respectively and is included in accounts payable and accrued expenses in the accompanying financial statements.

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Corporation maintains its cash and cash equivalents within a financial institution. Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each financial institution. At times, these balances may exceed the FDIC limits. At December 31, 2022 and 2021, the total amounts exceeding the limit are $465,979 and $372,032 respectively.

NOTE 10 - EXEMPTION FROM REAL ESTATE TAXES

The Corporation is exempt from real estate taxes from New York City for residential units.

NOTE 11 - CASH AND RESTRICTED CASH

The balances in cash and restricted cash as reflected in the statements of cash flows consist of the following:

	2022	2021
Cash	$ 1,318,513	$ 1,224,532
Restricted deposits		
Operating reserve	490,609	440,272
Total Cash and Restricted Deposits	$ 1,809,122	$ 1,664,804

Amounts included in operating reserve represent cash portions of these accounts.

NOTE 12 - FUNCTIONAL EXPENSES

The Corporation provides low-income housing to its tenants. The cost of providing program services and supporting services has been summarized on a functional basis in the tables below. Expenses directly attributable to a specific functional activity are reported as expenses of those functional activities. Allocation of expenses were made on a direct allocation basis.

NOTE 12 - FUNCTIONAL EXPENSES

	Program Services	Supporting Services	
2022	Rental Operations	Management and General	Total Expenses
Management fee	$ -	$ 42,725	$ 42,725
Salary and benefits	103,680	-	103,680
Utilities	44,845	-	44,845
Exterminating	1,030	-	1,030
Repairs and maintenance	52,896	-	52,896
Office expenses	559	-	559
Insurance	25,599	-	25,599
Professional	5,310	6,625	11,935
Bad debts	3,214	-	3,214
Real estate	4,897	-	4,897
Other expenses	4,097	-	4,097
Depreciation	11,679	-	11,679
Total	$ 257,806	$ 49,350	$ 307,156
2021			
Management fee	$ -	$ 36,563	$ 36,563
Salary and benefits	105,376	-	105,376
Utilities	39,298	-	39,298
Exterminating	936	-	936
Repairs and maintenance	21,080	-	21,080
Office expenses	718	-	718
Insurance	23,792	-	23,792
Professional	2,361	7,100	9,461
Bad debts	1,176	-	1,176
Real estate	4,901	-	4,901
Other expenses	5,348	-	5,348
Depreciation	11,411	-	11,411
Total	$ 216,397	$ 43,663	$ 260,060

CLINTON-HENRY HOUSING DEVELOPMENT FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 13 - LIQUIDITY

At December 31, 2022, the Corporation has $1,393,901 of liquid assets, consisting of cash of $1,318,513 and accounts receivable of $75,388 available to meet needs for general expenditures. None of the financial assets are subject to donor or other contractual restrictions. Accordingly, all such funds are available to meet the cash needs of the Corporation in the next 12 months.

In addition, the Corporation may maintain funds in an operating reserve account. Such funds are not considered by the Corporation to have donor restrictions.

The Corporation manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the Corporation are expected to be met on a monthly basis from the rents of project units. In general, the Corporation maintains sufficient financial assets on hand to meet 30 days worth of normal operating expenses.

NOTE 14 - OPERATING RISK

The Corporation's sole asset is a 10-unit apartment building. The Corporation's operations are concentrated in the low income real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to HUD, which are subject to change by an act of Congress or by administrative charge. Such changes may occur with little notice.

NOTE 15 - CONTINGENCIES

The Corporation, as owners of real estate, is subject to various Federal, state, and local environmental laws. Compliance by the Corporation with existing laws has not had a material adverse effect on the Corporation. However, the Corporation cannot predict the impact of new or changed laws or regulations on its current properties.

The Corporation does not believe there is any litigation pending or threatened against that, individually or in the aggregate, reasonably may be expected to have a material adverse effect on the Corporation.

NOTE 16 - CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Corporation's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenant's ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through June 15, 2023, 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 financial statements.

DIVERSITY HOUSES, L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

DIVERSITY HOUSES, L.P.
DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

To the Partners of Diversity Houses, L.P.

Opinion

I have audited the accompanying financial statements of Diversity Houses, L.P., a New York Limited Partnership, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Diversity Houses, L.P. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Diversity Houses, L.P. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Diversity Houses, L.P. 's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted 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, including omissions, 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 generally accepted auditing standards, I:

- 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 Diversity Houses, L.P. '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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Diversity Houses, L.P.'s ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Report on Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of operating expenses and excess income analysis are presented for purposes of additional analysis and are not required parts 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

New York, New York
May 15, 2023

DIVERSITY HOUSES L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
RENTAL PROPERTY		
Land	$ 5	$ 5
Buildings	10,808,880	10,808,880
Building improvements	124,918	124,918
Land improvement	907,486	907,486
Furniture and equipment	173,715	163,590
	12,015,004	12,004,879
Less: Accumulated depreciation	(6,383,993)	(6,047,415)
Total Rental Property	5,631,011	5,957,464
OTHER ASSETS		
Cash	301,189	317,187
Deposits held in trust		
Tenant security deposits	92,156	89,752
Restricted Deposits and Funded Reserves		
Replacement reserve - CPC	442,933	407,733
Operating reserve - CPC	240,090	214,047
Funds held in escrow - CPC	86,144	72,263
Total Restricted Deposits and Funded Reserves	769,167	694,043
Tenant accounts receivable	73,224	21,821
Tenant accounts receivable - deferred	40,499	93,928
Prepaid expense	15,309	37,143
Capitalized costs, net of accumulated amortization	-	3
Total Other Assets	1,291,544	1,253,877
TOTAL ASSETS	$ 6,922,555	$ 7,211,341

The accompanying notes are an integral part of these financial statements.

DIVERSITY HOUSES L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND PARTNERS' CAPITAL

	2022	2021
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE		
Mortgages payable	$ 3,651,733	$ 3,710,146
Total Liabilities Applicable to Investments in Rental property	3,651,733	3,710,146
OTHER LIABILITIES		
Construction costs payable	1,692	1,692
Accounts payable	8,441	7,856
Accrued expenses	46,001	49,648
Accrued interest payable	27,801	28,155
Tenant security deposits payable	139,976	137,572
Retainage payable	42,120	42,120
Developer's fee payable	783,879	783,879
Prepaid rent	17,688	38,957
Due to LESPMHA Inc.	78,646	78,646
Total Other Liabilities	1,146,244	1,168,525
Total Liabilities	4,797,977	4,878,671
PARTNERS' CAPITAL		
Partners' capital	2,124,578	2,332,670
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 6,922,555	$ 7,211,341

The accompanying notes are an integral part of these financial statements.

DIVERSITY HOUSES L.P.
STATEMENTS OF OPERATIONS
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Residential rental income	$ 456,610	$ 451,453
Vacancy loss	(3,900)	-
Commercial rental income	358,876	358,876
Net rental income	811,586	810,329
Other income	6,704	6,584
Real estate tax reimbursement	23,280	22,895
Interest income	416	30
Total other revenue	30,400	29,509
TOTAL REVENUES	841,986	839,838
OPERATING EXPENSES		
Administrative	123,450	122,984
Utilities	140,338	155,585
Operating and maintenance	178,113	92,376
Taxes and insurance	85,538	76,855
Total Operating Expenses	527,439	447,800
Net income before partnership and financial expenses	314,547	392,038
PARTNERSHIP AND FINANCIAL EXPENSES		
Investment service fee	3,209	3,116
Partnership administrative fee	14,257	13,842
Mortgage interest	168,592	172,712
Total Partnership and Financial Expenses	186,058	189,670
Net income before depreciation and amortization	128,489	202,368
Depreciation	336,578	394,333
Amortization	3	2,618
Total depreciation and Amortization	336,581	396,951
NET LOSS	$ (208,092)	$ (194,583)

The accompanying notes are an integral part of these financial statements.

DIVERSITY HOUSES L.P.
STATEMENTS OF PARTNERS' CAPITAL
FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

	General Partner	Limited Partner*	Total
Partners' Capital January 1, 2021	$ (399)	$ 2,527,652	$ 2,527,253
Net loss 2021	(19)	(194,564)	(194,583)
Partners' Capital December 31, 2021	(418)	2,333,088	2,332,670
Net loss 2022	(21)	(208,071)	(208,092)
Partners' Capital December 31, 2022	$ (439)	$ 2,125,017	$ 2,124,578

* Note - Net of Syndication costs of $16,250.

The accompanying notes are an integral part of these financial statements.

DIVERSITY HOUSES L.P.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Net loss	$ (208,092)	$ (194,583)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	336,578	394,333
Amortization	3	2,618
Non cash interest expense due to amortization of debt issuance costs	3,374	3,374
Decrease (Increase) in operating assets:		
Tenant accounts receivable	(51,403)	38,898
Tenant accounts receivable - deferred	53,429	43,305
Prepaid expenses	21,834	(6,737)
Increase (Decrease) in operating liabilities:		
Accounts payable	585	2,060
Accrued expenses	(3,647)	4,180
Accrued interest payable	(354)	12,659
Prepaid rent	(21,269)	38,957
Net Cash provided by Operating Activities	131,038	339,064
Cash Flows from Investing Activities:		
Purchase of fixed assets	(10,125)	(45,945)
Payment of developer fee payable	-	(112,965)
Net Cash used in Investing Activities	(10,125)	(158,910)
Cash Flows from Financing Activities:		
Principal payments of a mortgage	(61,787)	(53,032)
Net Cash used in Financing Activities	(61,787)	(53,032)
Net Increase in Cash and Restricted Cash	59,126	127,122
Cash and Restricted Cash - Beginning of Year	1,011,230	884,108
Cash and Restricted Cash - End of Year	$ 1,070,356	$ 1,011,230
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 165,572	$ 156,679

The accompanying notes are an integral part of these financial statements.

DIVERSITY HOUSES L.P.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - ORGANIZATION

Diversity Houses, L.P. (the "Partnership") is a limited partnership formed under the laws of the State of New York pursuant to a Limited Partnership Agreement and Certificate of Limited Partnership dated July 27, 2004. The Partnership was organized to develop, construct, own, maintain, and operate thereon 44 residential units for rental to low-income tenants (the Project). The Project is located in the lower east side of Manhattan, New York. The Project consists of two buildings at 227 East Third Street and 242 East Second Street.

The Partnership received an allocation of low-income-tax credits from the New York State Division of Housing and Community Renewal (DHCR) under Section 42 of the Internal Revenue Code of 1986, as amended.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Capitalization and Depreciation

Land, buildings, land improvements, furniture, and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

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 straight-line method for financial reporting purposes. The estimated service lives of the assets for depreciation purposes may be different from their actual economic useful lives. The fixed assets being depreciated over the estimated life of tax basis do not result in a material difference from GAAP basis. For financial statement purposes, the following estimated useful lives are used:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization and Depreciation (Continued)

	Estimated Life	Method
Land	-	None
Building/residential & Improvements	27.5 Years	Straight-line
Building/nonresidential	39.0 Years	Straight-line
Land Improvements	15.0 Years	Straight-line
Furniture and Fixture	7.0 Years	Straight-line
Equipment	5.0 Years	Straight-line

The land and buildings are pledged as collateral for all mortgages payable.

Impairment

The Partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including any estimated proceeds from the eventual disposition of the real estate 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2022 and 2021.

Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where property is located or by changes in federal low-income housing subsidies or the demand for such housing.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs and Amortization

Debt issuance costs are amortized over the term of the mortgage loan 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 debt issuance 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. The debt issuance costs are being offset against the mortgage payable and the amortization of debt issuance costs is included in mortgage interest expense.

Tax credit fees are amortized over fifteen years using the straight-line method.

Rental Income

Residential rental income is recognized as it accrues. Rental payments received in advance are deferred until earned. Commercial rental income is recognized using the straight-line method under which contractual rent increases are recognized equally over the lease term. The commercial rental income recorded on the straight-line method in excess of the rents billed is recognized as accounts receivable-deferred. All leases between the Partnership and the tenants of the property are operating leases.

Accounts Receivable - Tenants

Tenant accounts receivable are reported net of an allowance for 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. It is reasonably possible that management's estimate of the allowance will change. There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and deductions 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 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 provision for income taxes and the Partnership has no other tax positions, which must be considered for disclosure.

Fair Values of Financial Instruments

The Partnership's financial instruments consist primarily of cash, accounts receivable, reserve deposits, accounts payable and debt instruments. The carrying values of cash, accounts receivable, reserve deposits and accounts payable are considered to be representative of their respective fair values. The carrying values of the Partnership's debt instruments approximate their fair values as of December 31, 2022 and 2021, based on current incremental borrowing rates for similar types of borrowing arrangements.

Revenue Recognition

The Partnership's primary revenue stream is rent charges for residential units under leases. The Partnership records revenue for such leases at gross potential rent. The rental value of vacancies and other concessions are stated separately to present net rental income on the accrual basis. Subsidy revenue for low-income eligible tenants is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid by the tenant. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

subject to ASC 606. The Partnership believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Partnership on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending, pet and parking fees as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

Adoption of Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements. The Partnership adopted FASB ASC 842 effective January 1, 2022. However, there is no adjustment necessary as of January 1, 2022 to be recognized under FASB ASC 842. With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements as of December 31, 2022 and the year then ended. The Partnership has no other leases other than leases with tenants. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASC 606), and all related amendments. ASC 606 supersedes most existing revenue recognition guidance. ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Partnership expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Partnership adopted ASC 606 and all related amendments using the modified retrospective transition method. The Partnership concluded that the adoption of the new standard did not require an adjustment to the opening partners' capital balance.

NOTE 3 - MORTGAGES PAYABLE

The Partnership received a construction loan from the Community Preservation Corporation(CPC) in the amount of $5,600,000. The loan carries an interest rate of 3.3% over the existing LIBOR rate. Interest on the loan was due and payable on the first day of November 2004 and on the first day of each month thereafter until the maturity date (September 1, 2006).

The construction loan was paid off with two permanent loans and capital contributions from the Limited Partner in April 2010. The permanent loans are as follows:

CPC-Pension Fund (1st Mortgage)

A first mortgage in the amount of $2,685,000 bears an interest rate of 6.88% with a term of 30 years. The loan is payable in monthly installments of $17,647.51 including interest. The final payment is due on April 21, 2040. The balance owed as of December 31, 2022 and 2021 was $2,146,170 and $2,207,957 respectively. Interest expense for 2022 and 2021 was $149,629 and $153,749 respectively. For the years ended December 31, 2022 and 2021, accrued interest payable was $12,305 and $12,659 respectively.

Scheduled principal maturities of the first mortgage in each of the next five years are as follows:

Year ending December 31	Amount
2023	$ 71,897
2024	71,280
2025	76,342
2026	81,763
2027	87,569
Thereafter	1,757,319
Total	$ 2,146,170

NOTE 3 - MORTGAGES PAYABLE (CONTINUED)

New York State Housing Trust Fund (2nd Mortgage)

A second mortgage in the amount of $1,558,867 bears an interest rate of 1% with a term of 30 years. The maturity date of the mortgage is April 21, 2040. Interest is payable annually only from the excess income as determined by HTFC regulatory agreement. All unpaid interest is due on the maturity date of the mortgage, April 21, 2040. The balance owed as of December 31, 2022 and 2021 was $1,558,867. Interest expense for 2022 and 2021 was $15,589. For the years ended December 31, 2022 and 2021, accrued interest payable was $15,496.

As of December 31, 2022 and 2021, the balances of the mortgages payable were as follows:

	2022	2021
Mortgage CPC	$ 2,146,170	$ 2,207,957
Mortgage NYSHTF	1,558,867	1,558,867
Total	3,705,037	3,766,824
Less: Unamortized debt issuance costs	(53,304)	(56,678)
Net mortgages payable	$ 3,651,733	$ 3,710,146

All of the loans are collateralized by the mortgages on the real estate. Furthermore, the Partnership is required to adhere to a Regulatory Agreement that defines the use of the property.

NOTE 4 - DEBT ISSUANCE COSTS

Costs incurred in connection with obtaining the mortgages have been capitalized and are being amortized over the term of the mortgages.

The unamortized debt issuance costs consist of the following:

NOTE 4 - DEBT ISSUANCE COSTS (CONTINUED)

	2022	2021
Debt issuance costs	$ 101,197	$ 101,197
Accumulated amortization	(47,893)	(44,519)
Net	$ 53,304	$ 56,678

The amortization of debt issuance costs of $3,374 for 2022 and 2021 were included in mortgage interest expense in the accompanying financial statements. Estimated amortization expense for each of the ensuing years through December 31, 2027 is $3,374. The debt issuance costs have been offset against the mortgages payable (Note 3).

NOTE 5 - PARTNERS' CAPITAL CONTRIBUTIONS

The Partnership has one General Partner, Diversity Houses Corp., who has a .01% interest and one Limited Partner, who has interest of 99.99%. The General Partner and the Limited Partner’s interest and their required capital contributions are as follows:

	Percentage Interest	Capital Contribution
General Partner		
Diversity Houses Corp.	0.01%	$ 100
Limited Partner		
Enterprise Housing Partners X Limited Partnership	99.99%	7,526,000
	100.00%	$ 7,526,100

As of December 31, 2022 and 2021, the General Partner has contributed $100 and the Limited Partners have contributed $7,526,000.

Profits and losses are allocated .01% to the general partner and 99.99% to the limited partner. Profits and losses arising from the sale, refinancing, or other disposition of all or substantially all of the Partnership’s assets will be specifically allocated as prioritized by the Limited Partnership Agreement.

NOTE 6 - DEVELOPER'S FEE PAYABLE

The Partnership is to pay Lower East Side People's Mutual Housing Association, Inc. (LESPMHA) a development fee in the amount of $996,844 for the service provided with respect to the development of the Project. As of December 31, 2022 and 2021, developer's fee payable was $783,879. The development fee will be paid to the extent of cash flow from the Partnership. Any amount of the development fee that has not been paid in full on or before December 31, 2022 shall be paid no later than such date.

NOTE 7 - CONCENTRATION OF CREDIT RISK

All of the Partnership's cash in a bank has been maintained throughout the years in a federal credit union, which, at times, may exceed the National Credit Union Administration insurance limit of $250,000. The Partnership at times may exceed the limit. At December 31, 2022 and 2021 the total amount exceeding the limit are $49,807 and $65,833 respectively. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash.

NOTE 8 - CAPITALIZED COSTS

Capitalized costs consist of the following:

	2022	2021
Tax Credit Fees	$ 39,273	$ 39,273
Less Accumulated Amortization	(39,273)	(39,270)
Total	$ -	$ 3

NOTE 9 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

The property management fees are paid to LESPMHA. The fee is 5% of the monthly rental collection. LESPMHA is an affiliate of the General Partner. Total property management fees were $42,536 in 2022 and $46,123 in 2021 respectively.

NOTE 9 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

The Partnership also reimburses LESPMHA for maintenance salary and operating expenses, including fringe benefits. The total cost reimbursed was $56,050 in 2022 and $49,137 in 2021 respectively.

The total amounts owed to LESPMHA for the property management fees and reimbursable expenses for the years ended December 31, 2022 and 2021 were $8,441 and $7,856 respectively and included in accounts payable in the accompanying financial statements.

The General Partner is entitled to an annual partnership administrative fee. The initial annual fee was $10,000, which increases by 3 percent per year. The partnership administrative fees for 2022 and 2021 were $14,257 and $13,842 respectively. The partnership administrative fees owed as of December 31, 2022 and 2021 were $14,257 and $13,842 respectively and were included in accrued expenses in the accompanying financial statements.

Included in due to LESPMHA Inc. are advances to the Partnership by LESPMHA totaling $78,646 as of December 31, 2022 and 2021 respectively.

NOTE 10 - RESTRICTED DEPOSITS AND FUNDED RESERVES

In accordance with the regulatory agreement with New York State Housing Trust Fund (HTFC), the Partnership contributed an initial operating reserve in the amount of $90,035. The payment was made in April 2010 in connection with the permanent loan closing. Additional deposits to the operating reserve shall be equal to 3% of the annually budgeted rents plus any excess income remaining in accordance with the HTFC regulatory agreement. Such deposits shall be made in monthly amounts equal to one-twelve of the annual amount. The monthly deposits may be reduced or suspended in any month when the balance in the operating reserve account equals 50% of the annually budgeted gross rent. The Partnership made deposits of $25,627 and $23,463 to the operating reserve in 2022 and 2021 respectively.

The replacement reserve is to be funded from operations in the amount of $35,200 per year. During the years ended December 31, 2022 and 2021, the required deposits of $35,200 and $32,267 respectively were made to the replacement reserve. As of the date of this report, all of the 2022 and 2021 required deposits are made.

NOTE 10 - RESTRICTED DEPOSITS AND FUNDED RESERVES (CONTINUED)

A summary of the activity in the reserve accounts is as follows:

	2022	2021
Replacement Reserve		
Balance beginning of year	$ 407,733	$ 375,466
Deposits	35,200	32,267
Balance end of year	$ 442,933	$ 407,733
Operating Reserve		
Balance beginning of year	$ 214,047	$ 190,554
Deposits	25,627	23,463
Interest earned	416	30
Balance end of year	$ 240,090	$ 214,047

The operating reserve and replacement reserve accounts are held by CPC.

The Partnership maintains an escrow account with The Community Preservation Corporation (CPC). The Partnership is required to make monthly payments to the escrow account and makes water and sewer and insurance payments from this account.

The escrow funds are held by CPC. The activities in the escrow account as of December 31, 2022 and 2021 as follow:

	2022	2021
Balance beginning of year	$ 72,263	$ 90,205
Deposits	120,058	106,528
Withdrawals	(106,177)	(124,470)
Balance end of year	$ 86,144	$ 72,263

NOTE 11 - REAL ESTATE TAXES

For the years ended December 31, 2022 and 2021, real estate taxes expenses were $43,111 and $40,174 respectively. As of December 31, 2022 and 2021, all real estate taxes were paid.

NOTE 12 - COMMERCIAL LEASE

The Partnership has entered into two agreements to lease the commercial spaces. One lease commenced in June 2009 and continues until May 31, 2024. The first year's rent was $154,370 with an increase of 2% every year thereafter. The other lease commenced in March 2013 and continues until February 28, 2023. The first year rent was $165,000 with an increase of 3% every year thereafter. This was renewed with same term until February 28, 2026. The deferred rent receivable as of December 31, 2022 and 2021 is $40,499 and $ 93,928 respectively and included in tenant accounts receivable-deferred in the accompanying financial statements.

Future minimum lease payments under the lease agreements for each of the next five years and thereafter following December 31, 2022 are as follows:

2023	$ 422,694
2024	312,160
2025	234,109
2026	39,208
	$ 1,008,171

NOTE 13 - CONTINGENCIES

The Partnership'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. Noncompliance with state requirements could result in recapture of the Partnership's state low-income housing tax credits. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Limited Partner.

NOTE 13 - CONTINGENCIES (CONTINUED)

The Partnership does not believe there is any litigation pending or threatened against that, individually or in the aggregate, reasonable may be expected to have a material adverse effect on the Partnership.

The Partnership, as an owner of real estate, is subject to various Federal, state, and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulations on its current properties.

NOTE 14 - CASH AND RESTRICTED CASH

The balance in cash and restricted cash as reflected in the statements of cash flows consists of the following:

	2022	2021
Operating Cash	$ 301,189	$ 317,187
Restricted Deposits		
Replacement Reserve- CPC	442,933	407,733
Operating Reserve- CPC	240,090	214,047
Escrow- CPC	86,144	72,263
	$ 1,070,356	$ 1,011,230

The amounts included in replacement reserve, operating reserve and escrow represent the cash portion of these accounts.

NOTE 15 - CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Partnership's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenants ability to pay the required monthly rent.

NOTE 15 - CORONAVIRUS PANDEMIC (CONTINUED)

Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through May 15, 2023, 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 financial statements.

SUPPLEMENTARY INFORMATION

DIVERSITY HOUSES, L.P.
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Administrative Expenses		
Property management fee	$ 42,536	$ 46,123
Office supplies	2,782	3,020
Superintendent salary	29,250	31,131
Professional fees	16,879	16,778
Payroll taxes	4,299	3,252
Workers' compensation	912	1,125
Employee insurance	20,722	14,557
Licenses, permits & fees	5,620	6,074
Miscellaneous	450	924
Total Administrative Expenses	$ 123,450	$ 122,984
Utility Expenses		
Gas	$ 54,595	$ 44,785
Electricity	24,637	19,652
Water and sewer	61,106	91,148
Total Utility Expenses	$ 140,338	$ 155,585
Operating and Maintenance Expenses		
Elevator contract	$ 21,486	$ 19,342
Exterminator	4,024	4,192
Repairs supplies	20,297	19,905
Repairs contract	129,091	46,727
Repairs painting	3,215	2,210
Total Operating and Maintenance Expenses	$ 178,113	$ 92,376
Tax and Insurance Expenses		
Real estate taxes	$ 43,111	$ 40,174
Insurance	42,427	36,681
Total Taxes and Insurance Expenses	$ 85,538	$ 76,855

See independent auditor's report

DIVERSITY HOUSES, L.P.
EXCESS INCOME ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Net loss	$ (208,092)
Add Non-cash expenses:	
Depreciation	336,578
Amortization	3
Interest expenses	168,592
	505,173
Add Partnership fees included in expenses:	
Asset Management fees	3,209
Partnership Admin. fees	14,257
	17,466
Deduct required reserve deposits	
CPC-replacement reserve	(35,200)
CPC-operating reserve	(25,627)
	(60,827)
Deduct other mortgage principal and interest payments	
CPC-mortgage principal payments	(61,787)
CPC-mortgage interest payments	(149,629)
	(211,416)
Deduct capital expenditures not in expense	
New equipment	(10,125)
	(10,125)
Add other items	
Deferred rental income	53,429
	53,429
Deduct other items	
Interest income	(416)
Excess Income before HTFC Debt Service	85,192
HTFC Debt Service Requirement	(15,589)
Excess Income	$ 69,603

See independent auditor's report

GARDEN HOUSE III L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

GARDEN HOUSE III L.P.
DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

To the Partners of
Garden House III L.P.

Opinion

I have audited the accompanying financial statements of Garden House III L.P., a New York Limited Partnership, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Garden House III L.P. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Garden House III L.P. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Garden House III L.P.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted 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, including omissions, 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 generally accepted auditing standards, I:

- 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 Garden House III L.P.'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Garden House III L.P.'s ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Report on Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of operating expenses are presented for purposes of additional analysis and are not required parts 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

New York, New York
May 4, 2023

GARDEN HOUSE III L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
RENTAL PROPERTY		
Land and land preparation	$ 22,002	$ 22,002
Building	9,453,156	9,445,911
Land improvements	431,820	431,820
Equipment	321,476	321,476
	10,228,454	10,221,209
Less: Accumulated depreciation	(2,386,002)	(2,088,858)
TOTAL RENTAL PROPERTY	7,842,452	8,132,351
OTHER ASSETS		
Cash	102,170	23,340
Deposits held in trust		
Tenant security deposits	10,193	11,431
Restricted deposits and funded reserve		
Operating reserve	336,196	331,899
Replacement reserve	40,418	40,563
Social service reserve	154,570	152,595
Total Restricted Deposits and Funded Reserve	531,184	525,057
Prepaid expenses	10,000	37,345
Tenant accounts receivable	91,083	63,042
Security Deposits	350	350
Capitalized costs, net of accumulated amortization	15,971	18,252
TOTAL OTHER ASSETS	760,951	678,817
TOTAL ASSETS	$ 8,603,403	$ 8,811,168

The accompanying notes are an integral part of these financial statements.

GARDEN HOUSE III L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND PARTNERS' CAPITAL

	2022	2021
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE		
Mortgage payable - HPD	$ 5,702,128	$ 5,700,988
Mortgage payable - Sponsor loan	216,300	216,300
TOTAL	5,918,428	5,917,288
OTHER LIABILITIES		
Accounts payable	57,037	17,917
Developer's fee payable	115,000	115,000
Prepaid rent	15,554	10,432
Accrued interest	230,000	172,500
Accrued expenses	154,188	67,185
Tenants security deposits payable	10,193	11,431
Due to affiliate	402,216	324,647
TOTAL OTHER LIABILITIES	984,188	719,112
TOTAL LIABILITIES	6,902,616	6,636,400
Partners' capital	1,700,787	2,174,768
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 8,603,403	$ 8,811,168

The accompanying notes are an integral part of these financial statements.

GARDEN HOUSE III L.P.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Residential rental income	$ 230,218	$ 248,496
Subsidy income	299,273	277,727
Less: Residential vacancy loss	(22,347)	(41,809)
Net rental income	507,144	484,414
OTHER REVENUE		
Interest income	6,277	270
Laundry income	2,213	2,590
Other income	70	5,189
Total other revenue	8,560	8,049
Total income	515,704	492,463
OPERATING EXPENSES		
Administrative	83,482	103,767
Utilities	98,867	97,742
Operating and maintenance	369,492	421,094
Taxes and insurance	47,619	42,233
Total operating expenses	599,460	664,836
Net operating loss before partnership and financial expenses	(83,756)	(172,373)
PARTNERSHIP AND FINANCIAL EXPENSES		
Mortgage interest expense	58,640	58,640
Investor service fee	6,333	6,149
Partnership management fee	25,827	25,075
Total partnership and financial expenses	90,800	89,864
Net loss before depreciation and amortization	(174,556)	(262,237)
Depreciation	297,144	297,083
Amortization	2,281	2,281
Total depreciation and amortization	299,425	299,364
Net Loss	$ (473,981)	$ (561,601)

The accompanying notes are an integral part of these financial statements.

GARDEN HOUSE III L.P.
STATEMENTS OF PARTNERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	General Partner	Limited Partner	Total
Partners' Capital January 1, 2021	$ (114)	$ 2,736,483	$ 2,736,369
Net loss 2021	(56)	(561,545)	(561,601)
Partners' Capital December 31, 2021	(170)	2,174,938	2,174,768
Net loss 2022	(47)	(473,934)	(473,981)
Partners' Capital December 31, 2022	$ (217)	$ 1,701,004	$ 1,700,787

The accompanying notes are an integral part of these financial statements.

GARDEN HOUSE III L.P.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Net loss	$ (473,981)	$ (561,601)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	297,144	297,083
Amortization	2,281	2,281
Non cash interest expense due to amortization of debt issuance costs	1,140	1,140
Bad debts	6,207	38,265
Decrease (Increase) in operating assets:		
Tenant accounts receivables	(34,248)	(16,150)
Prepaid expenses	27,345	(29,177)
Increase (Decrease) in operating liabilities:		
Accounts payable	39,120	(8,541)
Accrued expenses	87,003	(1,438)
Accrued interest	57,500	57,500
Prepaid rent	5,122	6,999
Due to affiliate	77,569	1,829
Net Cash provided by(used in) Operating Activities	92,202	(211,810)
Cash Flows from Investing Activities:		
Purchase of fixed assets	(7,245)	-
Net Cash used in Investing Activities	(7,245)	-
Net Increase (Decrease) in Cash and restricted cash	84,957	(211,810)
Cash and restricted cash - Beginning of Year	548,397	760,207
Cash and restricted cash - End of Year	$ 633,354	$ 548,397
Supplemental disclosure of cash flow information:		
Cash paid during the years for interest	$ -	$ -

The accompanying notes are an integral part of these financial statements.

GARDEN HOUSE III L.P.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - ORGANIZATION

Garden House III L.P.(the "Partnership") is a limited partnership formed under the laws of the State of New York pursuant to a First Amended and Restate Agreement of Limited Partnership Agreement (LPA) and Certificate of Limited Partnership dated July 15, 2011. The Partnership was organized to develop, construct, own, maintain, and operate a rental housing project in the lower east side of Manhattan, New York. The Project consists of 45 low income housing tax credit units and 1 superintendent unit. The total cost of the project (including funding of reserves) was $11,016,400. The funding sources for this project were as follows:

New York City Permanent Loan	$ 5,750,000
Partner Capital Contributions	4,935,100
Sponsor Loan	216,300
Deferred Developer's Fee	115,000
Total	$ 11,016,400

The project received an allocation of low-income-tax credits from the New York City Department of Housing Preservation Development (HPD) under Section 42 of the Internal Revenue Code of 1986, as amended.

The building was completed in December 2014. Tenants began to occupy the building in January 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties (Continued)

conditions in the geographical area where property is located or by changes in federal low-income housing subsidies or the demand for such housing.

Capitalization and Depreciation

Land and land preparation, building, land improvements, and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

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 straight-line method for financial reporting purposes. The estimated service lives of the assets for depreciation purposes may be different from their actual economic useful lives. For financial statement purposes the following estimated useful lives are used:

	Estimated Life	Method
Land and land preparation	-	None
Building	40 years	Straight-line
Land Improvements	15 years	Straight-line
Equipment	10 years	Straight-line

The land and building are pledged as collateral for all mortgages payable.

Impairment

The Partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including the low income housing tax

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment (Continued)

credits and any estimated proceeds from the eventual disposition of the real estate 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2022 and 2021.

Income Tax

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 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 provision for income taxes and the Partnership has no other tax positions, which must be considered for disclosure.

Debt Issuance Costs and Amortization

Debt issuance costs are amortized over the term of the mortgage loan 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 debt issuance 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. The debt issuance costs are being offset against the mortgage payable and the amortization of debt issuance costs is included in mortgage interest expense.

Tax credit fees and carryover fees paid to the New York City Department of Housing Preservation and Development are amortized over 15 years using the straight line method.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rental Income and Prepaid Rents

Rental income is recognized as rental income accrues. Rental payments received in advance are deferred or classified as liabilities until earned.

Tenant Accounts Receivable and Bad Debt

Tenant accounts receivable are reported net of an allowance for 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. It is reasonably possible that management's estimate of the allowance will change.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The Partnership's financial instruments consist primarily of cash, accounts receivable, reserve deposits, accounts payable and debt instruments. The carrying values of cash, accounts receivable, reserve deposits and accounts payable are considered to be representative of their respective fair values. The carrying values of the Partnership's debt instruments approximate their fair values as of December 31, 2022 and 2021, based on current incremental borrowing rates for similar types of borrowing arrangements.

Revenue Recognition

The Partnership's primary revenue stream is rent charges for residential units under leases. The Partnership records revenue for such leases at gross potential rent. The rental value of vacancies and other concessions are stated separately to present net

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

rental income on the accrual basis. Subsidy revenue for low-income eligible tenants is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid by the tenant. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially subject to ASC 606. The Partnership believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Partnership on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending, pet and parking fees as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

Recently Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 842, *Leases* (“FASB ASC 842”) to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements. The Partnership adopted FASB ASC 842 effective January 1, 2022. However, there is no adjustment necessary as of January 1, 2022 to be recognized under FASB ASC 842. With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements as of December 31, 2022 and the year then ended. The Partnership has no other leases other than leases with tenants. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASC 606),

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncement (Continued)

and all related amendments. ASC 606 supersedes most existing revenue recognition guidance. ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Partnership expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Partnership adopted ASC 606 and all related amendments using the modified retrospective transition method. The Partnership concluded that the adoption of the new standard did not require an adjustment to the opening partners' capital balance.

NOTE 3 - MORTGAGES PAYABLE

The Partnership was funded with a loan from the New York City Department of Housing Preservation and Development (HPD). An affiliate of the general partner also made a loan to the Partnership. A summary of the loans follows:

HPD

A loan was secured by a mortgage in the amount of $5,750,000. During the construction of the project, the loan was non interest bearing (zero percent). Upon completion of the project and reaching the conversion date (as defined in the building loan contract), the loan would have an interest rate of one percent (1%) to the maturity date. The maturity date of the loan is 50 years from the conversion date. No monthly payments of principal or interest are required to be made until the maturity date. The loan was converted to permanent status on January 16, 2019. The maturity date of the loan is January 16, 2069. The outstanding loan balance as of December 31, 2022 and 2021 was $5,750,000. As of December 31, 2022 and 2021, accrued interest was $230,000 and $172,500 respectively.

An enforcement note was secured by a mortgage to HPD of $6,194,000 on the property. The note is due on the sixtieth anniversary of the completion date or January 16, 2069, whichever is earlier. The note shall be payable without interest and no payments of principal or interest shall be due prior to the maturity date. If no

NOTE 3 - MORTGAGES PAYABLE (CONTINUED)

HPD (Continued)

event of default shall exist on the maturity date, the outstanding amount of the note shall be deemed satisfied and extinguished. The enforcement note is not included in the financial statements.

SPONSOR LOAN

The Lower East Side People's Mutual Housing Associates, Inc., (LESPMHA), an affiliate of the general partner, loaned the Partnership $216,300. The loan bears interest of zero percent (0%). The loan is due on October 10, 2062. The loan is subordinate to the loan made by HPD ($5,750,000).

As of December 31, 2022 and 2021, the balances of the mortgages payable were as follows:

	2022	2021
Mortgage payable - HPD	$ 5,750,000	$ 5,750,000
Less: Unamortized debt issuance costs	(47,872)	(49,012)
Net	5,702,128	5,700,988
Sponsor Loan	216,300	216,300
Total	$ 5,918,428	$ 5,917,288

All of the loans are collateralized by mortgages on the real estate. Furthermore, the Partnership is required to adhere to a Regulatory Agreement that defines the use of the property.

NOTE 4 - DEBT ISSUANCE COSTS

Costs incurred in connection with the obtaining mortgages have been capitalized and are being amortized over the term of the mortgages. The unamortized debt issuance costs consist of the following:

NOTE 4 - DEBT ISSUANCE COSTS (CONTINUED)

	2022	2021
Debt issuance costs	$ 56,969	$ 56,969
Accumulated amortization	(9,097)	(7,957)
Net Debt issuance cost	$ 47,872	$ 49,012

The debt issuance costs have been offset against the mortgage payable (Note 3).

The amortization of debt issuance costs of $1,140 for 2022 and 2021 is included in mortgage interest expense in the accompanying financial statements. Estimated amortization expense of the debt issuance costs for each of the ensuing years through December 31, 2027 is $1,140.

NOTE 5 - CAPITALIZED COSTS

Capitalized costs consist of the following:

	2022	2021
Tax credit fees	$ 25,440	$ 25,440
Carryover fee	5,000	5,000
Tax abatement fees	3,780	3,780
	34,220	34,220
Less Accumulated Amortization	(18,249)	(15,968)
Total	$ 15,971	$ 18,252

Estimated amortization expense for each of the ensuing years through December 31, 2027 is $2,281.

NOTE 6 - PARTNERS' CAPITAL CONTRIBUTIONS, PROFIT AND LOSSES AND DISTRIBUTIONS

The Partnership has one General Partner, Garden House I, Inc., a New York Corporation, who has a .01% interest and one limited partner, Banc of America

NOTE 6 - PARTNERS' CAPITAL CONTRIBUTIONS, PROFIT AND LOSSES AND DISTRIBUTIONS (CONTINUED)

Housing Fund IX Limited Partnership, LLLP (BOA IX), who has a 99.99% interest. The General Partner and the Limited Partner' interest and their required capital contributions are as follows:

	Percentage Interest	Capital Contribution
General Partner		
Garden House I, Inc.	0.01%	$ 100
Limited Partner		
Banc of America Housing Fund IX imited Partnership, LLLP	99.99%	4,935,000
	100.00%	$ 4,935,100

As of December 31, 2015, the General Partner has contributed $100. As of December 31, 2019, the Limited Partner has contributed $4,935,000.

Profit and losses are allocated 0.01% to the general partner and 99.99% to the limited partner. Profits and losses arising from the sale, refinancing, or other disposition of all, or substantially all, of the Partnership's assets will be specifically allocated as prioritized by the LPA.

NOTE 7 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Developer's Fee

As provided in the Development Services Agreement, the Partnership shall pay the Developer's fee in the amount of $460,000 to LESPMHA for the services rendered for overseeing the construction and development of the project. Of this amount, $115,000 is considered deferred, and will be paid from cash flow available to the extent in accordance with the LPA. Any amount of the Developer's fee, including deferred Developer's fee, that has not been paid in full on or before December 31,2028, shall be paid no later than such date. During 2022 and 2021, the Partnership

NOTE 7 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

Developer's Fee (Continued)

did not pay LESPMHA for the Developer's fee. As of December 31, 2022 and 2021, the Partnership owed $115,000 for Developer's fee. In connection with the development of the project, there were unspent funds in the amount of $326,148. As agreed upon with NYC HPD, $181,479 was deposited into the operating reserve (see note 8) in 2016 and $144,669 was paid to the Developer as an incentive Developer's fee.

Partnership Management Fee

In accordance with the LPA, the general partner, to the extent that all operating expenses and escrow payments have been made, shall be paid a partnership management fee in the amount of $21,000. This fee shall have an annual increase of three percent (3%). The Partnership management fee of $25,827 in 2022 and $25,075 in 2021 was accrued. As of December 31, 2022 and 2021, partnership management fees owed were $165,738 and $139,911 respectively and included in accrued expenses in the accompanying financial statements.

Investor Service Agreement

Per the Investor Service Agreement, the Partnership shall pay the Investor Service fee annually to BOA IX in the amount of $5,000. For each year after the initial year, the fee shall increase at the rate of three percent (3%) per year. The Investor Service fees for 2022 and 2021 were $6,333 and $6,149 respectively. Total amount owed as of December 31, 2022 and 2021 were $24,248 and $17,915 respectively and included in accounts payable and accrued expenses in the accompanying financial statements.

Property Management Fee

The Partnership has entered into a management agreement with LESPMHA. The fee equals to eight percent (8%) of the rental collections. The total property management fees were $36,201 in 2022 and $37,622 in 2021 respectively.

NOTE 7 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

Other Fees and Transactions

During 2022 and 2021, the Partnership reimburses LESPMHA for maintenance and security salary expenses. The total costs charged including fringe benefits and miscellaneous expenses were $59,017 in 2022 and $56,085 in 2021 respectively.

Included in other liabilities are the loan to the Partnership by LESPMHA totaling $54,347 for the years ended December 31, 2022 and 2021. The loan was used to pay development costs for the project.

The total amount due to LESMPHA is as follows:

	2022	2021
Loan	$ 54,347	$ 54,347
Property management fee	73,823	46,595
Partnership management fee	165,738	139,911
Salaries and related costs	108,308	83,794
Total	$ 402,216	$ 324,647

It is the intention of the Partnership that these monies will be repaid when funds are available. Interest is not charged on these amounts and these are not secured. There are no specific due dates.

Operating Deficit Contributions

In accordance with the LPA, if, at any time after later of (i) the Stabilization Date or (ii) Loan Conversion, an Operating Deficit exists, then the General Partner shall contribute funds (an Operating Deficit contribution) to the Partnership as a contribution to capital in an amount equal to the amount of the Operating Deficit. The General Partner's obligation to make Operating Deficit Contributions to fund Operating Deficits which are not funded from the Operating Reserve, shall be limited to $82,000.

NOTE 7 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

Operating Deficit Contributions (continued)

The obligation of the General Partner to make Operating Deficit Contributions shall terminate on the date that the following have occurred simultaneously:

(i) the Project has operating at the required expense coverage for a period of at least one (1) year, which one (1) year period shall have commenced no earlier than four (4) years after the achievement of the Stabilization Date and (ii) the balance in the Operating Reserve equals or exceeds the Operating Reserve Amount. Operating deficit contributions shall be repayable, without interest solely from cash flow or as provided in Article VII in the LPA. As of December 31, 2022 and 2021, no operating deficit contribution was made.

NOTE 8 - FUNDED RESERVES

In accordance with the LPA, the Partnership is required to make a deposit into the operating reserve in the amount of $322,000. The deposit is to be made with the contributions by the limited partner of the fourth ($64,400), sixth ($64,400), seventh ($64,400), eighth ($64,400) and ninth ($64,400) installment. During 2016, a total of $181,479 was deposited into the operating reserve. This funding came from the unspent funds related to the development of the project. During 2019, a total of $322,000 was deposited into the operating account. The total funding deposited into the operating reserve is $503,479. During 2021, the Partnership withdrew $180,000 with the HPD approval to pay down accounts payable.

In accordance with the LPA, the Partnership is required to make a deposit into the social service reserve in the amount of $150,411. The deposit was made in 2019.

In accordance with the Funding and Disbursement Agreement with HPD, the Partnership is also required to make a monthly deposit of $1,245 ($14,940 per annum) to the replacement reserve account, which increases three percent (3%) per year. The initial deposit is required to be made after the conversion date. During 2022 and 2021, a total of $0 and $1,444 was deposited into the replacement reserve. As of December 31, 2022 and 2021, the replacement reserve account is underfunded in the amount of $65,932 and $47,558 respectively.

NOTE 8 - FUNDED RESERVES (CONTINUED)

The reserves are maintained in liquid money market accounts held with a brokerage firm.

A summary of the transactions in the reserves is as follows:

	2022	2021
Operating reserve		
Balance beginning of year	$ 331,899	$ 511,709
Income	4,297	190
Withdrawal	-	(180,000)
Balance end of the year	$ 336,196	$ 331,899
Replacement reserve		
Balance beginning of year	$ 40,563	$ 39,265
Deposit	-	1,444
Income	5	4
Fee	(150)	(150)
Balance end of the year	$ 40,418	$ 40,563
Social service reserve		
Balance beginning of year	$ 152,595	$ 152,518
Income	1,975	77
Balance end of the year	$ 154,570	$ 152,595

The Partnership maintains accounts with a brokerage firm. The account contains only cash. Balances are insured up to $500,000 (with a limit of $250,000 for cash) by the Security Investor Protection Corporation (SIPC). The brokerage firm maintains additional insurance to cover any significant credit risk on cash, cash equivalents, and securities held by the broker. This insurance does not cover any loss on market value of all cash, cash equivalents and securities held but losses due to the action of the brokerage firm. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk.

NOTE 9 - CONTINGENCIES

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. Noncompliance with state requirements could result in recapture of the Partnership's state low-income housing tax credits. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Limited Partner.

The Partnership does not believe there is any litigation pending or threatened against that, individually or in the aggregate, reasonable may be expected to have a material adverse effect on the Partnership.

The Partnership, as an owner of real estate, is subject to various Federal, state, and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulations on its current properties.

NOTE 10 - CONCENTRATION OF CREDIT

Service and Clients

The Partnership earned approximately 58% and 56% of its income in the form of subsidies for the years ended December 31, 2022 and 2021 respectively. The balance of the rent is received from tenants.

Concentration of Credit Risks

The Partnerships maintains its cash balance in financial institutions and a brokerage firm. At times, the balance may exceed the FDIC or SPIC Limit of $250,000. There was no amounts exceeded the limit at December 31, 2022 and 2021. At December 31, 2022 and 2021, cash exceeding the limits was $281,184 and $275,057 respectively. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash.

NOTE 11 - CASH AND RESTRICTED CASH

The balance in cash and restricted cash as reflected in the statements of cash flows consists of the following:

	2022	2021
Cash	$ 102,170	$ 23,340
Restricted Deposits		
Operating Reserve	336,196	331,899
Replacement Reserve	40,418	40,563
Social Service Reserve	154,570	152,595
	$ 633,354	$ 548,397

The amounts included in replacement reserve, operating reserve and social service reserve represent the cash portion of these accounts.

NOTE 12 - EXEMPTION FROM REAL ESTATE TAXES

The Partnership has received a Real Estate Tax exemption under the New York City 420C program.

NOTE 13 - TENANT ACCOUNTS RECEIVABLE

Tenant accounts receivable consists of the following:

	2022	2021
Tenant accounts receivable	$ 110,808	$ 78,042
Less: allowance for doubtful accounts	(19,725)	(15,000)
	$ 91,083	$ 62,042

NOTE 14 - CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will

NOTE 14 - CORONAVIRUS PANDEMIC (CONTINUED)

continue for some time. There has been no immediate impact to the Partnership's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenants ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 15 - CASUALTY EVENTS

On December 19, 2021, a fire occurred in the building. The fire caused damage to one apartment and the elevator. The management filed an insurance claim in 2022 and the Partnership received $277,427 (net of a deductible of $10,000) from the insurance carrier, which fully covered the cost of all of the necessary repairs.

On November 9, 2022, a broken sprinkler head caused flooding which caused extensive damages to the elevator. The Management filed an insurance claim in 2022 and the Partnership received $161,000 (net of a deductible of $10,000) from the insurance carrier, which fully covered the cost of all of the necessary repairs.

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through May 4, 2023, 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 financial statements.

SUPPLEMENTARY INFORMATION

GARDEN HOUSE III L.P.
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Administrative Expenses		
Property management fee	$ 36,201	$ 37,622
Legal fees	10,454	5,873
Professional fees	12,475	14,250
Office expenses	1,172	1,905
License, fee and permits	1,570	3,065
Bad debts	6,207	38,265
Miscellaneous expense	15,403	2,787
Total Administrative Expenses	$ 83,482	$ 103,767
Utilities Expenses		
Electricity	$ 24,639	$ 23,321
Gas	26,986	20,098
Water and sewer	47,242	54,323
Total Utilities Expenses	$ 98,867	$ 97,742
Operating and Maintenance Expenses		
Repairs and maintenance payroll	$ 41,833	$ 31,299
Security Guard	215,090	229,722
Payroll tax	4,793	3,557
Employee health insurance	9,237	19,023
Maintenance supplies	17,407	21,887
Intercom and security	900	6,977
Elevator contract	9,109	14,329
Exterminating	2,890	4,531
Miscellaneous	7,955	5,101
Repairs contract	60,278	84,668
Total Operating and Maintenance Expenses	$ 369,492	$ 421,094
Taxes and Insurance Expenses		
Insurance	$ 47,619	$ 42,233

See independent auditor's report

LESMHA LIMITED PARTNERSHIP

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

LESMHA LIMITED PARTNERSHIP
DECEMBER 31, 2022 AND 2021

CONTENTS

Independent Auditor's Report

To the Partners of Lesmha Limited Partnership

Opinion

I have audited the accompanying financial statements of Lesmha Limited Partnership, a New York Limited Partnership, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lesmha Limited Partnership as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Lesmha Limited Partnership and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Lesmha Limited Partnership's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted 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, including omissions, 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 generally accepted auditing standards, I:

- 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 Lesmha Limited Partnership’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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lesmha Limited Partnership’s ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Report on Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of certain income and expenses and excess income analysis are presented for purposes of additional analysis and are not required parts 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

New York, New York
June 21, 2023

LESMHA LIMITED PARTNERSHIP
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

A S S E T S

	2022	2021
Current Assets		
Cash	$ 61,489	$ 114,416
Tenants accounts receivable, net	46,321	25,483
Prepaid expense	67,887	70,864
Total Current Assets	175,697	210,763
Deposits Held In Trust		
Tenants' security deposits	47,671	47,153
Restricted Deposits and Funded Reserves		
Funds held in escrow - CPC	29,081	130,172
Replacement reserve - CPC	258,664	145,710
Replacement reserve - HTFC	706,377	674,285
Operating reserve - HTFC	230,760	218,372
Total Restricted Deposits and Funded Reserves	1,224,882	1,168,539
Rental Property		
Land	5	5
Buildings	3,898,740	3,898,740
Building improvements	725,395	725,395
Equipment	104,319	104,319
	4,728,459	4,728,459
Less accumulated depreciation	(4,161,403)	(4,129,706)
Total Rental Property	567,056	598,753
Other Asset		
Account receivable - deferred	27,288	3,728
TOTAL ASSETS	$ 2,042,594	$ 2,028,936

The accompanying notes are an integral part of these financial statements.

LESMHA LIMITED PARTNERSHIP
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND PARTNERS' DEFICIT

	2022	2021
Liabilities:		
Current Liabilities		
Accounts payable	$ 47,028	$ 13,325
Accrued expenses	36,464	23,343
Prepaid rent	5,154	5,730
Mortgage payable-current	3,619	68,397
Total Current Liabilities	92,265	110,795
Deposit Liabilities		
Tenant security deposit - commercial	18,540	18,000
Tenants security deposits payable	47,671	47,153
Total Deposit Liabilities	66,211	65,153
Long-Term Liabilities		
Mortgage payable	2,928,161	2,928,161
Total Long-Term Liabilities	2,928,161	2,928,161
Total Liabilities	3,086,637	3,104,109
Partners' Deficit	(1,044,043)	(1,075,173)
TOTAL LIABILITIES AND PARTNERS' DEFICIT	$ 2,042,594	$ 2,028,936

The accompanying notes are an integral part of these financial statements.

LESMHA LIMITED PARTNERSHIP
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Rental income - residential	$ 591,316	$ 585,012
Less: vacancies	-	(2,785)
	591,316	582,227
Rental income - commercial	85,163	51,597
Total Rental Income	676,479	633,824
Interest income	10,748	228
Other income	3,789	6,184
TOTAL REVENUES	691,016	640,236
EXPENSES		
Administrative	49,432	125,246
Utilities	139,231	107,874
Professional fees	18,583	19,255
Management fees	50,106	51,537
Repairs and maintenance	247,419	226,096
Taxes and insurance	119,626	114,365
Interest expense - mortgage	3,661	10,415
Investment service fees	131	130
Depreciation	31,697	156,480
TOTAL EXPENSES	659,886	811,398
NET INCOME/(LOSS)	$ 31,130	$ (171,162)

The accompanying notes are an integral part of these financial statements.

LESMHA LIMITED PARTNERSHIP
STATEMENTS OF PARTNERS' CAPITAL (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	General Partner	Limited Partner	Total
Partners' Capital (deficit) January 1, 2021	$ (27,824)	$ (876,187)	$ (904,011)
Net loss 2021	(1,712)	(169,450)	(171,162)
Partners' Capital (deficit) December 31, 2021	(29,536)	(1,045,637)	(1,075,173)
Net Income 2022	311	30,819	31,130
Partners' Capital (deficit) December 31, 2022	$ (29,225)	$ (1,014,818)	$ (1,044,043)

The accompanying notes are an integral part of these financial statements.

LESMHA LIMITED PARTNERSHIP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Net Income / (Loss)	$ 31,130	$ (171,162)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	31,697	156,480
Bad debts	1,176	80,367
Decrease (Increase) in operating assets:		
Tenants accounts receivable	(22,014)	(3,561)
Account receivable - deferred	(23,560)	19,095
Prepaid expenses	2,977	549
Miscellaneous Receivable	-	5,100
Increase (Decrease) in operating liabilities:		
Accounts payable	33,703	1,946
Accrued expenses	13,121	(2,872)
Prepaid rent	(576)	(974)
Due to affiliate	-	(20,080)
Tenant security deposit - commercial	540	(8,220)
Net cash provided by operating activities	68,194	56,668
Cash flows from financing activities:		
Principal payments	(64,778)	(53,511)
Net cash used in financing activities	(64,778)	(53,511)
Net Increase in Cash and Restricted Cash	3,416	3,157
Cash and Restricted Cash - Beginning of the Year	1,282,955	1,279,798
Cash and Restricted Cash - End of the Year	$ 1,286,371	$ 1,282,955
Supplemental disclosure of cash flow information:		
Cash paid during the years for interest	$ 3,619	$ 9,794

The accompanying notes are an integral part of these financial statements.

NOTE 1 - ORGANIZATION

LESMHA Limited Partnership (the "Partnership") was formed as a limited partnership under the laws of the State of New York on February 23, 1993 for the purpose of operating a rental housing project (the "Project"). The project consists of two buildings located in New York City, New York. The Partnership was organized to develop, construct, own, maintain and operate thereon 48 multi-family residential units for rental to low income tenants. The Project consists of two buildings, which are located at 195-199 E 2^{nd} street and 8-12 Avenue B in the lower east side of Manhattan, New York.

The Partnership has one general partner, LESMHA, Inc., which owns a 1 percent interest, and one limited partner, Second and B Housing Development Fund Corporation, which owns a 99 percent interest.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u>

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles accepted in the United States of America.

<u>Capitalization and Depreciation</u>

Land, buildings, improvements, and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

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 straight-line method for financial reporting purposes. The estimated service lives of the assets for depreciation purposes may be different from their actual economic useful lives. The fixed assets being depreciated over the estimated life of tax basis do not result in a material difference from GAAP basis. For financial statement purposes, the following estimated useful lives are used:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization and Depreciation (Continued)

	Estimated Life	Method
Land	-	None
Buildings and Improvements	15-27.5 Years	Straight-line
Equipment	5.0 Years	Straight-line

The land and buildings are pledged as collateral for the mortgages payable.

Impairment

The Partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including any estimated proceeds from the eventual disposition of the real estate 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2022 and 2021.

Rental Income and Prepaid Rents

Residential rental income is recognized as it accrues. Rental payments received in advance are deferred until earned. Commercial rental income is recognized using the straight-line method under which contractual rent increases are recognized equally over the lease term. The commercial rental income recorded on the straight-line method in excess of the rents billed is recognized as account receivable-deferred. All leases between the Partnership and the tenants of the property are operating leases.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tenant Accounts Receivable

Tenant accounts receivable are reported net of an allowance for 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. It is reasonably possible that management's estimate of the allowance will change. There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

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 affected the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax

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 and deductions 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 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 provision for income taxes and the Partnership has no other tax positions, which must be considered for disclosure.

Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where property is located or by changes in federal low-income housing subsidies or the demand for such housing.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values of Financial Instruments

The Partnership's financial instruments consist primarily of cash, accounts receivable, reserve deposits, accounts payable and debt instruments. The carrying values of cash, accounts receivable, reserve deposits and accounts payable are considered to be representative of their respective fair values. The carrying values of the Partnership's debt instruments approximate their fair values as of December 31, 2022 and 2021, based on current incremental borrowing rates for similar types of borrowing arrangements.

Revenue Recognition

The Partnership's primary revenue stream is rent charge for residential units under leases. The Partnership records revenue for such leases at gross potential rent. The rental value of vacancies and other concessions are stated separately to present net rental income on the accrual basis. Subsidy revenue for low-income eligible tenants is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid by a tenant. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially subject to ASC 606. The Partnership believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Partnership on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending and pet as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (Continued)

disclosure of key information about leasing arrangements. The Partnership adopted FASB ASC 842 effective January 1, 2022. However, there is no adjustment necessary as of January 1, 2022 to be recognized under FASB ASC 842. With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements as of December 31, 2022 and the year then ended. The Partnership has no other leases other than leases with tenants. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASC 606), and all related amendments. ASC 606 supersedes most existing revenue recognition guidance. ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Partnership expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Partnership adopted ASC 606 and all related amendments using the modified retrospective transition method. The Partnership concluded that the adoption of the new standard did not require an adjustment to the opening partners' capital balance.

NOTE 3 - MORTGAGES PAYABLE

The Partnership has two outstanding mortgage obligations which are described below:

CPC Mortgage

A mortgage note payable in the amount of $3,619 is payable to the Community Preservation Corp. The note requires monthly payments of $5,755 including interest. The final payment is due January 1, 2023. The note bears an interest rate of 10.9 percent. The maturities of long-term debt for as of December 31, 2023 are as follows:

December 31, 2023	$ 3,619
Total	$ 3,619

NOTE 3 - MORTGAGES PAYABLE (Continued)

<u>HTFC Mortgage</u>

A non-interest bearing mortgage payable in the amount of $2,998,224 is payable to the New York State Housing Trust Fund Corp (HTFC). The mortgage note requires no monthly payments but the balance was due in December 2007 and can be extended for an additional 99 years at the discretion of HTFC. The balance due at December 31, 2022 and 2021 was $2,928,161.

As of the date of this report, the Partnership has not received a written extension of the mortgage due date. Preliminary conversations with HTFC indicate that the mortgage will be extended in accordance with its terms. The accompanying financial statements do not include any financial impact if the extension is not granted.

All of the loans are collateralized by the mortgages on the real estate.

NOTE 4 - TRANSACTION WITH AFFILIATES AND RELATED PARTIES

Management fees are paid to the Lower East Side People's Mutual Housing Association, Inc. (PMHA). The fee is 8% of the monthly rental collection. Total management fees paid in 2022 and 2021 are $50,106 and $51,537 respectively. PMHA is an affiliate of the General Partner.

The Partnership also reimburses PMHA for superintendent and porter service provided as well as some office expenses. The total reimbursement including fringe benefits was $101,055 and $97,711 in 2022 and 2021 respectively.

As of December 31, 2022 and 2021, the amounts owed to PMHA for management fees and reimbursements were $30,881 and $13,325 respectively and included in accounts payable in the accompanying financial statements.

NOTE 5 - FUNDED RESERVES

The Partnership is required to make monthly deposits into the escrow and replacement reserve accounts, which are under the control of CPC. The monthly deposit for the replacement reserve for 2022 and 2021 was $9,336 and $ $9,108 respectively. All monthly payments for escrow and replacement reserve accounts were made for 2022 and 2021.

NOTE 5 - FUNDED RESERVES (Continued)

A summary of the escrow and reserve accounts is as follows:

Funds held at CPC:

	Beginning Balance January 1, 2022	Additions and Interest	Withdrawals and Transfers	Ending Balance December 31, 2022
Insurance and Taxes Escrow	$130,172	$ 56,290	$ (157,381)	$ 29,081
Replacement Reserve	$145,710	$ 112,954	$ -	$ 258,664

	Beginning Balance January 1, 2021	Additions and Interest	Withdrawals and Transfers	Ending Balance December 31, 2021
Insurance and Taxes Escrow	$131,954	$ 50,293	$ (52,075)	$ 130,172
Replacement Reserve	$136,588	$ 9,122	$ -	$ 145,710

Under a regulatory agreement with HTFC, the Partnership is required to deposit 1.5 percent of the annually budgeted gross rents into an operating reserve account as well as any excess income as defined in the agreement.

Deposits should be made on a monthly basis. Under this agreement the Partnership is also required to make monthly deposits of $2,009 into a replacement reserve account. During 2022, total payments were made into the operating and replacement reserve accounts in the amounts of $9,847 and $24,108 respectively. During 2021, total payments were made into the operating and replacement reserve accounts in the amounts of $9,669 and $24,108 respectively.

The replacement and operating reserves are invested in money market accounts in a brokerage firm. The following shows the activity in such accounts for the years ended December 31, 2022 and 2021.

NOTE 5 - FUNDED RESERVES (Continued)

HTFC Reserves:

	2022	2021
Replacement Reserve		
Balance beginning of year	$ 674,285	$ 650,079
Additions	24,108	24,108
Withdrawals (fees)	(65)	(65)
Investment income	8,049	163
Balance end of the year	$ 706,377	$ 674,285
Operating Reserve		
Balance beginning of year	$ 218,372	$ 208,716
Additions	9,847	9,669
Withdrawals (fees)	(65)	(65)
Investment income	2,606	52
Balance end of the year	$ 230,760	$ 218,372

The replacement and operating reserves are invested in money market accounts in a brokerage firm. Balances are insured up to $500,000 (with a limit of $250,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on cash, cash equivalents and securities held by the broker. This insurance does not cover any loss on market value of all cash, cash equivalents and securities held but losses due to the action of the brokerage firm. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash, cash equivalents and securities.

NOTE 6 - REAL ESTATE TAXES

As of December 31, 2012, the Partnership has fully used all of its J-51 abatements. The Partnership still continues to receive a partial J-51 exemption, which help reduce the total real estate taxes charged by New York City. All real estate taxes for 2022 and 2021 were paid.

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Partnership maintains operating accounts at financial institutions which at times may exceed the FDIC limit of $250,000. At December 31, 2022 and 2021, there was no amount exceeding the FDIC limit.

The reserves and escrow are held at CPC, which is not covered by any insurance. A total amount held as of December 31, 2022 and 2021 was $287,745 and $275,882 respectively.

NOTE 8 - COMMERCIAL LEASE

The Partnership has entered into a lease agreement for the commercial space. The lease commenced in January 2014 and expires in December 2023. The first year's rent was $52,200 with an increase of 3% every year thereafter. In November 2021, the commercial tenant was evicted. The account receivable-deferred remaining balance was offset against commercial rental income. In December 2021, a new commercial lease was commenced and expires in November 2031. The first year rent is $72,000 with an increase of 3%. The deferred rent receivable as of December 31, 2022 and 2021 is $27,288 and $3,728 respectively was included in account receivable-deferred on the accompanying financial statements.

Future minimum lease payments under the lease agreement following December 31, 2022 are as follows:

2023	$ 74,345
2024	76,576
2025	78,873
2026	81,239
2027	83,676
Thereafter	352,509
	$ 747,219

NOTE 9 - CASH AND RESTRICTED CASH

The balance in cash and restricted cash as reflected in the statements of cash flows consists of the following:

NOTE 9 - CASH AND RESTRICTED CASH (Continued)

	2022	2021
Operating Cash	$ 61,489	$ 114,416
Restricted Deposits		
Funds Held in Escrow- CPC	29,081	130,172
Replacement Reserve- CPC	258,664	145,710
Replacement Reserve- HTFC	706,377	674,285
Operating Reserve- HTFC	230,760	218,372
	$ 1,286,371	$ 1,282,955

The amounts included in replacement reserve, operating reserve and escrow represent the cash portions of these accounts.

NOTE 10 - CONTINGENCIES

The Partnership does not believe there is any litigation pending or threatened against that, individually or in the aggregate, reasonably may be expected to have a material adverse effect on the Partnership.

The Partnership, as an owner of real estate, is subject to various federal, state, and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulations on its current properties.

NOTE 11 - CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Partnership's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenant's ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through June 21, 2023, 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 financial statements.

SUPPLEMENTARY INFORMATION

LESMHA LIMITED PARTNERSHIP
SCHEDULES OF CERTAIN INCOME AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Rental Income - Residential		
Residential income	$ 535,981	$ 533,468
Subsidy income	55,335	51,544
Vacancies	-	(2,785)
Total Rental Income - Residential	$ 591,316	$ 582,227
Rental Income - Commercial		
Commercial income	$ 80,740	$ 42,754
Real estate tax reimbursement	4,423	8,843
Total Rental Income - Commercial	$ 85,163	$ 51,597
Other Income		
Laundry	$ 3,489	$ 5,048
Other	300	1,136
Total Other Income	$ 3,789	$ 6,184
Administrative Expenses		
Licenses, permits, fees and taxes	$ 1,405	$ 2,956
Payroll taxes	8,820	6,664
Worker's compensation	1,872	2,308
Employee health insurance	28,181	26,942
Bad debts	1,176	80,367
Office expenses	3,096	1,917
Miscellaneous	4,882	4,092
Total Administrative Expenses	$ 49,432	$ 125,246
Utilities Expenses		
Electricity	$ 17,998	$ 10,083
Water and sewer	53,175	51,179
Gas	68,058	46,612
Total Utilities Expenses	$ 139,231	$ 107,874

See independent auditor's report

LESMHA LIMITED PARTNERSHIP
SCHEDULES OF CERTAIN INCOME AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Professional Fees		
Legal	$ 2,728	$ 5,668
Auditing	12,525	13,325
Professional- other	3,330	262
Total Professional Fees	$ 18,583	$ 19,255
Management Fees		
Property management	$ 50,106	$ 51,537
Repairs and Maintenance Expenses		
Repairs and maintenance payroll	$ 60,000	$ 60,711
Maintenance supplies	33,130	24,313
Repairs contract	103,118	94,128
Elevator	19,481	17,953
Painting/decorating	2,640	15,855
Intercom & Security	10,464	1,496
Inspection	13,868	7,067
Exterminating	4,718	4,573
Total Repair and Maintenance Expenses	$ 247,419	$ 226,096
Taxes and Insurance Expenses		
Insurance	$ 57,776	$ 52,753
Real estate taxes	61,850	61,612
Total Taxes and Insurance Expenses	$ 119,626	$ 114,365
Interest Expense		
Mortgage interest	$ 3,661	$ 10,415
Depreciation		
Depreciation	$ 31,697	$ 156,480

See independent auditor's report

LESMHA LIMITED PARTNERSHIP
EXCESS INCOME ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Net Income	$ 31,130
Add non-cash expenses:	
Depreciation	31,697
Interest expenses	3,661
Total non-cash expenses	35,358
Add other items	
Investment service fees	131
Deduct required reserve deposits	
HTFC- replacement	(24,108)
HTFC- operating	(9,847)
CPC- replacement	(9,936)
Total required reserve deposits	(43,891)
Deduct other mortgage principal and interest payments	
CPC- mortgage interest payments	(3,619)
CPC- mortgage principal payments	(64,778)
Total mortgage principal and interest payments	(68,397)
Interest income on reserve accounts	(10,748)
Excess Income	$ (56,417)

See independent auditor's report

LESPMHA II L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

LESPMHA II L.P.
DECEMBER 31, 2022 AND 2021

CONTENTS

Independent Auditor's Report

To the Partners of
LESPMHA II L.P.

Opinion

I have audited the accompanying financial statements of LESPMHA II L.P., a New York Limited Partnership, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LESPMHA II L.P. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of LESPMHA II L.P. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 LESPMHA II L.P.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted 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, including omissions, 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 generally accepted auditing standards, I:

- 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 LESPMHA II L.P.'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LESPMHA II L.P.'s ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Report on Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of operating expenses and excess income analysis are presented for purposes of additional analysis and are not required parts 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

New York, New York
June 14, 2023

LESPMHA II L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
RENTAL PROPERTY		
Buildings	$11,938,259	$11,938,260
Land improvements	178,025	178,025
Equipment	166,732	152,578
	12,283,016	12,268,863
Less: Accumulated depreciation	(7,947,545)	(7,512,955)
Total Rental Property	4,335,471	4,755,908
OTHER ASSETS		
Cash	54,340	38,535
Deposits held in trust		
Tenant security deposits	48,059	47,482
Restricted Cash		
Operating reserve	229,669	209,966
Replacement reserve	548,372	517,212
Funds held in escrow - CPC	15,916	38,190
Total restricted deposit and funded reserves	793,957	765,368
Accounts receivable - tenants	39,060	33,748
Prepaid expenses	43,404	65,668
Total Other Assets	978,820	950,801
TOTAL ASSETS	$ 5,314,291	$ 5,706,709

The accompanying notes are an integral part of these financial statements.

LESPMHA II L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND PARTNERS' CAPITAL

	2022	2021
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE		
Mortgages Payable	$ 2,458,304	$ 2,510,557
OTHER LIABILITIES		
Developer's fee payable	540,100	540,100
Accrued mortgage interest payable	59,486	46,577
Accounts payable and accrued expenses	435,282	276,658
Prepaid rent	4,819	7,242
Tenants security deposits payable	48,059	47,482
Due to LESPMHA Inc.	644,009	623,410
Total Other Liabilities	1,731,755	1,541,469
TOTAL LIABILITIES	4,190,059	4,052,026
PARTNERS' CAPITAL		
Partners' capital	1,124,232	1,654,683
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 5,314,291	$ 5,706,709

The accompanying notes are an integral part of these financial statements.

LESPMHA II L.P.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Residential rental income	$ 567,935	$ 558,436
Commercial rent	22,000	22,000
Vacancy loss	(6,899)	-
Net rental income	583,036	580,436
Other revenue		
Laundry income	14,690	15,649
Other income	380	-
Investment income	8,793	191
Total revenue	606,899	596,276
OPERATING EXPENSES		
Administrative	61,850	69,283
Utilities	200,761	164,989
Professional fees	26,539	24,348
Property management fees	28,473	28,453
Repairs and maintenance	172,944	110,324
Taxes and insurance	95,320	92,148
Total operating expenses	585,887	489,545
Net operating income before partnership and financial expenses	21,012	106,731
PARTNERSHIP AND FINANCIAL EXPENSES		
Partnership management fee	15,126	14,685
Investment fees	130	130
Investor service fee	5,261	5,108
Mortgage interest expense	96,356	91,714
Total partnership and financial expenses	116,873	111,637
Net loss before depreciation and amortization	(95,861)	(4,906)
Depreciation	434,590	434,117
Amortization	-	5
NET LOSS	$ (530,451)	$ (439,028)

The accompanying notes are an integral part of the financial statements.

LESPMHA II L.P.
STATEMENTS OF PARTNERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	General Partner	Limited Partner	Total
Partners' Capital January 1, 2021	$ 664,318	$ 1,429,393	$ 2,093,711
Net loss 2021	(44)	(438,984)	(439,028)
Partners' Capital December 31, 2021	664,274	990,409	1,654,683
Net loss 2022	(53)	(530,398)	(530,451)
Partners' Capital December 31, 2022	$ 664,221	$ 460,011	$ 1,124,232

The accompanying notes are an integral part of these financial statements.

LESPMHA II L.P.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from operating activities:		
Net loss	$ (530,451)	$ (439,028)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	434,590	434,117
Amortization	-	5
Bad debt	1,824	
Non cash interest expense due to amortization of debt issuance costs	4,442	4,071
Decrease (Increase) in operating assets:		
Accounts receivable - tenants	(7,136)	(2,675)
Prepaid expenses	22,265	(26,430)
Increase (Decrease) in operating liabilities:		
Accrued mortgage interest payable	12,909	7,850
Accounts payable and accrued expenses	158,623	17,361
Prepaid rent	(2,423)	5,513
Due to Lespmha Inc.	20,599	-
Total adjustment	645,693	439,812
Net Cash provided by Operating Activities	115,242	784
Cash Flows from Investing Activities:		
Purchase of fixed asset	(14,153)	-
Net Cash used in Investing Activities	(14,153)	-
Cash Flows from Financing Activities:		
Principal payments of mortgage	(44,832)	(38,712)
Debt issuance cost	(11,863)	-
Net Cash used in Financing Activities	(56,695)	(38,712)
Net Decrease in Cash and Restricted Cash	44,394	(37,928)
Cash and Restricted Cash-Beginning of Year	803,903	841,831
Cash and Restricted Cash-End of Year	$ 848,297	$ 803,903
Supplemental disclosure of cash flow information:		
Cash paid during the years for interest	$ 78,928	$ 79,793

The accompanying notes are an integral part of these financial statements.

LESPMHA II L.P.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - ORGANIZATION

LESPMHA II, L.P. (the "Partnership") is a limited partnership formed under the laws of the State of New York pursuant to a Limited Partnership Agreement and Certificate of Limited Partnership dated July 24, 2002. The Partnership was organized to develop, construct, own, maintain and operate thereon 60 multi-family residential units for rental to low-income tenants (the "Project"). The project consists of two Buildings, which are located at 299 East 3rd Street and 228 East 3rd Street in the lower east side of Manhattan, New York.

The Partnership received an allocation of low-income-tax credits from the New York State Division of Housing and Community Renewal (DHCR) under Section 42 of the Internal Revenue Code of 1986, as amended.

On July 1, 2022, there was a transfer of the limited partner's interest. Enterprise Housing Partners IX Limited Partners, The Chase Affordable Housing Fund, L.P, and Freddie Mac Equity Plus-I-ESIC Limited Partnership transferred 99 percent ownership interest to East Third Street Housing Development Fund, Inc. As of July 1, 2022, East Third Street Housing Development Fund, Inc. became the limited partner owning 99 percent interest.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impact on its operating results and financial condition. Future operations could be affected by changes in the economy, or other conditions in the geographical area where property is located, or by changes in federal low-income housing subsidies, or the demand for such housing.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization and Depreciation

Buildings, land improvements, and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

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 straight-line method for financial reporting purposes. The estimated service lives of the assets for depreciation purposes may be different from their actual economic useful lives. The fixed assets being depreciated over the estimated life of tax basis do not result in a material difference from GAAP basis. For financial statement purposes the following estimated useful lives are used:

	Estimated Life	Method
Buildings	27.5 Years	Straight-line
Land Improvements	15.0 Years	Straight-line
Equipment	5.0 Years	Straight-line

The land and buildings are pledged as collateral for all mortgages payable.

Impairment

The Partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property, including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate, 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2022 and 2021.

LESPMHA II L.P.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax

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 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 provision for income taxes and the Partnership has no other tax positions, which must be considered for disclosure.

Rental Income and Prepaid Rents

Rental income is recognized as it accrues. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Partnership and the tenants of the property are operating leases.

Accounts Receivable - Tenants and Bad Debt

Accounts receivable-tenants are reported net of an allowance for doubtful accounts. Management's estimate of allowance is based on historical collection experience and a review of the current status of accounts receivable-tenants. It is reasonably possible that management's estimate of the allowance will change. There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

Estimates

The preparation of the 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 contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs and Amortization

Debt issuance costs are amortized over the term of the mortgage loan 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 debt issuance 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. The debt issuance costs are being offset against the mortgage payable and the amortization of debt issuance costs is included in mortgage interest expense.

Tax credit fees are amortized over fifteen years using the straight-line method.

Fair Values of Financial Instruments

The Partnership's financial instruments consist primarily of cash, accounts receivable, reserve deposits, accounts payable and debt instruments. The carrying values of cash, accounts receivable, reserve deposits and accounts payable are considered to be representative of their respective fair values. The carrying values of the Partnership's debt instruments approximate their fair values as of December 31, 2022 and 2021, based on current incremental borrowing rates for similar types of borrowing arrangements.

Revenue Recognition

The Partnership's primary revenue stream is rent charges for residential units under leases. The Partnership records revenue for such leases at gross potential rent. The rental value of vacancies and other concessions are stated separately to present net rental income on the accrual basis. Subsidy revenue for low-income eligible tenants is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid by the tenant. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially subject to ASC 606. The Partnership believes that such both rental and subsidy

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Partnership on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending, pet and parking fees as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

Recent Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements. The Partnership adopted FASB ASC 842 effective January 1, 2022. However, there is no adjustment necessary as of January 1, 2022 to be recognized under FASB ASC 842. With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements as of December 31, 2022 and the year then ended. The Partnership has no other leases other than leases with tenants. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASC 606), and all related amendments. ASC 606 supersedes most existing revenue recognition guidance. ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Partnership expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Partnership adopted ASC 606 and all related amendments using the modified retrospective transition method. The Partnership concluded that the adoption of the new standard did not require an adjustment to the opening partners' capital balance.

NOTE 3 - MORTGAGES PAYABLE

The Partnership received a construction loan from Community Preservation Corporation (CPC) in the amount of $3,500,000. This loan was paid off in August 2008 with two permanent loans. Two permanent loans are as follows:

CPC (1st Mortgage)

A first mortgage in the amount of $1,675,000 bears an interest rate of 6.25% with a term of 30 years. The loan is payable in monthly installments of $10,313.27 including interest. The final payment is due on September 1, 2038. The outstanding balance as of December 31, 2022 and 2021 was $1,238,345 and $1,283,177 respectively.

Scheduled principal maturities of the first mortgage for the next five years are as follows:

Year ending December 31	Amount
2023	$ 47,715
2024	50,785
2025	54,051
2026	57,522
2027	61,228
Thereafter	967,044
Total	$ 1,238,345

New York State Housing Trust Fund (2nd Mortgage HTFC)

A second mortgage in the amount of $1,290,909 bears an interest rate of 1%. The term of the loan is 30 years and due in 2038. Interest is payable annually only from excess income. As determined by Regulation Agreement with HTFC, any unpaid interest is due on the maturity date of the loan (30 years).

All of the loans are collateralized by the mortgages on the real estate. Furthermore, the Partnership is required to adhere to a Regulatory Agreement that defines the use of the property.

NOTE 3 - MORTGAGE PAYABLE (CONTINUED)

As of December 31, 2022 and 2021, the balances of the mortgages payable were as follows:

	2022	2021
CPC	$ 1,238,345	$ 1,283,177
HTFC	1,290,909	1,290,909
	2,529,254	2,574,086
Less: Unamortized debt costs	(70,950)	(63,529)
Net	$ 2,458,304	$ 2,510,557

NOTE 4 - DEBT ISSUANCE COSTS

Costs incurred in connection with obtaining the mortgages have been capitalized and are being amortized over the term of the mortgages. The unamortized debt issuance costs consist of the following:

	2022	2021
Debt issuance costs	$ 133,997	$ 122,134
Accumulated amortization	(63,047)	(58,605)
Net	$ 70,950	$ 63,529

The debt issuance costs have been offset against the mortgage payable (Note 3). The amortization of debt issuance costs of $4,442 and $4,071 in 2022 and 2021 were included in mortgage interest expense respectively. Estimated amortization expense for each of the ensuing years through December 21, 2027 is $4,813.

NOTE 5 - OTHER LIABILITIES

Included in other liabilities are loans to the Partnership by Lower East Side People's Mutual Housing Association, Inc. (LESPMHA) totaling $644,009 and $623,410 as of December 31, 2022 and 2021 respectively. The loans were used to pay development costs of the Project.

NOTE 5 - OTHER LIABILITIES (CONTINUED)

Interest is not charged on loans and the loans are not secured. There are no specific due dates. LESPMHA is an affiliate of the General Partner.

The Partnership is to pay LESPMHA a development fee totaling $1,330,000 for the service provided with the respect to the development of the project. As of December 31, 2006, LESPMHA earned the entire development fee and as of December 31, 2021, the total of $125,000 was paid. A portion of the development fee in the amount of $664,900 was contributed as a capital contribution by the General Partner. As of December 31, 2022 and 2021, developer's fee payable was $540,100 and included in the accompanying balance sheets.

The payments of $540,100 can be paid to the extent of cash flow from the Partnership. Any amounts of the development fee and deferred development fee that have not been paid in full on or before December 31, 2020 shall be paid no later than such dates.

NOTE 6 - PARTNERS' CAPITAL CONTRIBUTIONS

The Partnership has one General Partner, C. Watson Corp., who has a 0.01% interest, and one Limited Partners, who have a total interest of 99.99%. The General Partner and the Limited Partners' interest and their required capital contributions are as follows:

	Percentage Interest	Capital Contribution
General Partner		
C. Watson Corp.	0.0100%	$ 665,000
Limited Partner		
Enterprise Housing Partners IX Limited Partners	50.9949%	4,240,373
The Chase Affordable Housing Fund, L.P.	24.9975%	2,078,614
Freddie Mac Equity Plus-I-ESIC Limited Partnership	23.9976%	2,002,224
	100.0000%	$ 8,986,211

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Partnership maintains its cash in bank deposit accounts in a federal credit union which, at times, may exceed the NCUA federally insured limit. The Partnership has not exceeded the limit at December 31, 2022 and 2021. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash.

The Partnership maintains accounts for reserves with a brokerage firm. The accounts contain only cash. Balances are insured up to $500,000 (with a limit of $250,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on cash, cash equivalents, and securities held by the broker. This insurance does not cover any loss on market value of all cash, cash equivalents and securities held but covers losses due to the action of the brokerage firm. At December 31, 2022 and 2021, the amounts exceeding the limit for cash were $528,041 and $477,178 respectively. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash (See Note 9).

NOTE 8 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

The Partnership pays the General Partner an annual partnership management fee, which increases 3% each year to compensate the General Partner for managing the Partnership's operations. For the years ended December 31, 2022 and 2021, the partnership management fee was $15,126 and $14,685 respectively. As of December 31, 2022 and 2021, total partnership management fees owed were $71,350 and $56,224 respectively and included in accounts payable and accrued expenses in the accompanying financial statements. During the years ended 2022 and 2021, the Partnership paid $0 and $13,048 for partnership management fee respectively.

The property management fees are paid to LESPMHA. The fee is 5% of the monthly rental collection. Total property management fees incurred in 2022 and 2021 were $28,473 and $28,453 respectively.

The Partnership also reimburses LESPMHA for superintendent service provided. The total reimbursements including fringe benefits and miscellaneous were $48,686 in 2022 and $55,678 in 2021.

NOTE 8 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

As of December 31, 2022 and 2021, the amounts owed to LESPMHA for the property management fee and reimbursements were $235,338 and $143,943 respectively and included in accounts payable in the accompanying financial statements.

The Partnership is required to pay Enterprise Social Investment Corporation (ESIC), an affiliate of a limited partner, an annual investor services fee in accordance with the investor services agreement. The fee increases at the rate of three percent per year and can be paid to the extent of the cash flow from the Partnership. For the years ended December 31, 2022 and 2021, the investor service fee of $5,261 and $5,108 respectively was incurred. During 2021, the Partnership received the refund of investor service fees in the amount of $14,447 for 2018 to 2020 since the Partnership had a negative cash flow when annual investor fees were paid. As of December 31, 2022, investor service fees owed were $24,816 and included in accounts payable and accrued expenses in the accompanying financial statement.

The Partnership is required to pay LESPMHA an annual incentive management fee up to $6,000, which shall increase at the rate of three percent (3%) per year, to the extent that the Partnership has cash flow available for such fee in accordance with the Partnership agreement. There were no amounts paid or accrued for the incentive management fee for 2022 and 2021.

NOTE 9 - FUNDED RESERVES

In accordance with the regulatory agreement with New York State Housing Trust Fund (HTFC), the Partnership contributed an initial operating reserve and replacement reserve in the amount of $206,560 and $200,000 respectively. The payments were made in August 2008. The replacement reserve is also to be funded from operations in the amount of $25,000 per year. Additional deposits to the operating reserve shall be equal to 3% of the annually budgeted rents plus any excess income remaining in accordance with the HTFC regulatory agreement. Such deposits shall be made in monthly amounts equal to one-twelve of the annual amount. The monthly deposits may be reduced or suspended during any month the balance in the operating reserve account equals 50% of the annually budgeted gross rent. The deposits to the operating reserve were suspended June 2020 to December 2020 since the operating reserve balance equaled to 50% of the annual budgeted gross rent. From January 2021, the Partnership resumed monthly deposits to the operating reserve since the operating reserve balance went below to 50% of the annual budget gross rent.

These withdrawals were approved by HTFC. During 2021, the Partnership withdrew $75,903 from the operating reserve to pay for outstanding operating expenses related to management fees. The withdrawal was approved by the HTFC.

NOTE 9 - FUNDED RESERVES (CONTINUED)

A summary of the activities in the reserve accounts is as follows:

	2022	2021
Operating Reserve		
Beginning of the year	$ 209,966	$ 268,429
Deposits	17,200	17,467
Fees	(65)	(94)
Withdrawal	-	(75,903)
Investment income	2,568	67
Balance end of the year	$ 229,669	$ 209,966
Replacement Reserve		
Beginning of the year	$ 517,212	$ 492,153
Deposits	25,000	25,000
Fees	(65)	(65)
Investment income	6,225	124
Balance end of the year	$ 548,372	$ 517,212

All reserves are maintained in liquid money market accounts held with a brokerage firm (See Note 7).

The Partnership maintains an escrow account with CPC. The Partnership is required to make payments to the escrow account and make all payments for water and sewer and insurance. A summary of the activities in the escrow account is as follows:

	2022	2021
Funds held in escrow - CPC		
Beginning of the year	$ 38,190	$ 38,765
Deposits	129,177	129,679
Payments	(151,451)	(130,254)
Balance end of the year	$ 15,916	$ 38,190

NOTE 10 - CONTINGENCIES

The Partnership'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. Noncompliance with state requirements could result in recapture of the Partnership's state low-income housing tax credits. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Limited Partners.

The Partnership does not believe there is any litigation pending or threatened against that, individually or in the aggregate, reasonably may be expected to have a material adverse effect on the Partnership.

The Partnership, as an owner of real estate, is subject to various Federal, state, and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulations on its current properties.

NOTE 11 - EXEMPTION FROM REAL ESTATE TAXES

The Partnership has a Real Estate Tax exemption under the New York City 420C program for all of the residential portion of the properties owned. Real estate taxes are incurred on the commercial portion of the property.

NOTE 12 - CASH AND RESTRICTED CASH

The balances in cash and restricted cash as reflected in the statements of cash flows consist of the following:

	2022	2021
Cash	$ 54,340	$ 38,535
Restricted Deposits		
Operating Reserve	229,669	209,966
Replacement Reserve	548,372	517,212
Funds held in Escrow CPC	15,916	38,190
	$ 848,297	$ 803,903

NOTE 12 - CASH AND RESTRICTED CASH (CONTINUED)

The amounts included in replacement reserve, operating reserve and escrow represent cash portions of these accounts.

NOTE 13 - CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Partnership's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenants ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through June 14, 2023, 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 financial statements.

SUPPLEMENTARY INFORMATION

LESPMHA II L.P.
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Administrative Expenses		
Office supplies	$ 3,556	$ 4,102
Superintendent salary	32,104	35,236
Payroll taxes	4,239	3,252
Workers compensation	912	1,125
Fringe benefits	10,359	14,557
Monitoring fee	5,216	4,665
Bad debt expense	1,824	-
Miscellaneous	3,640	6,346
Total Administrative Expenses	$ 61,850	$ 69,283
Utility Expenses		
Gas	$ 81,520	$ 62,495
Electricity	25,833	22,150
Water and sewer	93,408	80,344
Total Utility Expenses	$ 200,761	$ 164,989
Professional Fees		
Legal	$ 10,864	$ 11,123
Consulting	2,150	-
Auditing	13,525	13,225
Total Professional Fees	$ 26,539	$ 24,348
Property Management Fees	$ 28,473	$ 28,453
Repairs and Maintenance Expenses		
Elevators contract	$ 30,571	$ 14,564
Repairs supplies	41,402	19,582
Repairs contract	87,248	67,230
Repairs painting	6,803	3,120
Laundry	6,920	5,828
Total Repairs and Maintenance Expenses	$ 172,944	$ 110,324
Tax and Insurance Expenses		
Insurance	$ 58,179	$ 55,108
Real estate taxes	37,141	37,040
Total Tax and Insurance Expenses	$ 95,320	$ 92,148

See independent auditor's report

LESPMHA II, L.P.
EXCESS INCOME ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Net loss	$ (530,451)
Add Non-cash expenses:	
Depreciation	434,590
Interest expense	96,356
	530,946
Add Partnership fees included in expenses:	
Asset Management fees	5,261
Partnership Admin. fees	15,126
	20,387
Deduct required reserve deposits	
CPC-replacement	(25,000)
CPC-operating	(17,200)
	(42,200)
Deduct other mortgage principal and interest payments	
CPC-mortgage principal payment	(44,832)
CPC-mortgage interest payments	(78,928)
	(123,760)
Deduct other item	
Investment income	(8,793)
Excess Income before HTFC Debt Service	(153,871)
HTFC Debt Service Requirement	(12,909)
Excess Loss	$ (166,780)

See independent auditor's report

PERMANENCE L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

PERMANENCE L.P.
DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

To the Partners of Permanence L.P.

Opinion

I have audited the accompanying financial statements of Permanence, L.P., a New York Limited Partnership, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Permanence, L.P. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Permanence, L.P. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Permanence, L.P.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted 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, including omissions, 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 generally accepted auditing standards, I:

- 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 Permanence, L.P.'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Permanence, L.P.'s ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Report on Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of operating expenses are presented for purposes of additional analysis and are not required parts 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gary Bloom CPA PLLC

New York, New York
May 16, 2023

PERMANENCE L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

A S S E T S

	2022	2021
RENTAL PROPERTY		
Land	$ 3	$ 3
Buildings and improvements	7,117,586	7,097,373
Furniture and equipment	56,950	53,000
	7,174,539	7,150,376
Less: Accumulated depreciation	(2,253,906)	(2,075,881)
Total Rental Property	4,920,633	5,074,495
OTHER ASSETS		
Cash	259,508	301,491
Deposits held in trust		
Tenant security deposits	42,603	41,527
Restricted Deposits and Funded Reserves		
Operating reserve	98,527	98,359
Social Service reserve	82,988	82,960
Replacement reserve	95,070	93,491
Total Restricted Deposits and Funded Reserves	276,585	274,810
Tenant accounts receivable	47,219	27,273
Prepaid expenses	17,792	24,353
Capitalized cost, net of accumulated amortization	10,530	12,873
Total Other Assets	654,237	682,327
TOTAL ASSETS	$ 5,574,870	$ 5,756,822

The accompanying notes are an integral part of these financial statements.

PERMANENCE L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND PARTNERS' CAPITAL

	2022	2021
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE		
HPD mortgages payable	$ 4,064,218	$ 4,063,728
OTHER LIABILITIES		
Accounts payable	20,408	11,916
Accrued expenses	48,186	42,206
Construction payable	4,001	4,001
Developer's fee payable	112,500	112,500
Prepaid rent	16,434	14,846
Tenant security deposits payable	42,603	41,527
Total Other Liabilities	244,132	226,996
Total Liabilities	4,308,350	4,290,724
PARTNERS' CAPITAL		
Partners' capital	1,384,773	1,584,351
Limited Partner receivable	(110,153)	(110,153)
General Partner receivable	(100)	(100)
Syndication costs	(8,000)	(8,000)
Total Partners' Capital	1,266,520	1,466,098
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$ 5,574,870	$ 5,756,822

The accompanying notes are an integral part of these financial statements.

PERMANENCE L.P.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Residential rental income	$ 232,089	$ 229,548
Commercial rent	122,655	120,145
Net rental income	354,744	349,693
Other revenue		
Real estate tax reimbursements	21,402	21,134
Investment income	2,835	2,811
Other income	2,400	4,800
Total other revenue	26,637	28,745
Total revenues	381,381	378,438
OPERATING EXPENSES		
Administrative	49,882	50,145
Utilities	120,380	87,174
Operating and maintenance	98,886	95,478
Taxes and insurance	101,355	85,210
Total operating expenses	370,503	318,007
Net operating income before partnership and financial expenses	10,878	60,431
PARTNERSHIP AND FINANCIAL EXPENSES		
Investment fees	1,061	1,062
Partnership management fee	15,100	14,519
Interest expense	13,927	13,927
Total partnership and financial expenses	30,088	29,508
Net (loss) income before depreciation and amortization	(19,210)	30,923
Depreciation	178,025	177,434
Amortization	2,343	2,343
Total depreciation and amortization	180,368	179,777
Net Loss	$ (199,578)	$ (148,854)

The accompanying notes are an integral part of these financial statements.

PERMANENCE L.P.
STATEMENTS OF PARTNERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	General Partner	Limited Partners	Total
Partners' Capital January 1, 2021	$ 51,804	$ 1,681,401	$ 1,733,205
Net loss 2021	(15)	(148,839)	(148,854)
Partners' Capital December 31, 2021	51,789	1,532,562	1,584,351
Net loss 2022	(20)	(199,558)	(199,578)
Partners' Capital December 31, 2022	$ 51,769	$ 1,333,004	$ 1,384,773

The accompanying notes are an integral part of these financial statements.

PERMANENCE L.P.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Net loss	$ (199,578)	$ (148,854)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation	178,025	177,434
Amortization	2,343	2,343
Non cash interest expense due to amortization of debt issuance costs	490	490
Decrease (Increase) in operating assets:		
Tenant accounts receivable	(19,946)	9,669
Prepaid expenses	6,561	(891)
Other receivable	-	9,008
Increase (Decrease) in operating liabilities:		
Accounts payable	8,492	(68)
Accrued expenses	5,980	2,509
Prepaid rent	1,588	7,181
Net Cash (used in) provided by Operating activities	(16,045)	58,821
Cash Flows from Investing Activities:		
Purchase of fixed assets	(24,163)	-
Additions to operating reserve	(1,155)	(1,172)
Additions to replacement reserve	(1,597)	(1,622)
Net Cash used in Investing activities	(26,915)	(2,794)
Net (Decrease) Increase in Cash and Restricted Cash	(42,960)	56,027
Cash and Restricted Cash - Beginning of Year	432,988	376,961
Cash and Restricted Cash - End of Year	$ 390,028	$ 432,988
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 13,437	$ 13,437

The accompanying notes are an integral part of these financial statements.

PERMANENCE L.P.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - ORGANIZATION

Permanence L.P. (the "Partnership") was formed as a limited partnership under the laws of the State of New York pursuant to a Limited Partnership Agreement and Certificate of Limited Partnership dated June 15, 2005. The Partnership has been formed for the purpose of constructing and operating a rental housing project in the lower east side of Manhattan, New York. This project is being developed through the New York City Neighborhood Redevelopment Program (NRP). The project consists of 30 family low-income housing tax credit units, 6 family market rate units, and 1 superintendent unit that are contained in three buildings. Prior to construction, these buildings, which were acquired from New York City for $3, were partially occupied and the Partnership has incurred relocation expenditures for those tenants, some of which became tenants in the reconstructed buildings.

The Partnership received an allocation of low-income-tax credits from the New York City Department of Housing Preservation Development (HPD) under Section 42 of the Internal Revenue Code of 1986, as amended.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Capitalization and Depreciation

Land, buildings, improvements, furniture and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

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 straight-line method for the financial reporting purposes. The estimated service lives of the assets for depreciation purposes may be different from their actual economic useful lives. For financial statement purposes, the following estimated useful lives are used:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization and Depreciation (Continued)

	Estimated Life	Method
Land	-	None
Buildings and improvements	40.0 Years	Straight-line
Furniture and Equipment	7.0 Years	Straight-line

The land and buildings are pledged as collateral for all mortgages payable.

Impairment

The Partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2022 and 2021.

Debt Issuance Costs and Amortization

Debt issuance costs are amortized over the term of the mortgage loan 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 debt issuance 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. The debt issuance costs are being offset against the mortgage payable and the amortization of debt issuance costs is included in mortgage interest expense.

Tax credit fees and tax abatement fees are amortized over fifteen years using the straight-line method.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where property is located or by changes in federal low-income housing subsidies or the demand for such housing.

Investment Securities

Investment securities consist of mutual funds. The securities are carried at cost, which approximates fair market value. Because the Partnership has the ability and intent to hold these investments until a recovery of fair value, the Partnership does not consider these investments to be impaired at December 31, 2022 and 2021.

Fair Value Measurement

The Partnership follows GAAP defined fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with quoted prices in active markets. Level 2 inputs relate to other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs that can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Fair Values of Financial Instruments

The Partnership's financial instruments consist primarily of cash, accounts receivable, reserve deposits, accounts payable and debt instruments. The carrying values of cash, accounts receivable, reserve deposits and accounts payable are considered to be representative of their respective fair values. The carrying values of the Partnership's debt instruments approximate their fair values as of December 31, 2022 and 2021, based on current incremental borrowing rates for similar types of borrowing arrangements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rental Income and Prepaid Rents

Rental income is recognized as it accrues. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Partnership and the tenants of the property are operating leases.

Tenant Accounts Receivable and Bad Debt

Tenant accounts receivable are reported net of an allowance for 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. It is reasonably possible that management's estimates of the allowance will change. There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

Income Tax

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 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.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

PERMANENCE L.P.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Partnership's primary revenue stream is rent charges for residential units under leases. The Partnership records revenue for such leases at gross potential rent. The rental value of vacancies and other concessions are stated separately to present net rental income on the accrual basis. Subsidy revenue for low-income eligible tenants is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid the tenant. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially subject to ASC 606. The Partnership believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Partnership on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending, pet and parking fees as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

Recent Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements. The Partnership adopted FASB ASC 842 effective January 1, 2022. However, there is no adjustment necessary as of January 1, 2022 to be recognized under FASB ASC 842. With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements as of December 31, 2022 and the year then ended. The Partnership has no other leases other than leases with tenants. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Adopted Accounting Pronouncement (Continued)

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASC 606), and all related amendments. ASC 606 supersedes most existing revenue recognition guidance. ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Partnership expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Partnership adopted ASC 606 and all related amendments using the modified retrospective transition method. The Partnership concluded that the adoption of the new standard did not require an adjustment to the opening partners' capital balance.

NOTE 3 - HPD MORTGAGES PAYABLE

The Partnership received financing for both construction and permanent financing from the City of New York acting through the Department of Housing and Preservation Development (HPD) in the amount of $4,199,230.

A summary of the loans follows:

Home Loan

The first $2,729,500 of principal of the loan advanced shall not bear interest nor shall not require a servicing fee. No monthly payments of principal or interest shall be payable on the HOME Loan.

Article 8 Loan

Construction Loan - The principal sum advanced in excess of the HOME Loan up to $1,343,658 shall not bear interest nor require a servicing fee during the construction period, which ended on the Conversion Date.

NOTE 3 - HPD MORTGAGES PAYABLE (CONTINUED)

Article 8 Loan (Continued)

Permanent Loan - Commencing on the Conversion Date of July 1, 2013, the Article 8 construction loan shall be deemed converted into a permanent loan automatically (the "Article XVI Permanent Loan") and shall bear interest at the rate of one percent (1%) per annum, which interest shall be paid in equal monthly installments of $1,119.72 commencing on the Conversion Date and on the first day of each and every month thereafter through and including the Maturity Date. Total interest for the years ended December 31, 2022 and 2021 was $13,437.

On the Maturity Date, the thirtieth (30th) anniversary of the Conversion Date, all of the above loans (HOME Loan and Article 8 Loan) become due and payable together with any and all unpaid accrued interest and any and all other charges or fees due hereunder.

As of December 31, 2022 and 2021, the outstanding mortgages balances are $4,073,158. A summary of the loans is as follows:

	2022	2021
Home Loan	$ 2,729,500	$ 2,729,500
Article 8 Loan	1,343,658	1,343,658
	4,073,158	4,073,158
Less: Unamortized debt issuance costs	(8,940)	(9,430)
Net mortgages payable	$ 4,064,218	$ 4,063,728

All of the loans are collateralized by a mortgage on the real estate. Furthermore, the partnership is required to adhere to a Regulatory Agreement that defines the use of the property.

NOTE 4 - DEBT ISSUANCE COSTS

Costs incurred in connection with obtaining mortgages have been capitalized and are being amortized over the term of the mortgages.

NOTE 4 - DEBT ISSUANCE COSTS (CONTINUED)

The unamortized debt issuance costs consist of the following:

	2022	2021
Debt issuance costs	$ 14,697	$ 14,697
Accumulated amortization	(5,757)	(5,267)
Unamortized Debt issuance costs	$ 8,940	$ 9,430

The debt issuance costs have been offset against the mortgage payable (Note 3). The amortization of debt issuance costs of $490 for 2022 and 2021 is included in interest expense in the accompanying financial statements. Estimated amortization expense for each of the ensuing years through December 31, 2027 is $490.

NOTE 5 - PARTNERS' CAPITAL CONTRIBUTIONS

The Partnership has one General Partner, Second and Fourth Street Corp., which has a 0.01% interest and two Limited Partners, New York Equity Fund 2004 LLC, which has a 49.995% interest and New York Equity Fund 2005 LLC, which has a 49.995% interest. The total capital to be contributed by the General Partner and Limited Partners were $71,809 and $3,509,413 respectively. The Limited Partners have contributed $3,399,260 as of December 31, 2022 and 2021.

Part of the Limited Partners’ contribution is in the form of a note receivable. The contribution note receivable from the Limited Partners is a non-interest-bearing note secured by the Limited Partners’ interest in the Partnership. As of December 31, 2022 and 2021, the contribution note receivable was $110,153.

Contributions under the note are subject to adjustment depending on certain conditions being met, primarily related to the amount and timing of low-income housing tax credits the Partnership is able to obtain.

NOTE 6 - PARTNERSHIP PROFITS AND LOSSES

All profits and losses are allocated .01% to the General Partner and 99.99% to the Limited Partners.

NOTE 6 - PARTNERSHIP PROFITS AND LOSSES (CONTINUED)

Gain, if any, from a sale or exchange or other disposition of the property owned by the Partnership is allocable as follows:

1. To all partners having negative balance in their capital account prior to the distribution of any sale or refinancing proceeds, an amount of such gain will increase their negative balance to zero.

2. To the General Partner and to the Limited Partners until they have received cumulatively an amount equal to their respective net projected tax liabilities.

3. The remainder of such gain, if any, 50% to the Limited Partners and 50% to the General Partner.

Loss, if any, from a sale or exchange or other disposition of the property owned by the Partnership is allocable as follows:

1. Loss is allocable .01% to the General Partner and 99.99% to the Limited Partners.

NOTE 7 - TRANSACTION WITH AFFILIATES AND RELATED PARTIES

Developer's Fee

The sponsor of the project, The Lower East Side People's Mutual Housing Association Inc. (PMHA), an affiliate of the general partner, was entitled to a developer's fee in the amount of $150,000. As of December 31, 2022 and 2021, $112,500 was unpaid.

Partnership Management Fee

In accordance with the partnership agreement, the general partner to the extent that all operating expenses and escrow payments have been made shall be paid a partnership management fee in the amount of $10,000. This fee shall have an annual increase of four percent. The partnership management fee for 2022 and 2021 was $15,100 and $14,519 respectively. As of December 31, 2022 and 2021, the amounts owed for the partnership management fees were $15,100 and $14,519 respectively and were included in accrued expenses in the accompanying financial statements.

NOTE 7 - TRANSACTION WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

Incentive Management Fee

The Partnership agreement also provides for an Incentive Management Fee, provided certain parameters have been met including various operating reserve targets.

Property Management Fees

Property management fees are paid to PMHA. The fees are 8% of the monthly rental collections. Total property management fees incurred in 2022 and 2021 were \$27,928 and \$30,286 respectively. As of December 31, 2022 and 2021, the amounts owed for property management fees were \$2,958 and \$2,010 respectively and included in accounts payable in the accompanying financial statements

Other Fees and Transactions

The Partnership also reimburses PMHA for maintenance and operating services provided. The total costs reimbursed were \$107,437 in 2022 and \$96,681 in 2021. As of December 31, 2022 and 2021, the amounts owed to PMHA were \$9,534 and \$7,979 respectively and included in accounts payable in the accompanying financial statements.

NOTE 8 - RESERVE ACCOUNTS

The Partnership is required to fund operating, social service and replacement reserve accounts from the Limited Partners' capital contributions as defined in the Partnership Agreement. The partnership agreement requires the following contributions to be made:

Operating Reserve	$ 91,707
Tenant Social Service Reserve	81,000
Replacement Reserve	75,282

As of December 31, 2016, all of the reverses were fully funded by limited partners' contributions.

NOTE 8 - RESERVE ACCOUNTS (CONTINUED)

A summary of the transactions in the reserves is as follows:

	2022	2021
Operating reserve		
Balance beginning of year	$ 98,359	$ 98,194
Fees	(1,011)	(1,012)
Investment income	1,179	1,177
Balance end of the year	$ 98,527	$ 98,359
Social service reserve		
Balance beginning of year	$ 82,960	$ 82,974
Fees	(25)	(25)
Investment income	53	11
Balance end of the year	$ 82,988	$ 82,960
Replacement reserve		
Balance beginning of year	$ 93,491	$ 91,893
Fees	(25)	(25)
Interest	1,604	1,623
Balance end of the year	$ 95,070	$ 93,491

The reserve accounts consist of the following:

	2022	2021
Operating reserve		
Cash	$ 37,232	$ 38,219
Mutual funds	61,295	60,140
Total	$ 98,527	$ 98,359
Social service reserve		
Cash	$ 82,988	$ 82,960

NOTE 8 - RESERVE ACCOUNTS (CONTINUED)

	2022	2021
Replacement reserve		
Cash	$ 10,300	$ 10,318
Mutual funds	84,770	83,173
Total	$ 95,070	$ 93,491

The operating and replacement reserves are recorded at cost since the Partnership intends to hold securities until maturity. As of December 31, 2022 and 2021, market value of the operating reserve was approximately $88,000 and $98,000 respectively and market value of the replacement reserve was approximately $81,000 and $93,000 respectively.

The reserves are maintained with a brokerage firm. The accounts contain cash and securities. Balances are insured up to $500,000 (with a limit of $250,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on cash, cash equivalents and securities held by the broker. This insurance does not cover any loss on market value of all cash, cash equivalents and securities held but losses due to the action of the brokerage firm. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash, cash equivalents and securities.

NOTE 9 - FAIR VALUE MEASUREMENT

The following are the classes and major categories of investments at December 31, 2022 and 2021 grouped by the fair value hierarchy for those investments at fair value on a recurring basis:

	2022	2021
Level 1 Inputs		
Mutual funds	$ 146,065	$ 143,313
Cash alternative - money market	130,520	131,497
	$ 276,585	$ 274,810

NOTE 10 - CAPITALIZED COSTS

The Partnership incurred various tax credit and tax abatement fees as follows:

	2022	2021
Real estate abatement fee	$ 21,730	$ 21,730
Tax credit allocation fee	16,330	16,330
	38,060	38,060
Accumulated amortization	(27,530)	(25,187)
Net capitalized cost	$ 10,530	$ 12,873

Estimated amortization expense for each of the ensuing years through December 31, 2025 is $2,343, for the year ending December 31, 2026 is $727 and for the year ending December 31, 2027 is $194.

NOTE 11 - CONCENTRATION OF CREDIT RISK

The Partnership maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits of $250,000. There was no amounts exceeded the limit at December 31, 2022 and 2021. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash.

NOTE 12 - CONTINGENCIES

The Partnership’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. Noncompliance with state requirements could result in recapture of the Partnership’s state low-income housing tax credits. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Limited Partner.

NOTE 12 - CONTINGENCIES (CONTINUED)

The Partnership does not believe there is any litigation pending or threatened against that, individually or in the aggregate, reasonably may be expected to have a material adverse effect on the Partnership.

The Partnership, as an owner of real estate, is subject to various Federal, state, and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulation on its current properties.

NOTE 13 - EXEMPTION FROM REAL ESTATE TAXES

The Partnership has a Real Estate Tax exemption under the New York City 420C program for all of the residential portion of the properties owned. Real estate taxes are incurred on the commercial portion of the properties.

NOTE 14 - CASH AND RESTRICTED CASH

The balance in cash and restricted cash as reflected in the statement of cash flows consists of the following:

	2022	2021
Operating Cash	$ 259,508	$ 301,491
Restricted Deposits:		
Operating Reserve	37,232	38,219
Social Service Reserve	82,988	82,960
Replacement Reserve	10,300	10,318
	$ 390,028	$ 432,988

The amounts included in reserve accounts represent the cash portion of these accounts.

NOTE 15 - CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the

NOTE 15 - CORONAVIRUS PANDEMIC (CONTINUED)

U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Partnership's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenants ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through May 16, 2023, 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 financial statements.

SUPPLEMENTARY INFORMATION

PERMANENCE L.P.
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Administrative Expenses		
Property management fee	$ 27,928	$ 30,286
Legal fees	1,603	1,026
Professional fees	12,275	13,450
Consulting	653	617
Office expenses	1,352	1,227
Telephone	2,087	2,119
License, fee and permits	679	1,272
Miscellaneous expense	3,305	148
Total Administrative Expenses	$ 49,882	$ 50,145
Utilities Expenses		
Electricity	$ 15,663	$ 12,912
Gas	40,692	34,041
Water and sewer	64,025	40,221
Total Utilities Expenses	$ 120,380	$ 87,174
Operating and Maintenance Expenses		
Exterminating	$ 2,487	$ 2,867
Maintenance salaries	59,695	60,003
Repairs	36,704	32,608
Total Operating and Maintenance Expenses	$ 98,886	$ 95,478
Taxes and Insurance Expenses		
Payroll taxes	$ 8,748	$ 6,611
Health insurance	36,357	27,083
Workers' compensation	1,856	2,289
Real estate taxes	21,406	21,134
Property and liability insurance	32,988	28,093
Total Taxes and Insurance Expenses	$ 101,355	$ 85,210

See Independent Auditor's Report

UNITED MUTUAL HOUSES, L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

UNITED MUTUAL HOUSES, L.P.
DECEMBER 31, 2022 AND 2021

CONTENTS

Independent Auditor's Report

To the Partners of
United Mutual Houses, L.P.

Opinion

I have audited the accompanying financial statements of United Mutual Houses, L.P., a New York Limited Partnership, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Mutual Houses, L.P. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of United Mutual Houses, L.P. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 United Mutual Houses, L.P.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 generally accepted 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, including omissions, 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 generally accepted auditing standards, I:

- 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 United Mutual Houses, L.P.'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about United Mutual Houses, L.P.'s ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

New York, New York
May 25, 2023

UNITED MUTUAL HOUSES, L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
RENTAL PROPERTY		
Building	$ 5,697,166	$ 5,697,166
Equipment	23,641	23,641
Furniture and fixture	665	665
	5,721,472	5,721,472
Less: accumulated depreciation	(4,470,888)	(4,259,055)
TOTAL RENTAL PROPERTY	1,250,584	1,462,417
OTHERS ASSETS		
Cash	96,907	42,439
Deposits Held in Trust		
Tenant security deposits	20,830	20,520
Restricted Cash and Funded Reserves		
Tax and insurance escrow	12,424	9,481
Replacement reserve	352,470	350,207
Operating reserve	146,751	136,368
Total Restricted Cash and Funded Reserves	511,645	496,056
Accounts receivable - tenants	35,689	19,233
Prepaid expenses	34,792	31,312
Total Other Assets	699,863	609,560
TOTAL ASSETS	$ 1,950,447	$ 2,071,977

The accompanying notes are an integral part of these financial statements.

UNITED MUTUAL HOUSES, L.P.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

LIABILITIES AND PARTNERS' CAPITAL

	2022	2021
LIABILITIES APPLICABLE TO INVESTMENT IN REAL ESTATE		
Mortgages payable	$ 1,579,979	$ 1,600,983
Less: debt issuance costs	(12,220)	(13,757)
	1,567,759	1,587,226
OTHER LIABILITIES		
Due to LESPMHA	402,574	402,574
Accounts payable	58,991	58,141
Due to affiliate	49,047	49,047
Accrued expenses	136,953	96,987
Accrued interest	125,294	112,292
Prepaid rent	1,795	-
Tenants security deposits payable	20,830	20,520
Total Other Liabilities	795,484	739,561
TOTAL LIABILITIES	2,363,243	2,326,787
PARTNERS' CAPITAL	(412,796)	(254,810)
TOTAL LIABILITIES AND PARTNERS' EQUITY	$ 1,950,447	$ 2,071,977

The accompanying notes are an integral part of these financial statements.

UNITED MUTUAL HOUSES, L.P.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Residential rental income	$ 242,319	$ 239,520
Commercial rent	144,000	120,000
Net Rental Income	386,319	359,520
Other Revenue		
Laundry income	3,655	4,273
Interest income	212	50
Total Other Revenue	3,867	4,323
Total Revenues	390,186	363,843
OPERATING EXPENSES		
Administrative	59,314	57,456
Utilities	91,442	91,532
Professional fees	14,167	16,058
Property Management fees	31,127	30,408
Repairs and maintenance	54,136	43,497
Property insurance	43,641	40,401
Total Operating Expenses	293,827	279,352
Net Income before Financial Expenses	96,359	84,491
FINANCIAL EXPENSES		
Mortgage interest	38,486	37,944
Other interest	4,026	4,756
Total Financial Expenses	42,512	42,700
Net Income before Depreciation	53,847	41,791
Depreciation	211,833	212,483
NET LOSS	$ (157,986)	$ (170,692)

The accompanying notes are an integral part of these financial statements.

UNITED MUTUAL HOUSES, L.P.
STATEMENTS OF PARTNERS' CAPITAL (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	General Partner	Limited Partner	Total
Partners' Capital January 1, 2021	$ (335)	$ (83,783)	$ (84,118)
Net loss	(171)	(170,521)	(170,692)
Partners' Capital (Deficit) December 31, 2021	(506)	(254,304)	(254,810)
Net loss	(158)	(157,828)	(157,986)
Partners' Capital (Deficit) December 31, 2022	$ (664)	$ (412,132)	$ (412,796)

The accompanying notes are an integral part of these financial statements.

UNITED MUTUAL HOUSES, L.P.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities:		
Net loss	$ (157,986)	$ (170,692)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	211,833	212,483
Non cash interest expense due to amortization of debt issuance costs	1,537	1,537
Increase (Decrease) in operating asset:		
Accounts receivable - tenants	(16,456)	17,681
Prepaid expenses	(3,480)	(2,018)
(Decrease) (Increase) in operating liabilities:		
Accounts payable	850	(57,414)
Accrued expenses	39,966	8,838
Accrued interest	13,002	13,001
Prepaid rent	1,795	(2,728)
Net Cash provided by Operating Activities	91,061	20,688
Cash Flows from Financing Activities:		
Principal payments of mortgage	(21,004)	(17,798)
Net Cash used in Financing Activities	(21,004)	(17,798)
Net Increase in Cash and Restricted Cash	70,057	2,890
Cash and Restricted Cash - Beginning of Year	538,495	535,605
Cash and Restricted Cash - End of Year	$ 608,552	$ 538,495
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 23,947	$ 24,135

The accompanying notes are an integral part of these financial statements.

UNITED MUTUAL HOUSES, L.P.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - ORGANIZATION

United Mutual Houses, L.P. ("the Partnership") is a limited partnership formed under the laws of the State of New York pursuant to a Limited Partnership Agreement and Certificate of Limited Partnership dated May 27, 1999. The Partnership has been formed for the purpose of constructing and operating a low-income housing rental project. The project consists of 30 units located in New York City, New York.

The project received an allocation of low-income housing tax credits from the Department of Housing and Community Renewal (DHCR) under section 42 of the Internal Revenue Code of 1986, as amended.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles in the United States of America.

Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where property is located or by changes in federal low-income housing subsidies or the demand for such housing.

Capitalization and Depreciation

Building, improvements, equipment and furniture are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

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 straight-line method for financial reporting purposes. The estimated service life of the assets for

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization and Depreciation (Continued)

depreciation purposes may be different from their actual economic useful lives. The fixed assets being depreciated over the estimated life of tax basis do not result in a material difference from GAAP basis. For financial statement purposes, the following estimated useful lives are used.

	Estimated useful lives	Method
Building and improvements	10-27.5 Years	Straight-line
Equipment	5.0 Years	Straight-line
Furniture	7.0 Years	Straight-line

The land and building are pledged as collateral for all mortgages payable.

Impairment

The Partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest changes, by the rental property including any estimated proceeds from the eventual disposition of the real estate 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2022 and 2021.

Rental Income and Prepaid Rent

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable - Tenants

Tenant accounts receivables are reported net of an allowance for 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. It is reasonably possible that management's estimate of the allowance will change.

Estimates

The preparation of the financial statements in conformity with the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Debt Issuance Costs and Amortization

Debt issuance costs are amortized over the term of the mortgage loan 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 debt issuance 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. The debt issuance costs are being offset against the mortgage payable and the amortization of debt issuance costs is included in mortgage interest expense.

Income Tax

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 and deductions 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 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax (Continued)

reflect provision for income taxes and the Partnership has no other tax positions, which must be considered for disclosure.

Fair Values of Financial Instruments

The Partnership's financial instruments consist primarily of cash, accounts receivable, reserve deposits, accounts payable and debt instruments. The carrying values of cash, accounts receivable, reserve deposits and accounts payable are considered to be representative of their respective fair values. The carrying values of the Partnership's debt instruments approximate their fair values as of December 31, 2022 and 2021, based on current incremental borrowing rates for similar types of borrowing arrangements.

Revenue Recognition

The Partnership's primary revenue stream is rent charge for residential units under leases. The Partnership records revenue for such leases at gross potential rent. The rental value of vacancies and other concessions are stated separately to present net rental income on the accrual basis. Subsidy revenue for low-income eligible tenants is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid by the tenant. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958. This standard indicates that government payments to specifically identified participants are to be considered exchange transactions and potentially subject to ASC 606. The Partnership believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption-based costs paid by the Partnership on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending, pet and parking fees as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

<u>Recently Adopted Accounting Pronouncements</u>

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements. The Partnership adopted FASB ASC 842 effective January 1, 2022. However, there is no adjustment necessary as of January 1, 2022 to be recognized under FASB ASC 842. With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements as of December 31, 2022 and the year then ended. The Partnership has no other leases other than leases with tenants. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASC 606), and all related amendments. ASC 606 supersedes most existing revenue recognition guidance. ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Partnership expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Partnership adopted ASC 606 and all related amendments using the modified retrospective transition method. The Partnership concluded that the adoption of the new standard did not require an adjustment to the opening partners' capital balance.

NOTE 3 - MORTGAGES PAYABLE

In August 2001, the Partnership paid off a construction loan from the Community Preservation Corporation (CPC) in the amount of $1,800,178 and replaced it with two long-term mortgages.

A first mortgage loan in the amount of $500,000 with CPC bears an interest rate of 8.22% and is payable over 30 years with a monthly payment of $3,746. The total outstanding under this mortgage as of December 31, 2022 and 2021 was $279,801

NOTE 3 - MORTGAGES PAYABLE (CONTINUED)

and $300,805 respectively. Final payment is due on September 1, 2031.

A second loan in the amount of $1,300,178 with the New York Housing Trust Fund Corporation (NYHTF) bears an interest rate of 1% with principal payable in August 2031. An annual interest payment is due by April 30 for the amount owed for the prior fiscal year. As of December 31, 2022 and 2021, the Partnership had borrowed $1,300,178 under the NYHTF mortgage. A total of $125,294 and $112,292 of accrued interest under the NYHTF mortgage was unpaid as of December 31, 2022 and 2021 respectively.

Aggregate maturities of mortgages payable for the next five years are as follows:

2023	$ 22,952
2024	24,912
2025	27,038
2026	29,347
2027	31,852
Thereafter	1,443,878
	$1,579,979

As of December 31, 2022 and 2021,the net balances of the mortgages payable were as follows:

	2022	2021
Mortgage CPC	$ 279,801	$ 300,805
Mortgage NYSHTF	1,300,178	1,300,178
Total	1,579,979	1,600,983
Less: Unamortized debt issuance costs	(12,220)	(13,757)
Net mortgages payable	$ 1,567,759	$ 1,587,226

NOTE 3 - MORTGAGES PAYABLE (CONTINUED)

All of the loans are collateralized by mortgages on the real estate. Furthermore, the Partnership is required to adhere to a Regulatory Agreement that defines the use of the property.

NOTE 4 - DEBT ISSUANCE COSTS

Costs incurred in connection with obtaining mortgages have been capitalized and are being amortized over the term of the mortgages. The unamortized debt issuance costs consist of the following:

	2022	2021
Debt issuance costs	$ 46,083	$ 46,083
Accumulated amortization	(33,863)	(32,326)
Net	$ 12,220	$ 13,757

Amortization of debt issuance costs of $1,537 in 2022 and 2021 is included in mortgage interest expense in the accompanying financial statements. Estimated amortization expense for each of the ensuing years through December 31, 2027 is $1,537. The debt issuance costs have been offset against the mortgage payable. (Note 3.)

NOTE 5 - ACCOUNTS RECEIVABLE - TENANTS

At December 31, 2022 and 2021, accounts receivable - tenants consist of the following:

	2022	2021
Accounts receivable - tenants	$ 36,743	$ 20,287
Less: Allowance for doubtful accounts	(1,054)	(1,054)
Net	$ 35,689	$ 19,233

NOTE 6 - DUE TO LESPMHA

The Lower East Side People's Mutual Housing Association (LESPMHA), an affiliate of the General Partner, loaned the Partnership $402,574 as of December 31, 2022 and 2021. The loan bears interest of one percent. As of December 31, 2022 and 2021, the total interest accrued on the loan was $58,057 and $54,031 respectively and included in accrued expenses in the accompanying financial statements.

NOTE 7 - PARTNERS' CAPITAL

The Partnership has one General Partner, UMH Corp., who has a 0.01 percent interest and one Limited Partners, United Mutual Corp., who has a 99.99 percent interest.

NOTE 8 - RESTRICTED ESCROW DEPOSITS AND RESERVES

According to the Partnership, loan and other regulatory agreements, the Partnership is required to maintain the following escrow deposits and reserves. The escrow and reserve accounts are held by CPC.

The following shows the activity in such accounts during 2022 and 2021:

	Beginning Balance January 1, 2022	Additions and Interest	Withdrawals and Transfers	Ending Balance December 31, 2022
Insurance Escrow	$ 7,849	$ 35,468	$ (39,851)	$ 3,466
Taxes and Other	1,632	50,308	(42,982)	8,958
Replacement Reserve	350,207	2,263	-	352,470
Operating Reserve	136,368	10,383	-	146,751
	$ 496,056	$ 98,422	$ (82,833)	$ 511,645

NOTE 8 - RESTRICTED ESCROW DEPOSITS AND RESERVES (CONTINUED)

	Beginning Balance January 1, 2021	Additions and Interest	Withdrawals and Transfers	Ending Balance December 31, 2021
Insurance Escrow	$ 5,166	$ 33,220	$ (30,537)	$ 7,849
Taxes and Other	3,564	51,068	(53,000)	1,632
Replacement Reserve	326,923	23,284	-	350,207
Operating Reserve	166,261	8,819	(38,712)	136,368
	$ 501,914	$ 116,391	$(112,249)	$ 496,056

Under the NYHTF Regulatory Agreement, the Partnership was required to deposit $25,319 for 2022 and 2021 to the replacement reserves. As of December 31, 2022, the Partnership had made the required payments of $25,319 for 2021. As of December 31, 2022, the Partnership has not made the $25,319 required deposit for 2022.

Under the NYHTF Regulatory Agreement, the Partnership is required to deposit 3.0 percent of the annually budgeted gross rents into an operating reserve as well as any excess income as defined in the Agreement, up to the amount of one half of the annually budgeted gross rents. During 2022 and 2021, all required payments to the operating reserves have been made. Under the NYHTF Regulatory Agreement, deposits into the operating reserve may be suspended once the balance of the operating reserve is equal to 50 percent of the annual budgeted gross rent. As of December 31, 2022 and 2021, this requirement has not been met.

NOTE 9 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Property management fees are paid to LESPMHA. The fee is 8.37% of the monthly rental collection. LESPMHA is an affiliate of the General Partner. The total fees incurred in 2022 and 2021 were $31,127 and $30,408 respectively. The Partnership also reimburses LESPMHA for superintendent service provided. The total cost reimbursed including fringe benefits and miscellaneous expenses was $52,554 in 2022 and $49,615 in 2021. The total amounts owed to LESPMHA for the property management fees and reimbursable expenses for the years ended December 31, 2022 and 2021 were $57,663 and $ 58,613 respectively and included in accounts payable in the accompanying financial statements.

NOTE 9 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

The Partnership has entered into a 15 year lease with LESPMHA in connection with leasing of 5,400 square feet on the first floor. The total annual rental is $87,570. In 2018, there was an amendment to the lease where LESPMHA is required to pay an annual rental of $120,000. In 2022, the lease was amended where LESPHMA is required to pay an annual rental of $144,000. LESPMHA is required to pay all taxes and utilities of the premises. The amount of rental income earned in 2022 and 2021 was $144,000, and 120,000, respectively.

NOTE 10 - CONCENTRATION OF CREDIT RISK

The Partnership maintains operating accounts at financial institutions which at times may exceed the FDIC limit of $250,000. At December 31, 2022 and 2021, there was no amount exceeding the FDIC limit. The Partnership has not experienced any losses in such account and believes it is not exposed to any significant credit risk.

The reserves and escrow are held at CPC, which is not covered by any insurance. A total amount held as of December 31, 2022 and 2021 was $511,645 and $496,056 respectively.

NOTE 11 - CONTINGENCIES

The Partnership does not believe there is any litigation pending or threatened against that, individually or in the aggregate, reasonably may be expected to have a material adverse effect on the Partnership.

The Partnership, as an owner of real estate, is subject to various Federal, state and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulation on its current properties.

NOTE 12 - EXEMPTION FROM REAL ESTATE TAXES

The Partnership has a Real Estate Tax exemption under the New York City 420C program.

NOTE 13 - CASH AND RESTRICTED CASH

The balances in cash and restricted cash as reflected in the statements of cash flows consists of the following:

	2022	2021
Operating Cash	$ 96,907	$ 42,439
Restricted Deposits		
Replacement Reserve- CPC	352,470	350,207
Operating Reserve- CPC	146,751	136,368
Escrow- CPC	12,424	9,481
	$ 608,552	$ 538,495

The amounts included in replacement reserve, operating reserve and escrow represent the cash portion of these accounts.

NOTE 14 - CORONAVIRUS PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Partnership's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenant's ability to pay the required monthly rent. Operating functions that may be changed include intake, recertifications, and maintenance. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through May 23, 2023, 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 financial statements.

SUPPLEMENTARY INFORMATION

UNITED MUTUAL HOUSES, L.P.
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Administrative Expenses		
Superintendent salary	$ 32,266	$ 31,000
Telephone	1,533	1,317
Office expenses	127	192
Miscellaneous	2,331	3,138
Monitoring fee	2,387	2,135
Licenses, permits and fees	880	1,680
Payroll taxes	4,702	3,333
Employee insurance	14,090	13,471
Worker's compensation	998	1,190
Total Administrative Expenses	$ 59,314	$ 57,456
Utility Expenses		
Gas	$ 27,794	$ 27,071
Electricity	17,869	13,960
Water and sewer	45,779	50,501
Total Utility Expenses	$ 91,442	$ 91,532
Professional fees		
Legal	$ 1,967	$ 1,958
Auditing	12,200	14,100
Total Professional Fees	$ 14,167	$ 16,058
Property Management Fees	$ 31,127	$ 30,408
Repairs and Maintenance Expenses		
Repairs supplies	$ 12,696	$ 10,777
Repairs contract	26,395	16,163
Elevator contract	5,737	6,621
Security	1,935	2,331
Painting and Decorating	1,415	2,520
Miscellaneous	4,014	3,017
Exterminating	1,944	2,068
Total Repairs and Maintenance Expenses	$ 54,136	$ 43,497
Property Insurance Expenses	$ 43,641	$ 40,401

See independent auditor's report

UNITED MUTUAL HOUSES, L.P.
EXCESS INCOME ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Net loss	$ (157,986)
Add Non-cash expenses:	
Depreciation	211,833
Interest expense	42,512
	254,345
Deduct required reserve deposits	
CPC-operating	(10,324)
CPC-replacement	(2,110)
	(12,434)
Deduct other mortgage principal and interest payments	
CPC-mortgage interest payments	(23,947)
CPC-mortgage principal payments	(21,004)
	(44,951)
Deduct other items	
Interest income	(212)
	(212)
Excess Income before HTFC Debt Service	38,762
HTFC Debt Service Requirement	(13,002)
Excess Income	$ 25,760

See independent auditor's report