

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES

Combined Financial Statements
and Supplemental Information

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEPP Management Company, Inc. and SEPP, Inc.:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of SEPP Management Company, Inc. and SEPP, Inc. and Subsidiaries (collectively referred to as the Organization), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities and cash flows for the year then ended, and the related notes to combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of SEPP Management Company, Inc. and SEPP, Inc. and Subsidiaries as of June 30, 2020, and the combined changes in their net assets (deficit) and their combined cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2019 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated October 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part 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 our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 22, 2020

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Combined Statement of Financial Position
June 30, 2020
with comparative totals for 2019

<u>Assets</u>	SEPP, Inc. and Subsidiaries	SEPP Management Company, Inc.	Eliminations	<u>Total</u>	
				<u>2020</u>	<u>2019</u>
Current assets:					
Cash - general operating	\$ 621,387	461,211	-	1,082,598	582,155
Investments	1,135,791	-	-	1,135,791	1,065,963
Receivables	-	195,755	(113,558)	82,197	43,753
Due from related parties	95,964	5,510	-	101,474	68,795
Prepaid expenses	94,191	9,287	-	103,478	127,410
Total current assets	<u>1,947,333</u>	<u>671,763</u>	<u>(113,558)</u>	<u>2,505,538</u>	<u>1,888,076</u>
Notes receivable - related parties, less allowance of \$900,000 in 2020 and 2019	<u>111,500</u>	-	-	<u>111,500</u>	<u>111,500</u>
Restricted deposits:					
Tenants' security deposits	127,138	-	-	127,138	123,857
Tax and insurance escrow	247,624	-	-	247,624	233,564
Operating reserve	185,916	-	-	185,916	187,290
Mortgage insurance premium escrow	16,596	-	-	16,596	19,972
Reserve for replacements	666,472	-	-	666,472	733,489
Residual receipts	43,195	-	-	43,195	45,483
Total restricted deposits	<u>1,286,941</u>	-	-	<u>1,286,941</u>	<u>1,343,655</u>
Property and equipment, at cost:					
Land	577,421	-	-	577,421	577,421
Buildings and improvements	21,668,323	707,958	-	22,376,281	22,107,056
Furniture and equipment	1,505,164	199,344	-	1,704,508	1,677,951
Vehicles	18,336	29,286	-	47,622	36,249
	23,769,244	936,588	-	24,705,832	24,398,677
Less accumulated depreciation	<u>(17,061,295)</u>	<u>(429,186)</u>	-	<u>(17,490,481)</u>	<u>(17,035,955)</u>
Net property and equipment	<u>6,707,949</u>	<u>507,402</u>	-	<u>7,215,351</u>	<u>7,362,722</u>
Other assets:					
Investment in SEPP Nichols, Inc.	357,523	-	-	357,523	357,543
Investment in SEPP Windsor Holding Company, LLC	-	-	-	-	27,675
Investment in SEPP Development Fund Corporation	-	10,000	-	10,000	10,000
Investment in Hamilton House Holding Company, LLC	30,100	-	-	30,100	-
Total other assets	<u>387,623</u>	<u>10,000</u>	-	<u>397,623</u>	<u>395,218</u>
Total assets	<u>\$ 10,441,346</u>	<u>1,189,165</u>	<u>(113,558)</u>	<u>11,516,953</u>	<u>11,101,171</u>

(Continued)

See accompanying notes to combined financial statements.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Combined Statement of Financial Position, Continued

<u>Liabilities and Net Assets</u>	<u>SEPP, Inc. and Subsidiaries</u>	<u>SEPP Management Company, Inc.</u>	<u>Eliminations</u>	<u>Total</u>	
				<u>2020</u>	<u>2019</u>
Current liabilities:					
Accounts payable	\$ 285,091	23,420	(113,558)	194,953	169,128
Accrued expenses	42,174	59,411	-	101,585	90,558
Deferred revenue	9,668	36,539	-	46,207	59,651
Current installments of mortgages payable	<u>207,871</u>	<u>-</u>	<u>-</u>	<u>207,871</u>	<u>190,844</u>
Total current liabilities	544,804	119,370	(113,558)	550,616	510,181
Tenants' security deposits	127,138	-	-	127,138	123,857
Loans from related party	68,500	-	-	68,500	68,500
Promissory note - payroll protection program	-	184,335	-	184,335	-
Mortgages payable, excluding current installments	10,175,442	-	-	10,175,442	10,383,313
Debt issuance costs	<u>(142,347)</u>	<u>-</u>	<u>-</u>	<u>(142,347)</u>	<u>(148,986)</u>
Mortgages payable, excluding current installments and unamortized debt issuance costs	<u>10,033,095</u>	<u>-</u>	<u>-</u>	<u>10,033,095</u>	<u>10,234,327</u>
Total liabilities	10,773,537	303,705	(113,558)	10,963,684	10,936,865
Net assets (deficit) without donor restrictions	<u>(332,191)</u>	<u>885,460</u>	<u>-</u>	<u>553,269</u>	<u>164,306</u>
Total liabilities and net assets	<u>\$ 10,441,346</u>	<u>1,189,165</u>	<u>(113,558)</u>	<u>11,516,953</u>	<u>11,101,171</u>

See accompanying notes to combined financial statements.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Combined Statement of Activities
Year ended June 30, 2020
with comparative totals for 2019

	SEPP, Inc. and Subsidiaries	SEPP Management Company, Inc.	Eliminations	Total	
				<u>2020</u>	<u>2019</u>
Revenue:					
Contributions	\$ 88,305	88,305	(88,305)	88,305	88,305
Rental revenue	3,026,603	72,960	-	3,099,563	2,616,278
Donation of building	-	-	-	-	350,000
Management fees	-	339,856	(188,991)	150,865	146,138
Laundry and exterminating income	14,932	60,856	(11,018)	64,770	64,486
Return to owner	29,192	-	-	29,192	9,006
Investment income	70,896	583	-	71,479	66,796
Gain on disposal of property and equipment	-	5,000	-	5,000	-
Other revenue	41,197	167,499	-	208,696	211,298
Total revenue	<u>3,271,125</u>	<u>735,059</u>	<u>(288,314)</u>	<u>3,717,870</u>	<u>3,552,307</u>
Expenses:					
Administrative	842,629	551,084	(288,314)	1,105,399	1,020,703
Utilities	238,063	40,203	-	278,266	262,406
Maintenance and operating	732,087	17,787	-	749,874	694,821
Taxes and insurance	237,122	32,623	-	269,745	272,851
Financial	367,785	-	-	367,785	384,434
Development expense	30,780	-	-	30,780	-
Loss on investment in partnerships	27,695	-	-	27,695	4,580
Other	-	26,923	-	26,923	25,370
Total expenses	<u>2,476,161</u>	<u>668,620</u>	<u>(288,314)</u>	<u>2,856,467</u>	<u>2,665,165</u>
Change in net assets (deficit) before depreciation	794,964	66,439	-	861,403	887,142
Depreciation	<u>(446,295)</u>	<u>(26,145)</u>	<u>-</u>	<u>(472,440)</u>	<u>(489,729)</u>
Change in net assets (deficit) without donor restrictions	348,669	40,294	-	388,963	397,413
Net assets (deficit) without donor restrictions at beginning of year	(680,860)	845,166	-	164,306	67,622
Transfer of net assets (deficit) without donor restrictions	-	-	-	-	(300,729)
Net assets (deficit) without donor restrictions at end of year	<u>\$ (332,191)</u>	<u>885,460</u>	<u>-</u>	<u>553,269</u>	<u>164,306</u>

See accompanying notes to combined financial statements.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Combined Statement of Cash Flows
Year ended June 30, 2020
with comparative totals for 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ 388,963	397,413
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	472,440	436,527
Amortization of debt issuance costs	6,639	10,323
Unrealized and realized gain on investments	(28,977)	(52,336)
Donation of property and equipment	-	(350,000)
Gain on disposal of property and equipment	(5,000)	-
Changes in:		
Receivables	(38,444)	(8,597)
Due from related parties	(32,679)	9,635
Prepaid expenses	23,932	(20,579)
Accounts payable	50,917	(33,039)
Accrued expenses	11,027	6,656
Deferred revenue	(13,444)	21,064
Net cash provided by operating activities	<u>835,374</u>	<u>417,067</u>
Cash flows from investing activities:		
Purchase of investments	(40,851)	(10,983)
Additions to property and equipment	(345,161)	(648,737)
Decrease in investment in SEPP Nichols, Inc.	20	4,580
(Increase) decrease in investments in SEPP Windsor Holding Company, LLC	27,675	(3,210)
Increase in investments in SEPP Hamilton House Holding Company, LLC	(30,100)	-
Net cash used in investing activities	<u>(388,417)</u>	<u>(658,350)</u>
Cash flows from financing activities:		
Increase in loans from related party	-	68,500
Repayment of mortgages payable	(190,844)	(176,839)
Proceeds from promissory note - payroll protection program	184,335	-
Net cash used in financing activities	<u>(6,509)</u>	<u>(108,339)</u>
Net change in cash and equivalents	440,448	(349,622)
Transfer of cash and equivalents	-	29,931
Cash and equivalents at beginning of year	<u>1,801,953</u>	<u>2,121,644</u>
Cash and equivalents at end of year	<u>\$ 2,242,401</u>	<u>1,801,953</u>

(Continued)

See accompanying notes to combined financial statements.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Combined Statement of Cash Flows Continued

	<u>2020</u>	<u>2019</u>
Supplemental schedule of cash flow information:		
Cash paid during the year for interest	\$ 332,243	345,451
Property and equipment financed by accounts payable	\$ -	8,926
Disposal of fully depreciated property and equipment	\$ 17,913	-
Classification of cash and equivalents:		
Operations	1,082,598	582,155
Tax and insurance escrow	247,624	233,564
Operating reserve	185,916	187,290
Mortgage insurance premium escrow	16,596	19,972
Reserve for replacements	666,472	733,489
Residual receipts	43,195	45,483
	<u>\$ 2,242,401</u>	<u>1,801,953</u>
Supplemental schedule of non-cash operating activities - transferred from Windsor Housing Company I, L.P.:		
Net assets	-	(356,068)
Prepaid expenses	-	(6,264)
Restricted deposits	-	(99,170)
Property and equipment	-	(2,027,439)
Accumulated depreciation	-	1,534,594
Accounts payable	-	7,733
Accrued expenses	-	2,199
Mortgage payable	-	974,346
	<u>\$ -</u>	<u>29,931</u>

See accompanying notes to combined financial statements.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES

Notes to Combined Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies

(a) Organization

The Organization is composed of affiliated entities which are described as follows:

SEPP, Inc. - SEPP, Inc. is a not-for-profit neighborhood preservation agency established to promote revitalization activities in designated neighborhoods in New York State, to provide funding in the form of grants, and to provide technical assistance.

SEPP Management Company, Inc. - SEPP Management Company, Inc. serves as the managing agent for ten housing projects. SEPP Management Company, Inc. is related to SEPP, Inc. through common directors.

Marian Apartments - Marian Apartments (Marian) is a corporation formed to acquire an interest in real property located in Endwell, New York and to construct and operate thereon an apartment complex of 102 units. Marian is operated under Section 231 of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. Marian is wholly owned by SEPP, Inc.

Kime Apartments Corporation - Kime Apartments Corporation (Kime) was formed on May 21, 1984 as a not-for-profit corporation to acquire an interest in real property located in Great Bend, Pennsylvania and to construct and operate thereon an apartment complex of 50 units. The project is operated under Section 202 of the National Housing Act and regulated by HUD with respect to rental charges and operating methods. Kime is related to the Organization through common directors.

SEPP Rural Elderly Housing, Inc. d/b/a Whitney Point Apartments - SEPP Rural Elderly Housing, Inc. d/b/a Whitney Point Apartments (Whitney) was organized in 1990 to develop, construct, own, maintain and operate a 24-unit rental housing project for persons of low and moderate income. The major activities of Whitney are governed by Rural Development (RD). Whitney is related to the Organization through common directors.

SEPP Housing Development Fund Corporation d/b/a Wells Apartments - SEPP Housing Development Fund Corporation d/b/a Wells Apartments (Wells) was formed on July 27, 1987 as a not-for-profit corporation to acquire an interest in real property located in Johnson City, New York and to construct and operate thereon an apartment complex of 50 units. The project is operated under Section 202 of the National Housing Act and regulated by HUD with respect to rental charges and operating methods. Wells is related to the Organization through common directors.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(a) Organization, Continued

Creamery Hills, L.P. - Creamery Hills, L.P. (Creamery) was organized in 1996 as a limited partnership to own, develop, rehabilitate, maintain and operate a 24-unit rental housing project for persons of low and moderate income. The project is located in the Town of Harford, New York. The major activities of Creamery are governed by the partnership agreement and New York State Division of Housing and Community Renewal (DHCR). Creamery is wholly owned by SEPP, Inc.

Cardinal Cove, L.P. - Cardinal Cove, L.P. (Cardinal Cove) was organized in 2015 as a limited partnership to own, develop, rehabilitate, maintain and operate a 50-unit rental project for persons of low and moderate income. The project is located in the Town of Union, New York. SEPP Cardinal Cove, Inc. is one of the general partners in Cardinal Cove. SEPP Cardinal Cove, Inc. is wholly owned by SEPP, Inc.

Watkins Glen Apartments Company I, L.P. - Watkins Glen Apartments Company I, L.P. (Watkins Glen) was organized in 2015 as a limited partnership to own, develop, rehabilitate, maintain and operate a 51-unit rental project for persons of low and moderate income. The project is located in the Village of Watkins Glen, New York. SEPP Watkins Glen, Inc. is one of the general partners in Watkins Glen. SEPP Watkins Glen, Inc. is wholly owned by SEPP, Inc.

Nichols Notch Apartments Company I, L.P. - Nichols Notch Apartments Company I, L.P. (Nichols Notch) was organized in 2002 as a limited partnership to develop, construct, own, maintain and operate a 57-unit rental housing project for persons of low and moderate income. The project is located in the Village of Endicott, New York and is currently known as Nichols Notch Apartments. The major activities of Nichols Notch are governed by the partnership agreement and New York State Housing Trust Fund Corporation (HTFC). Nichols Notch is wholly owned by SEPP, Inc.

Windsor Housing Company I, L.P. - Windsor Housing Company I, L.P. (Windsor Housing) was organized in 1997 as a limited partnership to develop, construct, own, maintain and operate a 24-unit rental housing project for persons of low and moderate income pursuant to Sections 515(b) and 521 of the Housing Act of 1949, as amended, and Article XVII-A of the New York State Private Housing Financing Law which provides for interest and rental subsidies. The project is located in Windsor, New York and is currently known as Windsor Woods Apartments. The major activities of Windsor Housing are governed by the partnership agreement, Rural Development (RD) and New York State Housing Trust Fund Corporation (HTFC). Windsor Housing is 99.5% owned by SEPP, Inc.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(a) Organization, Continued

Hamilton House Apartments Company I, L.P. - Hamilton House Apartments Company I, L.P. (Hamilton House) was organized in 1998 as a limited partnership to develop, construct, own, maintain and operate a 37-unit rental housing project for persons of low and moderate income. The project is located in Binghamton, New York and is currently known as Hamilton House Apartments. The major activities of the Partnership are governed by the partnership agreement and New York State Housing Trust Fund Corporation (HTFC). Effective June 18, 2020, SEPP, Inc. purchased the limited partner's interest in Hamilton House. Hamilton House is 99.51% owned by SEPP, Inc.

Fairmont Park Apartments, L.P. - Fairmont Park Apartments, L.P. (Fairmont Park) was organized in June 2020 as a limited partnership to own, develop, rehabilitate, maintain and operate a 34-unit rental project for persons of low and moderate income. The project is located in the Town of Union. SEPP Fairmont Park, Inc. is one of the general partners in Fairmont Park. SEPP Fairmont Park, Inc. is wholly owned by SEPP, Inc.

(b) Principles of Combination

The accompanying combined financial statements reflect the combination of the individual financial statements. All significant intercompany accounts and transactions have been eliminated in the combination. The year end of Creamery Hills, L.P, Nichols Notch Apartments Company I, L.P and Windsor Housing Company I, L.P is December 31. The financial information as of December 31, 2019 is combined in these financial statements. Management has determined most of the effects of the difference in year end is immaterial.

(c) Basis of Accounting

The combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(d) Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions represents resources available for the general support of the Organization's activities. Net assets with donor restrictions are those whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Organization. The Organization had only net assets without donor restrictions in 2020 and 2019.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Estimates

The preparation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(f) Cash and Equivalents

For purposes of the combined statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(g) Concentrations

At times, the Organization's cash and equivalents may exceed federally insured limits. At June 30, 2020 and 2019, the Organization's cash balances were in excess of the insurable limit. The Organization monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions.

(h) Investments

Investments are reported at their fair values based on quoted market prices. Realized and unrealized gains and losses are included in the combined statement of activities as changes in net assets without donor restrictions.

(i) Receivables

The Organization records accounts receivable based on services provided. Interest income is not accrued or recorded on outstanding amounts.

(j) Capitalization and Depreciation

Property and equipment are recorded at cost or fair market value at the date of the gift in the case of donated equipment. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of equipment are recorded as unrestricted support. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property and equipment, the appropriate property and equipment accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the combined statement of activities.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Long-Lived Assets

The Organization reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the asset's carrying value over its estimated fair value. At June 30, 2020 and 2019, no impairment loss has been recognized by the Organization.

(l) Debt Issuance Costs

Debt issuance costs, which represent the cost of obtaining certain financing, net of accumulated amortization, are being amortized on the straight-line method over the term of the debt and are reported as a direct deduction from the face amount of the mortgage payable to which such costs relate. Amortization expense amounted to \$16,639 and \$10,323 for the years ended June 30, 2020 and 2019, respectively, and is included as a component of interest expense on the combined statement of activities.

(m) Rental Income

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

(n) Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

(o) Subsequent Events

The Organization has evaluated subsequent events through the date of the report which is the date the combined financial statements were available to be issued.

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences of the COVID-19 on a national, regional and local level are unknown, but has the potential to result in a significant economic impact. The impact of this situation on the Organization and its future results and financial position is not presently determinable.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(p) Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code); therefore, no provision for income taxes is reflected in the combined financial statements. The Organization has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The Organization presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the Organization has taken no uncertain tax positions that require adjustment in its combined financial statements. U.S. Forms 990 filed by the Organization are subject to examination by taxing authorities.

(q) Recent Accounting Standards Issued

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, "Statement of Cash Flows - Restricted Cash." The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years beginning after December 15, 2018. These combined financial statements and notes reflect adoption of this new standard.

In June 2018, the FASB issued ASU 2018-08, "Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made." ASU 2018-08 provides clarification for determining if grants and contracts should be considered contributions or exchange transactions, as well as guidance for determining if a contribution is conditional. This guidance is effective for fiscal years beginning after December 15, 2018. These combined financial statements and notes reflect adoption of this new standard.

(r) Reclassifications

Reclassifications have been made to certain 2019 balances in order to conform them to the 2020 presentation.

(2) Liquidity

The Organization has \$1,164,795 of financial assets available within one year of the combined statement of financial position date to meet cash needs for general expenditures, consisting of \$1,082,598 of cash and \$82,197 of receivables. None of these financial assets are subject to donor or contractual restrictions that make them unavailable for general expenditure within one year of the 2020 combined statement of financial position. Additionally, the Organization has available \$1,135,791 in investments at June 30, 2020, however use of the investments for operating purposes is subject to approval by the Board of Directors. As more fully described in note 8, the Organization has a line of credit of \$50,000, which can be drawn upon in the event of an unanticipated liquidity need.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(3) Notes Receivable - Related Parties

Notes receivable - related parties at June 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
13.25% note receivable from SEPP Development Corporation. Interest only is due on January 1 st of each year. Payment of the outstanding principal balance and accrued interest, shall be due upon demand.	\$ 111,500	111,500
1% note receivable from Watkins Glen Apartments Company I, L.P. Payment of the outstanding principal balance and accrued interest, shall be due March 1, 2047.	<u>900,000</u>	<u>900,000</u>
	1,011,500	1,011,500
Less allowance for doubtful accounts	<u>(900,000)</u>	<u>(900,000)</u>
Total notes receivable - related parties	\$ <u>111,500</u>	<u>111,500</u>

(4) Investments

The following tables set forth the Organization's investments at fair value by level type, within the fair value hierarchy, as of June 30, 2020 and 2019.

		2020			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$	28,605	-	-	28,605
U.S. Government securities		142,579	-	-	142,579
Common stocks		482,282	-	-	482,282
Corporate fixed income		-	59,444	-	59,444
Mutual funds		<u>422,881</u>	<u>-</u>	<u>-</u>	<u>422,881</u>
	\$	<u>1,076,347</u>	<u>59,444</u>	<u>-</u>	<u>1,135,791</u>
		2019			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$	16,284	-	-	16,284
U.S. Government securities		112,354	-	-	112,354
Common stocks		374,482	-	-	374,482
Corporate fixed income		-	44,296	-	44,296
Mutual funds		<u>518,547</u>	<u>-</u>	<u>-</u>	<u>518,547</u>
	\$	<u>1,021,667</u>	<u>44,296</u>	<u>-</u>	<u>1,065,963</u>

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(4) Investments, Continued

Financial Instruments

Investments in marketable securities at June 30, 2020 and 2019 are stated at fair value. In accordance with the policy of carrying investments at fair value, the change in the net unrealized appreciation or depreciation is included in the combined statement of activities. A summary of investment income for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 42,502	14,460
Realized gain on investments	10,006	986
Unrealized gain on investments	<u>18,971</u>	<u>51,350</u>
Total investment income	\$ <u>71,479</u>	<u>66,796</u>

Fair Value Measurements

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(4) Investments, Continued

Fair Value Measurements, Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

- Common stocks - Valued at the closing price reported on the active market on which the individual securities are traded.
- Mutual funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.
- U.S. Government securities - Valued using pricing models maximizing the use of observable inputs for similar securities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(5) Investment in Partnerships

SEPP Harry L., Inc. is the general partner of Harry L. Apartments Company I, Limited Partnership (0.01%). SEPP Inc. is one of the general partners of Hamilton House Apartments Company I, Limited Partnership (0.005%). SEPP Cardinal Cove, Inc. is one of the general partners of Cardinal Cove, L.P. (0.0051%), SEPP Watkins Glen, Inc. is one of the general partners in Watkins Glen Apartments Company I, L.P. (0.0051%). SEPP Harry L., Inc., SEPP Nichols, Inc., SEPP Cardinal Cove, Inc. and SEPP Watkins Glen, Inc. have the same Board members as SEPP, Inc. These investments have been recorded using the equity method of accounting. Under the equity method, the investment in Harry L. Apartments Company I, L.P., Hamilton House Apartments Company I, Limited Partnership, Cardinal Cove, L.P. and Watkins Glen Apartments Company I, L.P. has been reduced to zero. The Organization discontinues recording its share of losses in the partnership once its investment in the partnerships is reduced to zero.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(5) Investment in Partnerships, Continued

The financial position as of December 31, 2019 and results of operations of the partnerships for the year ended December 31, 2019 are summarized as follows:

	Harry L. Apartments Company I, L.P.	Hamilton House Apartments Company I, L.P.	Cardinal Cove, L.P.	Watkins Glen Apartments Company I, L.P.
Current assets	\$ 72,149	32,155	67,182	72,686
Current liabilities	<u>(39,282)</u>	<u>(140,834)</u>	<u>(109,793)</u>	<u>(107,790)</u>
Working capital	32,867	(108,679)	(42,611)	(35,104)
Restricted deposits	450,136	239,320	330,670	425,052
Property and equipment, net	6,177,491	1,431,465	10,889,438	11,971,309
Other assets	-	-	35,000	25,000
Long-term debt	(2,335,174)	(1,768,467)	(6,399,292)	(4,515,339)
Other liabilities	<u>(346,969)</u>	<u>(73,560)</u>	<u>(26,335)</u>	<u>(28,053)</u>
Partners' equity (deficit)	\$ <u>3,978,351</u>	<u>(279,921)</u>	<u>(4,786,870)</u>	<u>(7,842,865)</u>
Gross income	\$ <u>420,795</u>	<u>235,414</u>	<u>305,946</u>	<u>430,370</u>
Net loss	\$ <u>(188,571)</u>	<u>(127,236)</u>	<u>(468,827)</u>	<u>(326,226)</u>

(6) Mortgages Payable

Mortgages payable at June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Whitney Point Apartments is financed by a 50-year mortgage payable to RD. The Corporation has entered into an interest subsidy agreement with RD which effectively reduces the interest rate to approximately 1% over the term of the loan. The 8.75% mortgage is payable in monthly installments of \$7,051, net of the interest subsidy, through the year 2040. During 2020 and 2019 the interest subsidy payments of \$60,111, have been treated as a reduction of interest expense. The apartment project is pledged as collateral for the mortgage.	\$ 794,220	808,647
Creamery Hills, L.P. is financed by a 7.65% mortgage payable in monthly installments of \$4,314, including principal and interest. The apartment project is pledged as collateral for the mortgage. The mortgage loan is nonrecourse debt secured by deeds of trust of the related real estate.	345,038	369,025

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES

Notes to Combined Financial Statements, Continued

(6) Mortgages Payable, Continued

	<u>2020</u>	<u>2019</u>
Wells Apartments is indebted under a mortgage loan agreement in the original amount of \$2,246,900 under a HUD-insured loan agreement which bears interest at 4.35%. The note is secured by deeds of trust on the property and equipment and was payable in level monthly installments (principle and interest) of \$10,426 through June 2049. The original mortgage loan agreement was modified by the lender and approved by HUD on February 1, 2020. The interest rate was reduced to 3.98% and effective March 1, 2020, the note is payable in level monthly installments (principle and interest) of \$9,981 through June 2049.	\$ 2,061,813	2,097,158
Kime Apartments is indebted under a mortgage loan agreement in the amount of \$2,441,800 under a HUD-insured loan agreement which bears interest at 3.95%. The note is secured by deeds of trust on the property and equipment and is payable in level monthly installments (principle and interest) of \$10,739 through February 2051.	2,288,887	2,326,528
Marian Apartments is financed by a mortgage payable to Midland Loan with an original balance of \$1,974,000 payable in monthly installments of \$13,360 including principal and interest at a rate of 6.22% through year 2031.	1,307,301	1,384,054
Nichols Notch Apartments Company I, L.P. is financed by a 1% mortgage note payable to HTFC. The entire principal balance is due and payable in full on June 4, 2034, the thirtieth anniversary of the date of execution of the mortgage note. Interest is payable annually and shall be paid from excess income as defined in the regulatory agreement. Accrued interest amounted to \$20,000 for the years ended December 31, 2019 and 2018.	2,000,000	2,000,000
Nichols Notch Apartments Company I, L.P. is obligated under the terms of a note from SEPP, Inc. (FHLB loan). The lender has provided the note under the terms of the Affordable Housing Program (AHP) Direct Subsidy Agreement with the Federal Home Loan Bank of New York and M&T Bank. The note is non-interest bearing.	614,399	614,399

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES

Notes to Combined Financial Statements, Continued

(6) Mortgages Payable, Continued

	<u>2020</u>	<u>2019</u>
Windsor Apartments original thirty-year first mortgage note is payable to RD in the amount of \$284,420, with interest at the rate of 7.25%. The Partnership has entered into an interest subsidy agreement with RD which effectively reduces the interest rate to approximately 1% over the term of the loan. The mortgage is payable in monthly installments (calculated based on an amortization period of thirty-six years) of \$1,766, net of the interest subsidy, through the year 2033, at which time the entire unpaid interest and principal is due and payable in full. During 2019 and 2018, the interest subsidy payments of \$13,955 have been treated as a reduction of interest expense. Accrued interest payable amounted to \$367 and \$399 at December 31, 2019 and 2018, respectively.	\$ 253,468	256,159
Windsor Apartments original second mortgage note is payable to HTFC, with interest at the rate of 1%. The entire balance is due and payable in full in January 2047, the fiftieth anniversary of the date of execution of the mortgage note. Interest is payable annually and shall be paid from excess income prior to distribution of any return of equity, each as defined in the regulatory agreement. There was no accrued interest payable at December 31, 2019 and 2018.	<u>718,187</u>	<u>718,187</u>
Mortgages payable	10,383,313	10,574,157
Less current installments	<u>(207,871)</u>	<u>(190,844)</u>
Mortgages payable, excluding current installments	10,175,442	10,383,313
Less unamortized debt issuance costs	<u>(142,347)</u>	<u>(148,986)</u>
Mortgages payable, excluding current installments and unamortized debt issuance costs	\$ <u>10,033,095</u>	<u>10,234,327</u>

The aggregate maturity of the mortgages payable for the five years following June 30, 2020 and thereafter is as follows:

2021	\$ 207,871
2022	220,336
2023	233,527
2024	247,573
2025	261,957
Thereafter	<u>9,212,049</u>
	\$ <u>10,383,313</u>

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(7) Promissory Note - Paycheck Protection Program

On April 15, 2020, the Organization received a Small Business Association (SBA) loan under the CARES Act in the amount of \$184,335 with a 1% interest rate.

The Organization must pay monthly principal and interest payments on the outstanding principal balance of the loan amortized over the term of the loan, unless otherwise forgiven in whole or part in accordance with the CARES Act as described below, beginning seven months from the month this note is dated until April 15, 2022 (the maturity date) when the entire principal balance remaining unpaid, along with all accrued and unpaid interest, shall be due and payable in full. Payments of principal and interest must be made on such date as designated by the lender in the months they are due.

Pursuant to the terms of the CARES Act and any implementing rules and regulations, the Organization may apply for the loan to be forgiven by the SBA in whole or in part beginning no sooner than seven (7) weeks from the date of the note. Any loan balance remaining following forgiveness by the SBA will be fully reamortized over the remaining term of the loan. The entire principal balance remaining unpaid, along with all accrued and unpaid interest, shall be due and payable on the maturity date. If there is a default without notice or demand an without giving up any of its rights, lender may require immediate payment of all amounts owing under this note; collect all amounts owing from any borrower; or file suit and obtain judgment.

(8) Line of Credit

SEPP, Inc. has available a bank line of credit up to \$50,000. At June 30, 2020 and 2019, there was no outstanding balance on this line of credit. Interest on the line of credit is at prime plus 1.75% (5.25% at June 30, 2020).

(9) Functional Expenses

The Organization is a neighborhood preservation agency that promotes revitalization activities in designed neighborhoods. The Organization also serves as the managing agent for ten housing projects. All expenses related to providing these services have been allocated to program services with the exception of certain components within administrative and taxes and insurance expense. Salaries and benefits are allocated among program and support services based on time and effort. Office and miscellaneous expenses are allocated based on direct usage. The allocation of expenses on a functional basis for the years ended June 30, 2020 and 2019 is as follows:

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(9) Functional Expenses, Continued

	<u>2020</u>	<u>2019</u>
Program services:		
Utilities	\$ 278,266	262,406
Maintenance and operating	749,874	694,821
Financial	367,785	384,434
Taxes and insurance	269,745	272,851
Other	85,398	29,950
Depreciation	<u>472,440</u>	<u>489,729</u>
Total program services	2,223,508	2,134,191
Support services - management and general activities - administrative	<u>1,105,399</u>	<u>1,020,703</u>
Total expenses	\$ <u>3,328,907</u>	<u>3,154,894</u>

(10) Related Parties Transactions

SEPP Management Company, Inc. serves as the managing agent for ten housing projects which have the same directors as the Corporation. The housing projects pay management fees based upon a set percentage of their gross rents and other receipts. During the years ended June 30, 2020 and 2019, total management fees amounted to \$339,856 and \$296,452, respectively. The housing projects also pay bookkeeping fees equal to a fee per unit. During the years ended June 30, 2020 and 2019, total bookkeeping fees, which are included in other revenue on the accompanying combined statement of activities, amounted to \$28,587 and \$30,447, respectively.

During the years ended June 30, 2020 and 2019, SEPP Management Company, Inc. also served as the exterminating agent and the laundry machine agent for the nine related housing projects. Total service fees from the related parties for the years ended June 30, 2020 and 2019 was \$60,856 and \$61,200, respectively.

SEPP, Inc. has a note receivable from SEPP Development Corporation in the amount of \$111,500 as of June 30, 2020 and 2019 (note 3). Also, SEPP, Inc. has a note receivable from Watkins Glen Apartments Company I, L.P. in the amount of \$900,000 as of June 30, 2020 and 2019 (note 3).

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Notes to Combined Financial Statements, Continued

(11) Retirement Plan

The Organization sponsors a 403(b) retirement savings plan. Employees are eligible who are at least 21 years of age, and have completed one year or at least 1,000 hours of service. Employees are 100% vested upon entrance into the plan. Employee contributions to the plan range from 1% to 15% of compensation. The Organization will contribute 2% of compensation and, in addition will match \$.50 of each dollar, up to the first 4% of pay deferral. The Organization paid \$24,694 and \$22,739 as of June 30, 2020 and 2019, respectively, into the plan.

(12) Compensated Absences

The employment contracts between SEPP Management Company, Inc. and its full-time employees allow for various cumulative and non-cumulative compensated leaves. Part-time employees earn personal and holiday time. Full-time employees earn vacation leave per year based upon length of employment. Employees may carry a specified amount of vacation leave to the next year. Therefore a liability of \$33,083 and \$26,737 is recorded as of June 30, 2020 and 2019, respectively. Sick leave is earned and may not be accumulated, but is not earned as compensation upon termination; therefore no liability is recorded as of June 30, 2020 and 2019.

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Consolidating Statement of Financial Position - SEPP, Inc. and Subsidiaries
June 30, 2020

<u>Assets</u>	SEPP, <u>Inc.</u>	Marian <u>Apartments</u>	Creamery Hills, <u>L.P.</u>	Kime Apartments <u>Corporation</u>	Wells <u>Apartments</u>	Whitney Point <u>Apartments</u>	Nichols Notch Apartments <u>Company I, L.P.</u>	Windsor Housing <u>Company I, L.P.</u>	<u>Total</u>
Current assets:									
Cash - general operating	\$ 12,928	443,502	5,143	7,136	42,552	41,271	28,220	40,635	621,387
Investments	1,135,791	-	-	-	-	-	-	-	1,135,791
Due from related parties	95,659	-	-	-	-	305	-	-	95,964
Prepaid expenses	-	36,644	13,638	4,482	2,537	11,476	18,495	6,919	94,191
Total current assets	<u>1,244,378</u>	<u>480,146</u>	<u>18,781</u>	<u>11,618</u>	<u>45,089</u>	<u>53,052</u>	<u>46,715</u>	<u>47,554</u>	<u>1,947,333</u>
Notes receivable - related parties, less allowance of \$900,000	<u>111,500</u>	-	-	-	-	-	-	-	<u>111,500</u>
Restricted deposits:									
Tenants' security deposits	-	31,064	14,756	12,298	14,140	12,899	26,905	15,076	127,138
Tax and insurance escrow	-	14,801	21,892	38,052	15,922	16,955	131,664	8,338	247,624
Operating reserve	-	-	-	-	-	-	185,916	-	185,916
Mortgage insurance premium escrow	-	4,562	-	4,054	7,980	-	-	-	16,596
Reserve for replacements	-	149,407	14,087	76,419	131,437	70,741	151,087	73,294	666,472
Residual receipts	-	25,511	-	-	17,684	-	-	-	43,195
Total restricted deposits	<u>-</u>	<u>225,345</u>	<u>50,735</u>	<u>130,823</u>	<u>187,163</u>	<u>100,595</u>	<u>495,572</u>	<u>96,708</u>	<u>1,286,941</u>
Property and equipment, at cost:									
Land	-	20,943	-	74,505	168,009	31,300	250,000	32,664	577,421
Buildings and improvements	-	5,384,677	1,475,883	2,997,319	2,546,566	1,141,017	6,438,029	1,684,832	21,668,323
Furniture and equipment	45,088	233,967	255,881	129,206	144,539	81,567	286,665	328,251	1,505,164
Vehicles	-	18,336	-	-	-	-	-	-	18,336
Total property and equipment	<u>45,088</u>	<u>5,657,923</u>	<u>1,731,764</u>	<u>3,201,030</u>	<u>2,859,114</u>	<u>1,253,884</u>	<u>6,974,694</u>	<u>2,045,747</u>	<u>23,769,244</u>
Less accumulated depreciation	<u>(45,088)</u>	<u>(4,963,500)</u>	<u>(1,472,101)</u>	<u>(2,664,750)</u>	<u>(2,454,350)</u>	<u>(835,107)</u>	<u>(3,029,823)</u>	<u>(1,596,576)</u>	<u>(17,061,295)</u>
Net property and equipment	<u>-</u>	<u>694,423</u>	<u>259,663</u>	<u>536,280</u>	<u>404,764</u>	<u>418,777</u>	<u>3,944,871</u>	<u>449,171</u>	<u>6,707,949</u>
Other assets:									
Investment in SEPP Nichols, Inc.	357,523	-	-	-	-	-	-	-	357,523
Investment in SEPP Windsor Holding Company, LLC	-	-	-	-	-	-	-	-	-
Investment in Hamilton House Holding Company, LLC	30,100	-	-	-	-	-	-	-	30,100
Total assets	<u>\$ 1,743,501</u>	<u>1,399,914</u>	<u>329,179</u>	<u>678,721</u>	<u>637,016</u>	<u>572,424</u>	<u>4,487,158</u>	<u>593,433</u>	<u>10,441,346</u>
<u>Liabilities and Net Assets</u>									
Current liabilities:									
Accounts payable	57,159	90,649	60,459	35,563	15,528	3,244	16,122	6,367	285,091
Accrued expenses	-	6,780	-	7,534	6,838	655	20,000	367	42,174
Deferred revenue	-	-	-	-	9,668	-	-	-	9,668
Current installments of mortgages payable	-	84,479	25,838	39,156	38,445	17,060	-	2,893	207,871
Total current liabilities	<u>57,159</u>	<u>181,908</u>	<u>86,297</u>	<u>82,253</u>	<u>70,479</u>	<u>20,959</u>	<u>36,122</u>	<u>9,627</u>	<u>544,804</u>
Tenants' security deposits	-	31,064	14,756	12,298	14,140	12,899	26,905	15,076	127,138
Loan from related party	-	-	68,500	-	-	-	-	-	68,500
Mortgages payable, excluding current installments	-	1,222,822	319,200	2,249,731	2,023,368	777,160	2,614,399	968,762	10,175,442
Debt issuance costs	-	-	(10,292)	(81,000)	(51,055)	-	-	-	(142,347)
Total liabilities	<u>57,159</u>	<u>1,435,794</u>	<u>478,461</u>	<u>2,263,282</u>	<u>2,056,932</u>	<u>811,018</u>	<u>2,677,426</u>	<u>993,465</u>	<u>10,773,537</u>
Net assets (deficit) without donor restrictions	<u>1,686,342</u>	<u>(35,880)</u>	<u>(149,282)</u>	<u>(1,584,561)</u>	<u>(1,419,916)</u>	<u>(238,594)</u>	<u>1,809,732</u>	<u>(400,032)</u>	<u>(332,191)</u>
Total liabilities and net assets	<u>\$ 1,743,501</u>	<u>1,399,914</u>	<u>329,179</u>	<u>678,721</u>	<u>637,016</u>	<u>572,424</u>	<u>4,487,158</u>	<u>593,433</u>	<u>10,441,346</u>

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Consolidating Statement of Activities - SEPP, Inc. and Subsidiaries
Year ended June 30, 2020

	SEPP, <u>Inc.</u>	Marian <u>Apartments</u>	Creamery Hills, <u>L.P.</u>	Kime Apartments <u>Corporation</u>	Wells <u>Apartments</u>	Whitney Point <u>Apartments</u>	Nichols Notch Apartments <u>Company I, L.P.</u>	Windsor Housing <u>Company I, L.P.</u>	<u>Total</u>
Revenue:									
Contributions	\$ 88,305	-	-	-	-	-	-	-	88,305
Rental revenue	-	1,220,670	199,417	467,855	415,131	181,585	358,865	183,080	3,026,603
Laundry and exterminating income	-	5,117	1,187	1,467	1,904	1,343	2,414	1,500	14,932
Return to owner	29,192	-	-	-	-	-	-	-	29,192
Investment income	69,839	86	15	60	72	87	622	115	70,896
Other revenue	-	24,871	11	-	16,296	-	19	-	41,197
Total revenue	<u>187,336</u>	<u>1,250,744</u>	<u>200,630</u>	<u>469,382</u>	<u>433,403</u>	<u>183,015</u>	<u>361,920</u>	<u>184,695</u>	<u>3,271,125</u>
Expenses:									
Administrative	93,605	251,030	35,358	126,340	120,062	49,690	118,324	48,220	842,629
Utilities	1,600	51,983	30,117	58,965	31,290	12,121	32,598	19,389	238,063
Maintenance and operating	-	276,089	59,628	87,814	65,392	62,431	119,779	60,954	732,087
Taxes and insurance	-	56,598	34,380	43,174	20,866	20,635	35,656	25,813	237,122
Financial	-	92,425	29,064	104,777	99,372	9,846	20,000	12,301	367,785
Development expense	30,780	-	-	-	-	-	-	-	30,780
Loss on investment in partnerships	27,695	-	-	-	-	-	-	-	27,695
Total expenses	<u>153,680</u>	<u>728,125</u>	<u>188,547</u>	<u>421,070</u>	<u>336,982</u>	<u>154,723</u>	<u>326,357</u>	<u>166,677</u>	<u>2,476,161</u>
Changes net assets (deficit) without donor restrictions before depreciation	33,656	522,619	12,083	48,312	96,421	28,292	35,563	18,018	794,964
Depreciation	-	(36,982)	(50,114)	(79,693)	(31,927)	(29,678)	(155,919)	(61,982)	(446,295)
Change in net assets (deficit) without donor restrictions	33,656	485,637	(38,031)	(31,381)	64,494	(1,386)	(120,356)	(43,964)	348,669
Net assets (deficit) without donor restrictions at beginning of year	<u>1,652,686</u>	<u>(521,517)</u>	<u>(111,251)</u>	<u>(1,553,180)</u>	<u>(1,484,410)</u>	<u>(237,208)</u>	<u>1,930,088</u>	<u>(356,068)</u>	<u>(680,860)</u>
Net assets (deficit) without donor restrictions at end of year	<u>\$ 1,686,342</u>	<u>(35,880)</u>	<u>(149,282)</u>	<u>(1,584,561)</u>	<u>(1,419,916)</u>	<u>(238,594)</u>	<u>1,809,732</u>	<u>(400,032)</u>	<u>(332,191)</u>

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Consolidating Statement of Financial Position - SEPP, Inc. and Subsidiaries
June 30, 2019

<u>Assets</u>	SEPP, Inc.	Marian Apartments	Creamery Hills, L.P.	Kime Apartments Corporation	Wells Apartments	Whitney Point Apartments	Nichols Notch Apartments Company I, L.P.	Windsor Housing Company I, L.P.	Total
Current assets:									
Cash - general checking	\$ 18,325	47,527	23,459	10,248	40,562	32,768	59,434	29,931	262,254
Investments	1,065,963	-	-	-	-	-	-	-	1,065,963
Due from related parties	68,500	-	-	-	-	295	-	-	68,795
Prepaid expenses	18,180	40,072	12,965	5,209	6,475	11,394	18,048	6,264	118,607
Total current assets	<u>1,170,968</u>	<u>87,599</u>	<u>36,424</u>	<u>15,457</u>	<u>47,037</u>	<u>44,457</u>	<u>77,482</u>	<u>36,195</u>	<u>1,515,619</u>
Notes receivable - related parties, less allowance of \$900,000	<u>111,500</u>	-	-	-	-	-	-	-	111,500
Restricted deposits:									
Tenants' security deposits	-	30,672	13,108	13,654	13,965	11,951	26,219	14,288	123,857
Tax and insurance escrow	-	15,076	23,339	37,569	7,400	20,602	123,034	6,544	233,564
Operating reserve	-	-	-	-	-	-	187,290	-	187,290
Mortgage insurance premium escrow	-	6,340	-	3,895	9,737	-	-	-	19,972
Reserve for replacements	-	120,389	27,074	107,829	100,698	74,843	210,030	92,626	733,489
Residual receipts	-	25,500	-	2,310	17,673	-	-	-	45,483
Total restricted deposits	<u>-</u>	<u>197,977</u>	<u>63,521</u>	<u>165,257</u>	<u>149,473</u>	<u>107,396</u>	<u>546,573</u>	<u>113,458</u>	<u>1,343,655</u>
Property and equipment, at cost:									
Land	-	20,943	-	74,505	168,009	31,300	250,000	32,664	577,421
Buildings and improvements	-	5,336,085	1,475,883	2,940,809	2,496,838	1,133,575	6,346,404	1,674,878	21,404,472
Furniture and equipment	45,088	233,967	230,907	129,206	174,417	81,567	278,547	319,897	1,493,596
Vehicles	-	18,336	-	-	-	-	-	-	18,336
Total property and equipment	<u>45,088</u>	<u>5,609,331</u>	<u>1,706,790</u>	<u>3,144,520</u>	<u>2,839,264</u>	<u>1,246,442</u>	<u>6,874,951</u>	<u>2,027,439</u>	<u>23,493,825</u>
Less accumulated depreciation	<u>(45,088)</u>	<u>(4,926,518)</u>	<u>(1,421,987)</u>	<u>(2,585,057)</u>	<u>(2,422,423)</u>	<u>(805,429)</u>	<u>(2,873,904)</u>	<u>(1,534,594)</u>	<u>(16,615,000)</u>
Net property and equipment	<u>-</u>	<u>682,813</u>	<u>284,803</u>	<u>559,463</u>	<u>416,841</u>	<u>441,013</u>	<u>4,001,047</u>	<u>492,845</u>	<u>6,878,825</u>
Other assets:									
Investment in SEPP Nichols, Inc.	357,543	-	-	-	-	-	-	-	357,543
Investment in SEPP Windsor Holding Company, LLC	27,675	-	-	-	-	-	-	-	27,675
Total assets	<u>\$ 1,667,686</u>	<u>968,389</u>	<u>384,748</u>	<u>740,177</u>	<u>613,351</u>	<u>592,866</u>	<u>4,625,102</u>	<u>642,498</u>	<u>10,234,817</u>
<u>Liabilities and Net Assets</u>									
Current liabilities:									
Accounts payable	15,000	69,353	56,943	28,793	15,582	8,589	34,396	7,733	236,389
Accrued expenses	-	7,144	-	7,658	7,592	887	20,000	2,199	45,480
Current installments of mortgages payable	-	79,397	23,987	37,641	34,568	15,636	-	2,691	193,920
Prepaid revenue	-	-	-	-	16,280	-	-	-	16,280
Total current liabilities	<u>15,000</u>	<u>155,894</u>	<u>80,930</u>	<u>74,092</u>	<u>74,022</u>	<u>25,112</u>	<u>54,396</u>	<u>12,623</u>	<u>492,069</u>
Tenants' security deposits	-	30,672	13,108	13,654	13,965	11,951	26,219	14,288	123,857
Loan from related party	-	-	68,500	-	-	-	-	-	68,500
Mortgages payable, excluding current installments	-	1,304,657	345,038	2,288,887	2,062,590	793,011	2,614,399	971,655	10,380,237
Debt issuance costs	-	(1,317)	(11,577)	(83,276)	(52,816)	-	-	-	(148,986)
Mortgages payable, excluding current installments and unamortized debt issuance costs	<u>-</u>	<u>1,303,340</u>	<u>333,461</u>	<u>2,205,611</u>	<u>2,009,774</u>	<u>793,011</u>	<u>2,614,399</u>	<u>971,655</u>	<u>10,231,251</u>
Total liabilities	<u>15,000</u>	<u>1,489,906</u>	<u>495,999</u>	<u>2,293,357</u>	<u>2,097,761</u>	<u>830,074</u>	<u>2,695,014</u>	<u>998,566</u>	<u>10,915,677</u>
Net assets (deficit) without donor restrictions	<u>1,652,686</u>	<u>(521,517)</u>	<u>(111,251)</u>	<u>(1,553,180)</u>	<u>(1,484,410)</u>	<u>(237,208)</u>	<u>1,930,088</u>	<u>(356,068)</u>	<u>(680,860)</u>
Total liabilities and net assets	<u>\$ 1,667,686</u>	<u>968,389</u>	<u>384,748</u>	<u>740,177</u>	<u>613,351</u>	<u>592,866</u>	<u>4,625,102</u>	<u>642,498</u>	<u>10,234,817</u>

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
Consolidating Statement of Activities - SEPP, Inc. and Subsidiaries
Year ended June 30, 2019

	SEPP, <u>Inc.</u>	Marian <u>Apartments</u>	Creamery Hills, <u>L.P.</u>	Kime Apartments <u>Corporation</u>	Wells <u>Apartments</u>	Whitney Point <u>Apartments</u>	Nichols Notch Apartments <u>Company I, L.P.</u>	Windsor Housing <u>Company I, L.P.</u>	<u>Total</u>
Revenue:									
Grants	\$ 88,305	-	-	-	-	-	-	-	88,305
Rental revenue	-	787,658	187,490	467,986	404,930	177,793	359,151	190,605	2,575,613
Laundry and exterminating income	-	5,426	825	1,665	9,116	1,850	2,011	1,275	22,168
Return to owner	9,006	-	-	-	-	-	-	-	9,006
Investment income	63,345	162	36	86	60	250	1,850	342	66,131
Other revenue	1,334	24,210	11,504	1,887	-	984	2,024	-	41,943
Total revenue	<u>161,990</u>	<u>817,456</u>	<u>199,855</u>	<u>471,624</u>	<u>414,106</u>	<u>180,877</u>	<u>365,036</u>	<u>192,222</u>	<u>2,803,166</u>
Expenses:									
Administrative	90,180	206,420	40,432	122,313	116,489	48,698	105,925	53,956	784,413
Utilities	-	55,732	29,574	59,081	31,262	14,583	36,682	19,389	246,303
Maintenance and operating	-	226,716	51,139	60,940	86,590	43,239	135,063	71,512	675,199
Taxes and insurance	-	56,374	38,917	44,802	19,686	20,544	34,117	29,498	243,938
Financial	-	99,157	30,849	106,428	104,190	11,181	20,000	12,629	384,434
Loss on investment in partnerships	4,580	-	-	-	-	-	-	-	4,580
Total expenses	<u>94,760</u>	<u>644,399</u>	<u>190,911</u>	<u>393,564</u>	<u>358,217</u>	<u>138,245</u>	<u>331,787</u>	<u>186,984</u>	<u>2,338,867</u>
Changes net assets (deficit) without donor restrictions before depreciation	67,230	173,057	8,944	78,060	55,889	42,632	33,249	5,238	464,299
Depreciation	<u>-</u>	<u>(42,530)</u>	<u>(50,023)</u>	<u>(82,168)</u>	<u>(30,514)</u>	<u>(30,465)</u>	<u>(179,001)</u>	<u>(60,577)</u>	<u>(475,278)</u>
Change in net assets (deficit) without donor restrictions	67,230	130,527	(41,079)	(4,108)	25,375	12,167	(145,752)	(55,339)	(10,979)
Net assets (deficit) without donor restrictions at beginning of year	1,585,456	(652,044)	(70,172)	(1,549,072)	(1,509,785)	(249,375)	2,075,840	-	(369,152)
Transfer of net assets without donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,729)</u>	<u>(300,729)</u>
Net assets (deficit) without donor restrictions at end of year	<u>\$ 1,652,686</u>	<u>(521,517)</u>	<u>(111,251)</u>	<u>(1,553,180)</u>	<u>(1,484,410)</u>	<u>(237,208)</u>	<u>1,930,088</u>	<u>(356,068)</u>	<u>(680,860)</u>

SEPP MANAGEMENT COMPANY, INC. AND
SEPP, INC. AND SUBSIDIARIES
New York State Division of Housing and Community Renewal -
Neighborhood Preservation Program
Schedule of Revenue and Expenses
Year ended June 30, 2020

Revenue	<u>\$ 88,305</u>
Expenses:	
Staff salaries:	
Executive director	26,000
Director of accounting	26,790
Assistant properties director	19,541
Fringe benefits	<u>7,233</u>
Total staff salaries	<u>79,564</u>
Regulated OTPS:	
Insurance/bonding	1,800
Agency audit	1,400
Legal fees	<u>1,000</u>
Total regulated OTPS	<u>4,200</u>
General OTPS:	
Telephone	1,600
Office supplies	2,000
Travel	<u>941</u>
Total general OTPS	<u>4,541</u>
Total expenses	<u>\$ 88,305</u>