THE LOWER EAST SIDE PEOPLE'S MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
DECEMBER 31, 2023 AND 2022

C O N T E N T S

Independent Auditor's Report

To the Board of Directors of
The Lower East Side People's
Mutual Housing Association, Inc. and Affiliate

Opinion

I have audited the accompanying combined financial statements of The Lower East Side People's Mutual Housing Association, Inc. and affiliate, both New York not-for-profit corporations, which comprise the combined statements of financial position as of December 31, 2023 and 2022, and the related combined statements of activities, and cash flows for the years then ended, and the related notes to the combined financial statements.

In my opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Lower East Side People's Mutual Housing Association, Inc. and affiliate as of December 31, 2023 and 2022, 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 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 Combined Financial Statements section of my report. I am required to be independent of The Lower East Side People's Mutual Housing Association, Inc. and affiliate 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 Combined 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Lower East Side People's Mutual Housing Association, Inc. and affiliates ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Combined Financial Statements

My objectives are to obtain reasonable assurance about whether the combined 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 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 combined 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 combined 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 combined 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 The Lower East Side People's Mutual Housing Association, Inc. and affiliate’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 combined financial statements.

- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Lower East Side People's Mutual Housing Association, Inc. and affiliate’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 combined financial statements as a whole. The accompanying schedules of certain expenses are presented for purposes of additional analysis and are not required parts of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

New York, New York
June 18, 2024

THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

A S S E T S

	2023	2022
Current Assets		
Cash	$ 778,607	$ 1,261,160
Tenant accounts receivable	194,274	149,589
Management fees receivable	596,245	451,458
Prepaid expenses	353,858	193,318
Other receivable	57,317	61,509
Total Current Assets	1,980,301	2,117,034
Deposits Held in Trust		
Tenant security deposits	234,487	226,914
Restricted Cash and Funded Reserves		
Operating reserve	815,840	743,442
Replacement reserve	752,985	699,305
HDC reserve	5,913,776	5,771,848
Total Restricted Cash and Funded Reserves	7,482,601	7,214,595
Fixed Assets, net of accumulated depreciation of $14,168,682 in 2023 and $13,596,531 in 2022	6,966,812	7,538,963
Right-of-use assets-operating leases, net:	1,917,509	2,048,497
Other Assets		
Tenant accounts receivable - deferred	88,614	80,166
Investments in affiliates	736,809	736,809
Due from United Mutual Houses, L.P.	451,621	451,621
Due from LESPMHA II, L.P.	1,145,723	1,105,001
Due from Diversity Houses, L.P.	862,525	862,525
Due from Permanence L.P.	112,500	112,500
Due from Garden House III, L.P.	476,171	391,818
Total Other Assets	3,873,963	3,740,440
TOTAL ASSETS	$ 22,455,673	$ 22,886,443

See notes to the combined financial statements

THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

LIABILITIES AND NET ASSETS(DEFICIT)

	2023	2022
Liabilities		
Current Liabilities		
Current portion of lease obligations - operating leases	$ 133,308	$ 130,988
Accounts payable and accrued expenses	786,690	409,582
Total Current Liabilities	919,998	540,570
Deposits Liability		
Tenant security deposits payable	320,878	310,761
Long-Term Liabilities		
Due to Clinton Henry HDFC	100,000	-
Long-term lease obligations - operating leases	1,784,201	1,917,509
Loans payable - New York City Department of Housing Preservation and Development	18,603,605	18,598,370
Total Long-Term Debt	20,487,806	20,515,879
Total Liabilities	21,728,682	21,367,210
Net Assets		
Net assets without donor restrictions	726,991	1,519,233
TOTAL LIABILITIES AND NET ASSETS	$ 22,455,673	$ 22,886,443

See notes to the combined financial statements

THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Revenues		
Rent revenue - gross potential	$ 2,223,898	$ 2,179,311
Tenant assistance payments	189,671	157,779
Commercial rent revenue	547,394	531,649
Less: Vacancies	(16,074)	(35,067)
Total Rental Income	2,944,889	2,833,672
Investment income	211,930	71,128
Consulting and other income	131,811	162,055
Donation income	7,550	1,000
Management fees	915,017	897,176
Total Revenues	4,211,197	3,965,031
Operating Expenses		
Salaries and related expenses	1,968,888	2,033,545
General and administrative	477,999	477,249
Maintenance and operations	1,847,468	1,622,590
Real estate taxes	131,698	127,440
Mortgage interest	5,235	5,235
Depreciation	572,151	564,526
Total Operating Expenses	5,003,439	4,830,585
Changes in net asset	(792,242)	(865,554)
Net Assets without Donor Restrictions - Beginning of Year	1,519,233	2,384,787
Net Assets without Donor Restrictions - End of Year	$ 726,991	$ 1,519,233

See notes to the combined financial statements

**THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Cash flows from operating activities:		
Changes in net assets	$ (792,242)	$ (865,554)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	572,151	564,526
Bad debt	72,370	7,989
Non cash interest expense due to amortization of debt issuance costs	5,235	5,235
Noncash portion of lease expenses - operating leases	130,988	128,754
Changes in operating assets:		
Tenant accounts receivable	(117,055)	8,968
Management fees receivable	(144,787)	(117,962)
Prepaid expenses	(160,540)	(10,125)
Other receivable	4,192	27,377
Tenant accounts receivable - deferred	(8,448)	(24,882)
Due from LESPMHA II, L.P.	(40,722)	(48,576)
Due from Garden House III, L.P.	(84,353)	(6,170)
Changes in operating liabilities:		
Accounts payable and accrued expenses	377,108	139,784
Repayment of lease liability - operating leases	(130,988)	(128,754)
Tenant security deposits payable	10,117	9,477
Net cash used in operating activities	(306,974)	(309,913)
Cash flows from investing activities:		
Purchase of fixed assets	-	(235,733)
Net cash used in investing activities	-	(235,733)

See notes to the combined financial statements

THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(CONTINUED)

	2023	2022
Cash Flows from Investing Activities:		
Due to Clinton Henry HDFC	100,000	-
Net Cash used in Investing Activities	100,000	-
Net decrease in cash and restricted cash	(206,974)	(545,646)
Cash and restricted cash - Beginning of year	8,702,669	9,248,315
Cash and restricted cash - End of year	$ 8,495,695	$ 8,702,669

Supplemental information:		
Interest paid during year	$ -	$ -

Supplementary non-cash transactions:
In 2022, the Corporation recorded right-of-use assets and related lease liabilities in connection with operating lease in the amount of $2,177,251.

See notes to the combined financial statements

NOTE 1 - BASIS OF OPERATION

The Lower East Side People's Mutual Housing Association, Inc. ("the Corporation"), a not-for-profit corporation, was organized to develop and operate low and moderate income housing in New York City. The Corporation is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code.

In 1990, the Corporation commenced the development of 20 apartment buildings for homeless, low, and moderate income families. Construction began in June 1990 and the buildings were completed and occupied as of December 31, 1994. The Corporation received capital funding for the construction of these units from New York City (Note 4).

On January 31, 2014, the Corporation transferred eighteen of the twenty buildings owned to an affiliate, LESPMHA Housing Development Fund Corporation (HDFC), a tax exempt organization under Section 501(c)(4) of the internal revenue code. The buildings are subject to a mortgage held by the City of New York. The Corporation and the HDFC have common board members. The purpose of the transfer was to obtain a real estate tax exemption for the buildings from New York City. The transfer was approved by the New York State Supreme Court under the New York Not For Profit Corporation law.

On July 30, 2019, the Corporation transferred its two residential buildings, 230 East 4^{th} Street and 280 East 3^{rd} Street to Two Buildings Tenants United Housing Development Fund Corporation (TBTU). The transfer was approved by the New York State Supreme Court under the New York Not-for-Profit Corporation Law. In connection with the transfer, the Corporation transferred the net costs of its two buildings and the HPD mortgage payable to TBTU.

In connection with the development of low and moderate income housing, the Corporation may earn developer's fees. These fees are received from other entities that may be affiliated to the Corporation. The Corporation may also receive fees for managing affiliated or non-affiliated low income housing projects.

The Corporation is also an owner of various corporations, each of which is a general partner in limited partnerships that construct and operate low and moderate income housing rental projects in New York City and receive an allocation of low income

NOTE 1 - BASIS OF OPERATION (CONTINUED)

housing tax credits under section 42 of the Internal Revenue Code. The general partner ownership interest is no more than one percent. The names of the limited partnerships are as follows:

1. United Mutual Houses, L.P.
2. LESMHA Limited Partnership
3. LESPMHA II L.P.
4. Diversity Houses, L.P.
5. Permanence L.P.
6. Garden House III, L.P.

The Corporation is also a sponsor of Clinton-Henry Housing Development Fund Corporation (Clinton-Henry), a not-for-profit corporation, which is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Clinton-Henry owns a six-story building in New York City which provides 10 units of housing for the formerly homeless. Clinton-Henry received a grant from New York State Homeless Housing and Assistance Program to construct the project.

The Corporation is a sponsor of 8TH and C HDFC. The property owned by Mutual Housing Partnership, L.P. was transferred to 8TH and C HDFC in connection with the conversion of the ownership from a limited partnership to a not-for-profit housing development fund corporation.

The accompanying combined financial statements do not include the assets, liabilities, net worth or operations of the above named limited partnerships, Clinton-Henry HDFC and 8TH and C HDFC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Combination

The combined financial statements include the assets, liabilities, net assets, and results of operations of the Lower East Side People's Mutual Housing Association, Inc. and its affiliate, LESPMHA Housing Development Fund Company (HDFC). All intercompany transactions and accounts have been eliminated.

Combined Financial Statements Presentation

The combined net assets of the Corporation and the HDFC 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 and the HDFC. Certain restrictions may be needed to be maintained in perpetuity.

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 combined net assets of the Corporation and the HDFC at December 31, 2023 and 2022 were considered to be net assets without donor restrictions.

Fixed Assets

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets (Continued)

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 depreciation purposes may be different from their actual economic useful lives. For financial statement purposes, the following estimated useful lives are used.

	Estimated useful lives	Method
Buildings and improvements	40 Years	Straight-line
Furniture and fixture	5 - 7 Years	Straight-line
Equipment	3 - 10 Years	Straight-line

The buildings are pledged as collateral for all mortgages payable.

Impairment

The Corporation and HDFC review their 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, 2023 and 2022.

Debt Issuance Costs and Amortization

Debt issuance costs are amortized over the term of the mortgages loan using the straight-line method. Accounting principles generally accepted in the United States

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs and Amortization (Continued)

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 have been offset against the mortgage payable. The amortization of debt issuance costs is included in mortgage interest expense.

Risks and Uncertainties

The Corporation and HDFC are subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on their operating results and financial condition. Future operations could be affected by changes in the economy, 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.

Fair Value Measurement

The Corporation and HDFC follow GAAP guidance on Fair Value Measurements, which defines 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 unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable and are used to the extent that observable inputs do not exist.

Rental Income

Rental income is recognized for apartment rentals as it accrues. Rental incomes received in advance are deferred or classified as liabilities 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 Corporation and HDFC and the tenants of the property are operating leases.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Fee Income

The Corporation receives fees from its affiliated entities for management services as well as from nonaffiliates. The management fees are recognized as revenue when earned.

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. As of December 31, 2023 and 2022, there was no allowance for doubtful accounts.

Fair Values of Financial Instruments

The Corporation and HDFC's financial instruments consist primarily cash, accounts receivable, reserve deposits, accounts payable and debt instruments. The carrying values of cash, accounts receivable, reserve deposits and accounts payables are considered to be representative of their respective fair values. The carrying values of the Corporation and HDFC's debt instruments approximately their fair values as of December 31, 2023 and 2022, based on current incremental borrowing rates for similar types of borrowing arrangements.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The HDFC is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. Accordingly, no provision for Federal, New York State, and New York City income taxes is included in the combined financial statements.

Use of Estimates

The preparation of the combined 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 amount of assets and

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates (Continued)

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

Revenue Recognition

The HDFC's primary revenue stream is rent charges for residential units under leases. The HDFC 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 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 HDFC 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 New Lease Standard

Effective January 1, 2022, the Corporation adopted Accounting Standards Update (ASU) 2016-02, *Leases* (ASC Topic 842) and subsequent amendments. ASC 842 affects all companies that enter into lease arrangements, with certain exclusions under limited scope limitations. Under ASU 2016-02, an entity recognizes right-of-use assets and lease obligations on its statement of financial position for all leases with a lease term of more than 12 months. Short term rentals under year-to-year

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Lease Standard (Continued)

leases or remaining lease terms of 12 months or less are exempt from being capitalized.

In adopting the new lease standard, the Corporation elected to use a transition method under which existing leases were measured and capitalized as of the date of adoption, January 1, 2022, in lieu of applying the standard retrospectively to January 1, 2021.

Additionally, as part of the implementation, the Corporation elected to use a package of optional practical expedients which permit the Corporation to avoid reassessing previous lease identifications within contracts, the existence of initial direct costs, and the lease classifications of any expired and existing leases. Moreover, in accordance with the expedients, all leases classified as operating leases under previous U.S. Generally Accepted Accounting Principles (U.S. GAAP) are automatically classified as operating leases under the new standards, and all leases previously classified as capital leases are recorded as finance leases. The Corporation has not classified any leases as finance leases. All leases are classified as operating leases since the company does not expect to consume a major part of the economic benefits of the leased assets over the remaining lease tem. Leases recognized under the new standard include leases that were not capitalized under previous U.S. GAAP.

Lease obligations are measured and recorded at the present value of future lease payments using a discount rate. The Corporation has made an accounting policy election to use a risk-free rate as the discount rate in measuring its lease obligations. Under this election, the risk-free rate used is the rate for a United States treasury instrument with a term consistent with the remaining lease term of an applicable lease.

Right-of-use assets are generally measured and recorded at the sum of the lease obligation, any initial direct costs to consummate the lease, and any lease payments made on or before the commencement date.

On January 1, 2022, the Corporation recorded a right-to-use asset and lease obligation for operating leases in the amount of $2,177,251.

NOTE 3 - FIXED ASSETS

Fixed assets consist of the following:

	2023	2022
Buildings	$ 15,864,756	$ 15,864,756
Building improvements	3,950,547	3,950,547
Leasehold improvements	803,808	803,808
Furniture and equipment	516,383	516,383
	21,135,494	21,135,494
Less accumulated depreciation	(14,168,682)	(13,596,531)
Net Fixed Assets	$ 6,966,812	$ 7,538,963

NOTE 4 - LOANS PAYABLE - NEW YORK CITY

The Corporation entered into three building loan agreements with the City of New York through the Department of Housing Preservation and Development (HPD). The amounts available under these agreements were $6,745,214, $8,567,298 and $4,848,592 respectively. The building loans were evidenced by notes in the principal amounts of the loans. The notes are secured by mortgages covering the properties, improvements, and any other property and rights as described in the mortgages. The notes are payable without interest. Each note matures in thirty years at which point the Corporation's obligation to repay the principal sums shall be deemed satisfied, provided no default then exists under the notes, the mortgages securing the notes, the building loan contracts, and the regulatory agreement.

On July 30, 2019, the Corporation transferred its two buildings to TBTU (see Note 1). In connection with this transfer, the Corporation transferred the HPD mortgage payable in the amount of $2,583,640 to TBTU.

The outstanding balances as of December 31, 2023 and 2022 were $16,251,155 and maturity dates of these notes are as follows:

NOTE 4 - LOANS PAYABLE - NEW YORK CITY (CONTINUED)

Maturity Date	Amount
September 13, 2024	$ 6,622,760
August 8, 2024	5,239,049
June 24, 2024	4,389,346
Total	$ 16,251,155

In connection with the financing of certain rehabilitation and repair work required as a result of the damage sustained by Hurricane Sandy, the HDFC entered into two loan agreements with HPD, through the Build it Back Program, to borrow $425,887 (Loan #1) and $2,810,992 (Loan #2) respectively. Loan #1 bears no interest and requires no annual principal payments and is entirely forgivable on October 7, 2027. Loan #2 bears no interest and requires no annual principal payments and is entirely forgivable on October 5, 2032. The loans are forgiven provided that no default exists under the terms of the notes and mortgages. The notes are secured by mortgages on the are secured by mortgages on the property. As of December 31, 2023 and 2022, the total advanced under these loans was $415,312 (Loan #1) and $1,954,280 (Loan #2).

As of December 31, 2023 and 2022, mortgages payable to HPD were as follows:

	2023	2022
Building loans	$ 16,251,155	$ 16,251,155
Build It Back (Loan #1)	415,312	415,312
Build It Back (Loan #2)	1,954,280	1,954,280
	18,620,747	18,620,747
Less: Unamortized debt issuance costs	(17,142)	(22,377)
Net mortgages payable	$ 18,603,605	$ 18,598,370

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

NOTE 5 - DEBT ISSUANCE COSTS

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

	2023	2022
Debt issuance costs	$ 77,202	$ 77,202
Accumulated amortization	(60,060)	(54,825)
Net Balance, December 31	$ 17,142	$ 22,377

The debt issuance costs have been offset against the mortgage payable (Note 4). The amortization of debt issuance costs of $5,235 for 2023 and 2022 is included in interest expense in the accompanying combined financial statements. The estimated amortization expense for each of the ensuing years through December 31, 2026 is $5,235, and the estimated amortization expense for the year ended December 31, 2027 is $1,437.

NOTE 6 - FUNDING RESERVES

The Corporation entered into a regulatory agreement with HPD whereby monthly payments are to be made to both operating and replacement reserve accounts. The monthly payments to the operating and replacement reserves are $4,376 and $2,188 respectively. The Corporation may make additional payments to the reserves. The monies from the reserve accounts are released only upon the approval of HPD. All required payments for 2023 and 2022 were made.

In 2009, the Corporation withdrew $570,000 from the operating reserve in connection with the renovation of the new administrative office at 228 E 3rd Street. As of the date of this report, the Corporation did not get approval from HPD but, management believes that this is a necessary cost to properly manage and operate all buildings that it owns and has developed as a sponsor. During 2020, the Corporation made an additional deposit of $100,000 into the operating reserve, which was the partial repayment of the withdrawal made in 2009 to pay for the renovation costs of the administrative office.

NOTE 6 - FUNDING RESERVES (CONTINUED)

The activities in the reserve accounts are as follows:

	2023	2022
Operating Reserve		
Balance beginning of year	$ 743,442	$ 685,652
Additions during the year	52,517	52,517
Fees	(80)	(80)
Investment income	19,961	5,353
Balance end of the year	$ 815,840	$ 743,442
Replacement Reserve		
Balance beginning of year	$ 699,305	$ 665,653
Additions during the year	26,258	26,258
Fees	(80)	(80)
Investment income	27,502	7,474
Balance end of the year	$ 752,985	$ 699,305

As of December 31, 2023 and 2022, the operating reserve and replacement reserve are held in a money market account.

The reserves are maintained in accounts with a brokerage firm. The accounts contain 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 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 and HDFC have 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 6 - FUNDING RESERVES (CONTINUED)

HDC Reserve

In 2019 and 2018, the HDFC sold the air rights belonging to one of its buildings located at 166 East 2nd street to private developers with the sales proceeds being \$119,075 and \$6,826,000 respectively. A portion of the sales proceeds was deposited to a reserve account held by New York City Housing Development Corporation (HDC). The monies in the account are released only upon the approval of HPD. During the year ended December 31, 2022, a total of \$60,213 was withdrawn with approval by HPD. The proceeds were used to fund the purchase of equipment. The activities of HDC reserve are as follows:

	2023	2022
Balance beginning of the year	\$ 5,771,848	\$ 5,799,787
Income earned	156,604	57,184
Fees	(14,676)	(24,910)
Withdrawals	-	(60,213)
Balance end of the year	\$ 5,913,776	\$ 5,771,848

NOTE 7 - PROJECT DEVELOPMENT

United Mutual Houses, L.P.

The Corporation sponsored the development of a low income housing project located at 535 E. 5th Street. The project is owned by United Mutual Houses, L.P. (UMH) of which UMH Corp. is a general partner. The Corporation is the owner of UMH Corp. As of December 31, 2023 and 2022, a balance of \$402,574 was owed by United Mutual Houses, L.P. to the Corporation, which consisted of developer fees and other construction and repair costs. These amounts will be primarily paid from the cash flow of the partnership and from proceeds from the sale of the building. Also, the HDFC loaned UMH for various repairs and as of December 31, 2023 and 2022, UMH owed \$49,047 to the HDFC. The total amount owed by UMH to the Corporation and HDFC as of December 31, 2023 and 2022 was \$451,621.

NOTE 7 - PROJECT DEVELOPMENT (CONTINUED)

LESPMHA II L.P.

In connection with the development of a low income housing project at 228-232 East Third Street, which the buildings were owned by LESPMHA II, L.P., the Corporation has advanced funds to LESPMHA II, L.P. Also, the Corporation pays operating expenses on behalf of LESPMHA II, L.P. The total outstanding balances as of December 31, 2023 and 2022 were $605,723 and $565,001, respectively. The Corporation earned a developer's fee in connection with development of the project. The total fee earned for the development of the project was $1,330,000. The Corporation was previously paid $125,000 of these fees and in accordance with the Partnership agreement, $665,000 of the developer's fees owed has been contributed to the Partnership as a capital contribution and is shown as an investment on the accompanying combined financial statements. The balance due from LESPMHA II, L.P. in the amount of $1,145,723 and $1,105,001 in 2023 and 2022 consists of the remaining developer's fees ($540,000) and the funds advanced for development costs ($605,723 in 2023 and $565,001 in 2022). The collection of the amounts due will depend upon various factors including the future cash flows generated by the project.

Diversity Houses L.P.

As of December 31, 2022 and 2021, due from Diversity Houses, L.P. was $862,525, which consist of Developer's fee ($783,879) and the funds advanced for development costs ($78,646). These amounts will be paid based upon the cash flows generated by the project.

Permanence L.P.

The Corporation assisted in the renovation of three buildings located at 189 E 2nd Street, 203 Avenue A and 291 E 4th Street. These buildings are owned by Permanence L.P. The Corporation is the owner of Second and Fourth Street Corp., which is a general partner of Permanence, L.P. The Corporation has earned a developer's fee of $150,000 in connection with the development of the project. In 2007, the Corporation received a portion of this developer's fee in the amount of $37,500. As of December 31, 2023 and 2022, $112,500 was owed by Permanence L.P. for developer's fee. The Corporation contributed in the amount of $71,709,

NOTE 8 - PROJECT DEVELOPMENT (CONTINUED)

Permanence L.P. (Continued)

which was a grant from New York State Energy Research and Development Authority (NYSERDA), to the Partnership as a capital contribution and is shown as an investment on the accompanying combined financial statements.

Garden House III, L.P.

The Corporation sponsored the development of a low income housing project located at 535 E 11th Street. The project is owned by Garden House III, L.P. The Corporation is the owner of Garden House Corp., which is a general partner of Garden House III, L.P. In connection with the construction of the project, the Corporation has advanced funds to Garden House III, L.P. Also, the Corporation pays operating expenses on behalf of Garden House III L.P. As of December 31, 2023 and 2022, the total amount due from Garden House III, L.P. for funds advanced was $361,171 and $276,818 respectively. The Corporation earned the total developer's fee of $469,000 in relation to the development of Garden Houses III, L.P. During 2016, the Corporation also earned an incentive developer's fee of $144,669. As of December 31, 2023 and 2022, $115,000 was owed by Garden House III, L.P. for developer's fee. As of December 31, 2023 and 2022 the total balance owed by Garden House III, L.P. was $476,171 and $391,818 respectively.

LESPMHA Micro HDFC

In 2014, the Corporation earned $50,000 from an affiliate LESPMHA Micro Housing Development Fund Company, Inc.("LMHDFC"). LMHDFC has a memorandum of understanding with 1 MCP LLC("MCP") in connection with the development of affordable housing at 335 East 27th Street, New York, New York. Under this agreement, LMHDFC earned another $50,000, a fee of $6,000 per year (with 3% increase per annum) and fees for work performed in the lease ups and recertifications. In 2023 and 2022, the Corporation earned an annual fee of $7,380 and $7,165, respectively. Fees earned from LMHDFC are included in consulting and other income on the accompanying financial statements.

NOTE 8 - PROJECT DEVELOPMENT (CONTINUED)

Investments in affiliates is as follows:

	2023	2022
LESPMHA II, L.P.	$ 665,000	$ 665,000
Permanence L.P.	71,709	71,709
Garden House III, L.P.	100	100
	$ 736,809	$ 736,809

A summary of the amount due from affiliates is as follows:

	2023	2022
United Mutual Houses L.P.	$ 451,621	$ 451,621
LESPMHA II, L.P.	1,145,723	1,105,001
Diversity Houses, L.P.	862,525	862,525
Permanence L.P.	112,500	112,500
Garden House III, L.P.	476,171	391,818
	$ 3,048,540	$ 2,923,465

NOTE 8 - FAIR VALUE MEASUREMENT

The following are investments that the Corporation holds and the classes and major categories of investments at December 31, 2023 and 2022 grouped by the fair value hierarchy for those investments at fair value on a recurring basis:

	2023	2022
Level 3 Inputs		
Investments in affiliates	$ 736,809	$ 736,809

NOTE 9 - TENANT ASSISTANCE PAYMENTS

Tenant assistance payments consist of amounts received under the Federal Section 8 Program.

NOTE 10 - DUE TO CLINTON HENRY HDFC

The Corporation borrowed $100,000 from Clinton Henry HDFC during the year ended December 31, 2023. This loan is evidence by a note. Interest is not charged on these amounts and the loan matures in May 2025.

NOTE 11 - CONCENTRATION OF CREDIT RISK

The Corporation and HDFC maintain its cash with various financial institutions. 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, 2023 and 2022, the amounts exceeding the FDIC limit were $11,526 and $374,057 respectively. The Corporation and HDFC have not experienced any losses in such accounts. The Corporation and HDFC believe they are not exposed to any significant credit risk on cash.

NOTE 12 - REAL ESTATE TAX

In accordance with the New York City resolution effective Under the same New York City resolution, effective July 1, 2017, the residential portions of the HDFC buildings are being charged for real estate taxes based on an assessed value equal to 2,000 times the number of residential units included in each building and the real estate taxes will increase 3.7% per year until July 1, 2055.

Those buildings with commercial units are also being charged separate real estate taxes for the commercial portion of the buildings. The HDFC charges the commercial tenants for reimbursement of real estate taxes incurred.

NOTE 13 - RIGHT OF USE ASSETS AND LEASE OBLIGATIONS

The Corporation entered into a lease agreement expiring August 2036 with UMH to lease commercial space. During 2021, the annual rent under the lease was $120,000. As of January 1, 2022, the annual rental under the lease was increased to $144,000. Also, the Corporation entered into a lease agreement with LESPMHA II L.P. for the office space in August 2008. The lease expires in August 2038. Under the lease, the annual rental is $22,000.

NOTE 13 - RIGHT OF USE ASSETS AND LEASE OBLIGATIONS

Effective January 1, 2022, the Corporation adopted Accounting Standards Update (ASU) 2016-02, Leases (ASC Topic 842) and subsequent amendments (see Note 2 "Adoption of New Lease Standard") which require the Corporation to recognize right-of-use assets and lease obligations for all leases with a lease term of more than 12 months.

As of December 31, 2023, right-of-use assets and lease liabilities were as follows:

	Total	UMH	LESPMHA II
Right-of-use assets:			
Costs	$2,177,251	$ 1,864,172	$ 313,079
Accumulated Amortization	(259,742)	(227,283)	(32,459)
	$ 1,917,509	$ 1,636,889	$ 280,620
Lease liabilities:			
Current portion	$ 133,308	$ 116,604	$ 16,704
Long-term portion	1,784,201	1,520,285	263,916
	$ 1,917,509	$ 1,636,889	$ 280,620

As of December 31, 2022, right-of-use assets and lease liabilities were as follows:

	Total	UMH	LESPMHA II
Right-of-use assets:			
Costs	$ 2,177,251	$ 1,864,172	$ 313,079
Accumulated Amortization	(128,754)	(112,678)	(16,076)
	$ 2,048,497	$ 1,751,494	$ 297,003
Lease liabilities:			
Current portion	$ 130,988	$ 114,605	$ 16,383
Long-term portion	1,917,509	1,636,889	280,620
	$ 2,048,497	$ 1,751,494	$ 297,003

NOTE 13 - RIGHT OF USE ASSETS AND LEASE OBLIGATIONS (CONTINUED)

A summary of the future minimum lease payments under the lease agreements for each of the next five years and thereafter, reconciled to the lease obligations recorded at December 31, 2023, is as follows:

	Minimum Lease Payments
2024	$ 166,000
2025	166,000
2026	166,000
2027	166,000
2028	166,000
Thereafter	1,316,667
Total	2,146,667
Less present value discount	229,158
Lease obligations recorded at December 31, 2023	1,917,509
Less current portion	133,308
Long-term lease obligations	$ 1,784,201

NOTE 14 - DEFERRED RENT RECEIVABLE AND COMMERCIAL LEASES

The HDFC and the Corporation entered into various commercial lease agreements with third parties. The lease agreements expire at various dates through September 2032. These agreements call for increases in the annual rate depending on the terms of each lease. The deferred rent receivable as of December 31, 2023 and 2022 is $88,614 and $80,166, respectively, and is 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, 2023 are as follows:

NOTE 14 - DEFERRED RENT RECEIVABLE AND COMMERCIAL LEASES (CONTINUED)

	Rental Income
2024	$ 419,130
2025	322,856
2026	199,890
2027	192,181
2028	205,027
Thereafter	409,266
	$ 1,748,350

NOTE 15 - LIQUIDITY

At December 31, 2023, the Corporation and the HDFC has $1,626,443 of liquid assets, consisting of cash of $778,607 and accounts receivable of $847,836 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 and the HDFC in the next 12 months.

In addition, the Corporation and the HDFC may maintain funds in reserve accounts. These funds are used for the benefit of the tenants and/or Corporation and are required by HPD. The funds may be withdrawn only with the approval of HPD. But, 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 and the HDFC in the next 12 months.

The Corporation and the HDFC 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 and the HDFC are expected to be met on a monthly basis from the rents of project units. In general, the Corporation and the HDFC maintains sufficient financial assets on hand to meet 30 days worth of normal operating expenses.

NOTE 16 - FUNCTIONAL EXPENSES

The Corporation provides low-income housing to its tenants and supporting services to low income housing entities. 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 was made on a direct allocation basis.

2023	Program Services	Supporting Services Management and General	Total Expenses
Payroll and benefits	$ 1,859,011	$ 109,877	$ 1,968,888
Insurance	423,988	1,571	425,559
Utilities	771,034	1,748	772,782
Repairs and maintenance	647,287	1,840	649,127
Professional fees	26,269	34,164	60,433
Office expenses	122,941	12,397	135,338
Dues and permits	11,648	-	11,648
Bank charges	-	8,474	8,474
Donations	8,900	-	8,900
Lease expense	163,800	2,200	166,000
Investment expense	-	14,836	14,836
Bad debts	72,370	-	72,370
Real estate taxes	131,698	-	131,698
Interest	5,235	-	5,235
Depreciation	566,330	5,821	572,151
Total	$ 4,810,511	$ 192,928	$ 5,003,439

THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 16 - FUNCTIONAL EXPENSES (CONTINUED)

2022	Program Services	Supporting Services Management and General	Total Expenses
Payroll and benefits	$ 1,915,443	$ 118,102	$ 2,033,545
Insurance	237,197	1,520	238,717
Utilities	796,131	1,592	797,723
Repairs and maintenance	584,058	2,093	586,151
Professional fees	48,774	73,140	121,914
Office expenses	124,060	12,250	136,310
Dues and permits	3,463	-	3,463
Bank charges	-	8,501	8,501
Donations	8,000	-	8,000
Lease expense	163,800	2,200	166,000
Investment expense	-	25,071	25,071
Bad debts	7,989	-	7,989
Real estate taxes	127,440	-	127,440
Interest	5,235	-	5,235
Depreciation	558,673	5,853	564,526
Total	$ 4,580,263	$ 250,322	$ 4,830,585

NOTE 17 - CONTINGENCIES

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

The Corporation and HDFC do 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 and HDFC.

NOTE 18 - CASH AND RESTRICTED CASH

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

	2023	2022
Cash	$ 778,607	$ 1,261,160
Restricted deposits		
Operating reserve	815,840	743,442
Replacement reserve	752,985	699,305
HDC reserve	5,913,776	5,771,848
Tenant security deposit	234,487	226,914
Total Cash and Restricted Cash	$ 8,495,695	$ 8,702,669

Amounts included in operating reserve, replacement reserve, and HDC reserve represent cash portions of these accounts.

NOTE 19 - SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through June 18, 2024, the date the combined financial statements were available to be issued, and concluded that no subsequent events except for the paragraph below have occurred that would require recognition in the combined financial statements or disclosure in the notes to combined financial statements.

SUPPLEMENTARY INFORMATION

THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
COMBINED SCHEDULES OF CERTAIN EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Salaries and Related Expenses		
Executive director	$ 95,898	$ 95,235
Property manager and assistant	222,412	232,184
Other office salaries	422,798	457,100
Superintendents	280,298	315,862
Porters and painters	332,341	322,184
Temporary help	809	135
Payroll taxes	112,564	117,555
Workers compensation	27,387	27,744
Health insurance	474,381	465,546
Total Salaries and Related Expenses	$ 1,968,888	$ 2,033,545
General and Administrative		
Telephone	$ 23,863	$ 22,971
Office expenses	45,035	50,432
Computer expenses	50,408	46,077
Legal fees	24,314	69,486
Accounting fees	27,600	26,950
Miscellaneous	13,472	16,266
Dues and permits	11,648	3,463
Bad Debt	72,370	7,989
Bank charges	8,474	8,501
Investment expense	14,836	25,071
Tenant activities	2,560	-
Lease expense, operating lease	166,000	166,000
Consulting	8,519	26,043
Donations	8,900	8,000
Total General and Administrative	$ 477,999	$ 477,249

See independent auditor’s report.

**THE LOWER EAST SIDE PEOPLE'S
MUTUAL HOUSING ASSOCIATION, INC. AND AFFILIATE
COMBINED SCHEDULES OF CERTAIN EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Maintenance and Operations		
Insurance	$ 425,559	$ 238,717
Utilities and fuel	489,465	497,724
Repairs and maintenance	548,141	495,770
Cleaning and maintenance supplies	84,472	73,853
Water and sewer	283,317	299,999
Exterminating	16,514	16,527
Total Maintenance and Operations	$ 1,847,468	$ 1,622,590

See independent auditor's report.