

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

Combined Financial Statements  
and Supplemental Information

June 30, 2017 and 2016

(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, 2017, 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, 2017, 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.

## Adoption of New Accounting Guidance

As discussed in note 1(p) to the financial statements, the Organization adopted new accounting guidance related to the presentation of debt issuance costs. Our opinion is not modified with respect to this matter.

## Other Matters

## Supplemental 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.

## Report on Summarized Comparative Information

We have previously audited the Organization's 2016 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated December 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

EFPR Group, CPAs, PLLC

Williamsville, New York  
September 21, 2017

SEPP MANAGEMENT COMPANY, INC. AND  
SEPP, INC. AND SUBSIDIARIES  
Combined Statement of Financial Position  
Year ended June 30, 2017  
with comparative totals for 2016

<u>Assets</u>	SEPP, Inc. and <u>Subsidiaries</u>	SEPP Management <u>Company, Inc.</u>	<u>Eliminations</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Current assets:					
Cash	\$ 43,601	181,557	-	225,158	279,686
Receivables	-	26,151	-	26,151	-
Due from related parties	61,500	8,368	-	69,868	53,047
Prepaid expenses	92,060	1,427	-	93,487	124,267
Total current assets	<u>197,161</u>	<u>217,503</u>	-	<u>414,664</u>	<u>457,000</u>
Notes receivable - related parties, less allowance of \$900,000 in 2017	<u>111,500</u>	-	-	<u>111,500</u>	<u>110,000</u>
Restricted deposits:					
Tenants' security deposits	81,782	-	-	81,782	78,334
Tax and insurance escrow	95,767	-	-	95,767	87,154
Mortgage insurance premium	32,946	-	-	32,946	17,155
Operating reserve	1,058,884	-	-	1,058,884	148,264
Reserve for replacements	513,786	-	-	513,786	516,839
Residual receipts	202,498	-	-	202,498	104,582
Non-critical deferred repair account	103,488	-	-	103,488	103,488
Total restricted deposits	<u>2,089,151</u>	-	-	<u>2,089,151</u>	<u>1,055,816</u>
Property and equipment, at cost:					
Land	294,757	-	-	294,757	285,957
Buildings and improvements	12,676,341	346,960	-	13,023,301	12,916,359
Furniture and equipment	917,628	178,687	-	1,096,315	1,088,661
Vehicles	18,336	17,913	-	36,249	36,249
	13,907,062	543,560	-	14,450,622	14,327,226
Less accumulated depreciation	<u>(11,753,305)</u>	<u>(395,967)</u>	-	<u>(12,149,272)</u>	<u>(11,774,880)</u>
Net property and equipment	<u>2,153,757</u>	<u>147,593</u>	-	<u>2,301,350</u>	<u>2,552,346</u>
Other assets:					
Investment in SEPP Nichols, Inc.	333,623	-	-	333,623	357,596
Investment in SEPP Development Fund Corporation	-	10,000	-	10,000	10,000
Total other assets	<u>333,623</u>	<u>10,000</u>	-	<u>343,623</u>	<u>367,596</u>
Total assets	<u>\$ 4,885,192</u>	<u>375,096</u>	-	<u>5,260,288</u>	<u>4,542,758</u>

See accompanying notes to combined financial statements.

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

<u>Liabilities and Net Assets</u>	SEPP, Inc. and <u>Subsidiaries</u>	SEPP Management Company, Inc.	<u>Eliminations</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Current liabilities:					
Accounts payable	\$ 123,649	3,935	-	127,584	64,357
Accrued expenses	16,801	38,702	-	55,503	47,774
Deferred revenue	-	38,587	-	38,587	58,957
Current installments of mortgages payable	<u>170,298</u>	<u>-</u>	<u>-</u>	<u>170,298</u>	<u>157,547</u>
Total current liabilities	310,748	81,224	-	391,972	328,635
Tenants' security deposits	81,782	-	-	81,782	78,334
Mortgages payable, excluding current installments	7,158,221	-	-	7,158,221	7,328,519
Debt issuance costs	<u>(169,633)</u>	<u>-</u>	<u>-</u>	<u>(169,633)</u>	<u>(179,956)</u>
Mortgages payable, excluding current installments and debt issuance costs	<u>6,988,588</u>	<u>-</u>	<u>-</u>	<u>6,988,588</u>	<u>7,148,563</u>
Total liabilities	7,381,118	81,224	-	7,462,342	7,555,532
Unrestricted net assets (deficit)	<u>(2,495,926)</u>	<u>293,872</u>	<u>-</u>	<u>(2,202,054)</u>	<u>(3,012,774)</u>
Total liabilities and net assets	<u>\$ 4,885,192</u>	<u>375,096</u>	<u>-</u>	<u>5,260,288</u>	<u>4,542,758</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, 2017  
with comparative totals for 2016

	SEPP, Inc. and Subsidiaries	SEPP Management Company, Inc.	Eliminations	Total	
				<u>2017</u>	<u>2016</u>
Unrestricted revenue:					
Grants	\$ 91,686	91,686	(91,686)	91,686	86,825
Developer's fees	767,340	-	-	767,340	-
Management fees	-	300,276	(144,409)	155,867	157,893
Rental revenue	1,955,544	6,750	-	1,962,294	1,942,702
Laundry and exterminating income	10,032	59,291	(33,275)	36,048	30,071
Investment income	632	33	-	665	1,587
Other revenue	<u>194,843</u>	<u>188,888</u>	<u>-</u>	<u>383,731</u>	<u>383,184</u>
Total unrestricted revenue	<u>3,020,077</u>	<u>646,924</u>	<u>(269,370)</u>	<u>3,397,631</u>	<u>2,602,262</u>
Unrestricted expenses:					
Administrative	625,335	498,970	(269,370)	854,935	1,273,358
Utilities	152,998	6,328	-	159,326	142,568
Operating and maintenance	600,452	5,866	-	606,318	522,868
Tax and insurance	163,079	10,957	-	174,036	174,866
Financial	384,380	-	-	384,380	589,620
Other	<u>-</u>	<u>33,524</u>	<u>-</u>	<u>33,524</u>	<u>37,417</u>
Total unrestricted expenses	<u>1,926,244</u>	<u>555,645</u>	<u>(269,370)</u>	<u>2,212,519</u>	<u>2,740,697</u>
Increase (decrease) in net assets before depreciation	1,093,833	91,279	-	1,185,112	(138,435)
Depreciation	<u>(335,865)</u>	<u>(38,527)</u>	<u>-</u>	<u>(374,392)</u>	<u>(350,863)</u>
Increase (decrease) in net assets	757,968	52,752	-	810,720	(489,298)
Net assets (deficit) at beginning of year	<u>(3,253,894)</u>	<u>241,120</u>	<u>-</u>	<u>(3,012,774)</u>	<u>(2,523,476)</u>
Net assets (deficit) at end of year	<u>\$ (2,495,926)</u>	<u>293,872</u>	<u>-</u>	<u>(2,202,054)</u>	<u>(3,012,774)</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, 2017  
with comparative totals for 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets (deficit)	\$ 810,720	(489,298)
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by operating activities:		
Depreciation	374,392	350,863
Amortization of debt issuance costs	10,323	13,720
Write-off of debt issuance costs	-	85,531
Increase in allowance for doubtful accounts	900,000	-
Changes in:		
Receivables	(26,151)	984
Due from related parties	(16,821)	12,667
Prepaid expenses	30,780	184,026
Accounts payable	63,227	(73,461)
Accrued expenses	7,729	(20,654)
Deferred revenue	<u>(20,370)</u>	<u>-</u>
Net cash provided by operating activities	<u>2,133,829</u>	<u>64,378</u>
Cash flows from investing activities:		
(Increase) decrease in restricted deposits	(1,029,887)	45,070
Additions to property and equipment	(123,396)	(147,385)
Decrease in investment in SEPP Nichols, Inc.	<u>23,973</u>	<u>-</u>
Net cash used in investing activities	<u>(1,129,310)</u>	<u>(102,315)</u>
Cash flows from financing activities:		
Increase in notes receivable	(901,500)	(14,500)
Proceeds of mortgages payable	-	2,441,800
Repayment of mortgages payable	<u>(157,547)</u>	<u>(2,316,132)</u>
Net cash provided by (used in) financing activities	<u>(1,059,047)</u>	<u>111,168</u>
Net increase (decrease) in cash	(54,528)	73,231
Cash at beginning of year	<u>279,686</u>	<u>206,455</u>
Cash at end of year	<u>\$ 225,158</u>	<u>279,686</u>

See accompanying notes to combined financial statements.



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

Notes to Combined Financial Statements

June 30, 2017

(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 nine 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 (the Corporation) 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 49 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. The Corporation 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. (the Partnership) 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 Richford, New York. The major activities of the Partnership are governed by the partnership agreement and New York State Division of Housing and Community Renewal (DHCR). The Partnership is wholly owned by SEPP, Inc.

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

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

(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 combination. The year end of Creamery Hills, L.P. is December 31. The financial information as of December 31, 2016 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

In accordance with accounting principles generally accepted in the United States of America, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization had only unrestricted net assets at June 30, 2017 and 2016.

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

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) Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institution.

(h) Property and Equipment

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.

(i) Impairment of 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. No impairment loss has been recognized by the Organization for the years ended June 30, 2017 and 2016.

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

(1) Summary of Significant Accounting Policies, Continued

(j) 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 \$10,323 and \$13,720 for the years ended June 30, 2017 and 2016, respectively, and is included as a component of interest expense on the statements of activities.

(k) 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.

(l) 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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

(m) 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.

(n) 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.

(o) Reclassifications

Reclassifications have been made to certain 2016 balances in order to conform them to the 2017 presentation.

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

(1) Summary of Significant Accounting Policies, Continued

(p) Change in Accounting Principle

During 2017, the Organization adopted the provisions of Accounting Standards Update 2015-03, "Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. ASU 2015-03 has been adopted by the Organization on a retrospective basis. As a result, total assets as well as mortgage payable for the year ended June 30, 2016 have been reduced by the effect of reclassification of debt issuance costs, net of accumulated amortization of \$179,956.

(2) Notes Receivable - Related Parties

	<u>2017</u>	<u>2016</u>
3.25% note receivable from SEPP Development Corporation. Interest only is due on January 1 <sup>st</sup> of each year. Payment of the outstanding principal balance and accrued interest, shall be due upon demand.	\$ 111,500	110,000
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>-</u>
	1,011,500	110,000
Less allowance for doubtful accounts	<u>(900,000)</u>	<u>-</u>
Total notes receivable - related parties	\$ <u>111,500</u>	<u>110,000</u>

(3) Investment in Partnerships

SEPP Harry L., Inc. is the general partner of Harry L. Apartments Company I, Limited Partnership (0.01%). SEPP Inc. is the general partner of Windsor Housing Company I, Limited Partnership (0.50%). SEPP Nichols, Inc. is the general partner of Nichols Notch 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 Management Company, Inc. is one of the general partners of Cardinal Cove, Limited Partnership (0.0051%) and Watkins Glen Apartments Company I, Limited Partnership (0.0051%). SEPP Harry L., Inc. and SEPP Nichols, 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. Windsor Housing Company I, Limited Partnership and Hamilton House Apartments Company I, Limited Partnership 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

(3) Investment in Partnerships, Continued

The financial position as of December 31, 2016 and results of operations of the partnerships for the year ended December 31, 2016 are summarized as follows:

	Harry L. Apartments Company I, <u>L.P.</u>	Windsor Housing Company I, <u>L.P.</u>	Nichols Notch Apartments Company I, <u>L.P.</u>	Hamilton House Apartments Company I, <u>L.P.</u>	Cardinal Cove, <u>L.P.</u>	Watkins Glen Apartments Company I, <u>L.P.</u>
Current assets	\$ 53,788	32,860	49,919	30,143	1,161,850	994,367
Current liabilities	<u>(81,910)</u>	<u>(7,009)</u>	<u>(37,647)</u>	<u>(199,576)</u>	<u>(291,871)</u>	<u>(71,014)</u>
Working capital	(28,122)	25,851	12,272	(169,433)	869,979	923,353
Restricted deposits	411,549	119,969	500,879	366,618	260,112	237,727
Property and equipment, net	6,803,946	604,872	4,318,489	1,736,854	11,929,006	13,243,117
Work in process	-	-	-	-	274,145	-
Other assets	-	-	-	-	35,000	25,000
Long-term debt	(2,370,305)	(976,728)	(2,614,399)	(1,767,939)	(7,249,247)	(5,310,319)
Other liabilities	<u>(346,863)</u>	<u>(13,653)</u>	<u>(24,586)</u>	<u>(55,999)</u>	<u>(19,712)</u>	<u>(26,935)</u>
Partners' equity (deficit)	\$ <u>4,470,205</u>	<u>(239,689)</u>	<u>(2,192,655)</u>	<u>110,101</u>	<u>6,099,283</u>	<u>9,091,943</u>
Gross income	\$ <u>416,789</u>	<u>185,202</u>	<u>366,975</u>	<u>224,585</u>	<u>92,367</u>	<u>232,191</u>
Net loss	\$ <u>(131,488)</u>	<u>(34,177)</u>	<u>(118,881)</u>	<u>(114,397)</u>	<u>(267,756)</u>	<u>(533,051)</u>

(4) Mortgages Payable

Mortgages payable at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</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 2017 and 2016 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.	\$ 833,983	845,092
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.	411,777	430,709

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

(4) Mortgages Payable, Continued

	<u>2017</u>	<u>2016</u>
Wells Apartments original mortgage note closed on April 1, 2002 in the amount of \$2,246,900. The mortgage note is repayable in monthly installments of \$14,213 including interest at 6.91% per annum with final maturity in May 2037. The mortgage was refinanced on June 24, 2014 in the amount of \$2,246,900 under a HUD-insured loan agreement which bears interest at 4.35%. The note is secured by deed of trust on the property and equipment and is payable to Oppenheimer MHHF, Inc. in level monthly installments (principal and interest) of \$10,426 through June 2049.	\$ 2,161,949	2,192,295
Kime Apartments Corporation original mortgage note closed on June 27, 2006 in the amount of \$2,441,800. The mortgage note was repayable in monthly installments of \$13,515 including interest at 5.75% per annum with final maturity in October 2024. The mortgage was refinanced on January 26, 2016 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 to Oppenheimer MHHF, Inc. in the level monthly installments (principal and interest) of \$10,739 through February 2051.	2,397,501	2,430,943
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 6.14% through year 2031.	<u>1,523,309</u>	<u>1,587,027</u>
Mortgages payable	7,328,519	7,486,066
Less current installments	<u>(170,298)</u>	<u>(157,547)</u>
Mortgages payable, excluding current installments	7,158,221	7,328,519
Less unamortized debt issuance costs	<u>(169,633)</u>	<u>(179,956)</u>
Mortgages payable, excluding current installments and debt issuance costs	<u>\$ 6,988,588</u>	<u>7,148,563</u>

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

(4) Mortgages Payable, Continued

The aggregate maturity of the mortgages payable for the five years following June 30, 2017 and thereafter is as follows:

2018	\$ 170,298
2019	180,438
2020	191,229
2021	202,635
2022	214,926
Thereafter	<u>6,368,993</u>
	<u>\$ 7,328,519</u>

(5) Related Parties Transactions

SEPP Management Company, Inc. serves as the managing agent for nine housing projects who 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, 2017 and 2016, total management fees amounted to \$300,276 and \$302,047, respectively. The housing projects also pay bookkeeping fees equal to a fee per unit. During the years ended June 30, 2017 and 2016, total bookkeeping fees, which are included in other revenue on the accompanying combined statement of activities, amounted to \$30,026 and \$43,594, respectively.

During the years ended June 30, 2017 and 2016, 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, 2017 and 2016 was \$59,291 and \$49,863, respectively.

SEPP Management Company, Inc. has amounts due from related parties amounting to \$8,368 and \$78,479 as of June 30, 2017 and 2016, respectively.

SEPP, Inc. has a note receivable from SEPP Development Corporation in the amount of \$111,500 and \$110,000 as of June 30, 2017 and 2016, respectively (note 2). 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, 2017. There was no balance in 2016 (note 2).

SEPP Management Company, Inc. received developer's fees during the year ended June 30, 2017 as follows:

Cardinal Cove, L.P.	\$ 425,000
Watkins Glen Apartments Company I, L.P.	<u>342,340</u>
	<u>\$ 767,340</u>



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

Notes to Combined Financial Statements, Continued

(6) 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 are 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's paid \$8,382 and \$8,694 as of June 30, 2017 and 2016, respectively, into the plan.

(7) 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 do not earn vacation, sick or personal leave 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 \$23,779 and \$15,175 is recorded as of June 30, 2017 and 2016, 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, 2017 and 2016.

SEPP MANAGEMENT COMPANY, INC. AND  
SEPP, INC. AND SUBSIDIARIES  
Consolidating Statement of Financial Position - SEPP, Inc. and Subsidiaries  
June 30, 2017

<u>Assets</u>	SEPP Inc.	Marian Apartments	Creamery Hills L.P.	Kime Apartments Corporation	Wells Apartments	Whitney Point Apartments	Total
Current assets:							
Cash	\$ 18,306	6,187	130	11,843	2,194	4,941	43,601
Due from related parties	61,500	-	-	-	-	-	61,500
Prepaid expenses	-	56,486	12,939	4,937	6,410	11,288	92,060
Total current assets	<u>79,806</u>	<u>62,673</u>	<u>13,069</u>	<u>16,780</u>	<u>8,604</u>	<u>16,229</u>	<u>197,161</u>
Notes receivable - related parties, less allowance of \$900,000 in 2017	<u>111,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,500</u>
Restricted deposits:							
Tenants' security deposits	-	29,984	13,093	12,795	13,562	12,348	81,782
Tax and insurance escrow	-	22,592	5,158	28,900	11,383	27,734	95,767
Mortgage insurance premium	-	4,659	-	18,313	9,974	-	32,946
Operating reserve	1,058,884	-	-	-	-	-	1,058,884
Reserve for replacements	-	199,994	24,571	132,520	89,421	67,280	513,786
Residual receipts	-	185,132	-	-	17,366	-	202,498
Non-critical deferred repair account	-	-	-	87,488	16,000	-	103,488
Total restricted deposits	<u>1,058,884</u>	<u>442,361</u>	<u>42,822</u>	<u>280,016</u>	<u>157,706</u>	<u>107,362</u>	<u>2,089,151</u>
Property and equipment, at cost:							
Land	-	20,943	-	74,505	168,009	31,300	294,757
Buildings and improvements	-	4,827,720	1,475,883	2,783,251	2,477,052	1,112,435	12,676,341
Furniture and equipment	98,290	233,967	230,907	128,358	144,539	81,567	917,628
Vehicles	-	18,336	-	-	-	-	18,336
	<u>98,290</u>	<u>5,100,966</u>	<u>1,706,790</u>	<u>2,986,114</u>	<u>2,789,600</u>	<u>1,225,302</u>	<u>13,907,062</u>
Less accumulated depreciation	<u>(98,290)</u>	<u>(4,829,660)</u>	<u>(1,321,522)</u>	<u>(2,428,239)</u>	<u>(2,332,429)</u>	<u>(743,165)</u>	<u>(11,753,305)</u>
Net property and equipment	<u>-</u>	<u>271,306</u>	<u>385,268</u>	<u>557,875</u>	<u>457,171</u>	<u>482,137</u>	<u>2,153,757</u>
Other asset - investment in SEPP Nichols, Inc.	<u>333,623</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>333,623</u>
Total assets	<u>\$ 1,583,813</u>	<u>776,340</u>	<u>441,159</u>	<u>854,671</u>	<u>623,481</u>	<u>605,728</u>	<u>4,885,192</u>
<u>Liabilities and Net Assets</u>							
Current liabilities:							
Accounts payable	-	15,180	58,112	38,759	11,287	311	123,649
Accrued expenses	-	-	-	7,892	7,837	1,072	16,801
Current installments of mortgages payable	-	70,133	20,551	34,787	31,693	13,134	170,298
Total current liabilities	<u>-</u>	<u>85,313</u>	<u>78,663</u>	<u>81,438</u>	<u>50,817</u>	<u>14,517</u>	<u>310,748</u>
Tenants' security deposits	-	29,984	13,093	12,795	13,562	12,348	81,782
Mortgages payable, excluding current installments	-	1,453,176	391,226	2,362,714	2,130,256	820,849	7,158,221
Debt issuance costs	-	(11,319)	(14,148)	(87,828)	(56,338)	-	(169,633)
Mortgages payable, excluding current installments and debt issuance cost:	<u>-</u>	<u>1,441,857</u>	<u>377,078</u>	<u>2,274,886</u>	<u>2,073,918</u>	<u>820,849</u>	<u>6,988,588</u>
Total liabilities	<u>-</u>	<u>1,557,154</u>	<u>468,834</u>	<u>2,369,119</u>	<u>2,138,297</u>	<u>847,714</u>	<u>7,381,118</u>
Unrestricted net assets (deficit)	<u>1,583,813</u>	<u>(780,814)</u>	<u>(27,675)</u>	<u>(1,514,448)</u>	<u>(1,514,816)</u>	<u>(241,986)</u>	<u>(2,495,926)</u>
Total liabilities and net assets	<u>\$ 1,583,813</u>	<u>776,340</u>	<u>441,159</u>	<u>854,671</u>	<u>623,481</u>	<u>605,728</u>	<u>4,885,192</u>

SEPP MANAGEMENT COMPANY, INC. AND  
SEPP, INC. AND SUBSIDIARIES  
Consolidating Statement of Activities - SEPP, Inc. and Subsidiaries  
Year ended June 30, 2017

	SEPP, Inc.	Marian Apartments	Creamery Hills L.P.	Kime Apartments Corporation	Wells Apartments	Whitney Point Apartments	Total
Unrestricted revenue:							
Grants	\$ 91,686	-	-	-	-	-	91,686
Developer's fee	767,340	-	-	-	-	-	767,340
Rental revenue	-	773,630	185,752	446,380	393,074	156,708	1,955,544
Laundry and exterminating income	-	4,233	779	1,678	1,662	1,680	10,032
Investment income	163	61	16	226	77	89	632
Other revenue	149,796	22,227	3,871	3,900	15,049	-	194,843
Total unrestricted revenue	<u>1,008,985</u>	<u>800,151</u>	<u>190,418</u>	<u>452,184</u>	<u>409,862</u>	<u>158,477</u>	<u>3,020,077</u>
Unrestricted expenses:							
Administrative	103,117	239,865	32,152	112,835	95,138	42,228	625,335
Utilities	-	56,754	-	66,524	29,720	-	152,998
Operating and maintenance	-	278,091	65,945	95,909	108,275	52,232	600,452
Tax and insurance	-	50,620	37,406	42,370	14,181	18,502	163,079
Financial	-	108,588	34,119	118,123	110,235	13,315	384,380
Total unrestricted expenses	<u>103,117</u>	<u>733,918</u>	<u>169,622</u>	<u>435,761</u>	<u>357,549</u>	<u>126,277</u>	<u>1,926,244</u>
Increase in unrestricted net assets before depreciation	905,868	66,233	20,796	16,423	52,313	32,200	1,093,833
Depreciation	<u>(53)</u>	<u>(74,427)</u>	<u>(50,433)</u>	<u>(79,155)</u>	<u>(96,056)</u>	<u>(35,741)</u>	<u>(335,865)</u>
Increase (decrease) in net assets	905,815	(8,194)	(29,637)	(62,732)	(43,743)	(3,541)	757,968
Net assets (deficit) at beginning of year	<u>677,998</u>	<u>(772,620)</u>	<u>1,962</u>	<u>(1,451,716)</u>	<u>(1,471,073)</u>	<u>(238,445)</u>	<u>(3,253,894)</u>
Net assets (deficit) at end of year	<u>\$ 1,583,813</u>	<u>(780,814)</u>	<u>(27,675)</u>	<u>(1,514,448)</u>	<u>(1,514,816)</u>	<u>(241,986)</u>	<u>(2,495,926)</u>

SEPP MANAGEMENT COMPANY, INC. AND  
SEPP, INC. AND SUBSIDIARIES  
Consolidating Statement of Financial Position - SEPP, Inc. and Subsidiaries  
June 30, 2016

<u>Assets</u>	SEPP Inc.	Marian Apartments	Creamery Hills L.P.	Kime Apartments Corporation	Wells Apartments	Whitney Point Apartments	Total
Current assets:							
Cash	\$ 15,084	94,160	1,127	16,535	34,513	32,264	193,683
Receivables	47,000	-	-	-	-	-	47,000
Prepaid expenses	-	67,444	11,413	14,946	15,273	11,041	120,117
Total current assets	<u>62,084</u>	<u>161,604</u>	<u>12,540</u>	<u>31,481</u>	<u>49,786</u>	<u>43,305</u>	<u>360,800</u>
Note receivable - development corporation	<u>110,000</u>	-	-	-	-	-	<u>110,000</u>
Restricted deposits:							
Tenants' security deposits	-	28,684	12,555	11,078	14,381	11,636	78,334
Tax and insurance escrow	-	3,554	14,130	28,380	23,174	17,916	87,154
Mortgage insurance premium	-	7,695	-	8,327	1,133	-	17,155
Operating reserve	148,264	-	-	-	-	-	148,264
Reserve for replacements	-	188,529	28,303	178,976	79,707	41,324	516,839
Residual receipts	-	104,582	-	-	-	-	104,582
Repair escrow	-	-	-	87,488	-	-	87,488
Non-critical deferred repair account	-	-	-	-	16,000	-	16,000
Total restricted deposits	<u>148,264</u>	<u>333,044</u>	<u>54,988</u>	<u>314,249</u>	<u>134,395</u>	<u>70,876</u>	<u>1,055,816</u>
Property and equipment, at cost:							
Land	-	20,943	-	74,505	159,209	31,300	285,957
Buildings and improvements	-	4,827,720	1,475,883	2,634,673	2,413,224	1,103,024	12,454,524
Furniture and equipment	98,290	233,967	230,907	208,612	174,417	78,655	1,024,848
Vehicles	-	18,336	-	-	-	-	18,336
	<u>98,290</u>	<u>5,100,966</u>	<u>1,706,790</u>	<u>2,917,790</u>	<u>2,746,850</u>	<u>1,212,979</u>	<u>13,783,665</u>
Less accumulated depreciation	<u>(98,236)</u>	<u>(4,755,233)</u>	<u>(1,271,089)</u>	<u>(2,349,084)</u>	<u>(2,236,373)</u>	<u>(707,424)</u>	<u>(11,417,439)</u>
Net property and equipment	<u>54</u>	<u>345,733</u>	<u>435,701</u>	<u>568,706</u>	<u>510,477</u>	<u>505,555</u>	<u>2,366,226</u>
Other asset - investment in SEPP Nichols, Inc.	<u>357,596</u>	-	-	-	-	-	<u>357,596</u>
Total assets	<u>\$ 677,998</u>	<u>840,381</u>	<u>503,229</u>	<u>914,436</u>	<u>694,658</u>	<u>619,736</u>	<u>4,250,438</u>
<u>Liabilities and Net Assets</u>							
Current liabilities:							
Accounts payable	-	13,533	9,971	6,233	240	377	30,354
Accrued expenses	-	-	-	8,002	7,947	1,153	17,102
Due to related party	-	-	63,465	-	8,967	-	72,432
Current installments of mortgages payable	-	63,795	18,932	33,442	30,346	11,032	157,547
Total current liabilities	-	<u>77,328</u>	<u>92,368</u>	<u>47,677</u>	<u>47,500</u>	<u>12,562</u>	<u>277,435</u>
Tenants' security deposits	-	28,684	12,555	11,078	14,381	11,636	78,334
Mortgages payable, excluding current installments	-	1,523,309	411,777	2,397,501	2,161,949	833,983	7,328,519
Debt issuance costs	-	(16,320)	(15,433)	(90,104)	(58,099)	-	(179,956)
Mortgages payable, excluding current installments and debt issuance costs	-	<u>1,506,989</u>	<u>396,344</u>	<u>2,307,397</u>	<u>2,103,850</u>	<u>833,983</u>	<u>7,148,563</u>
Total liabilities	-	<u>1,613,001</u>	<u>501,267</u>	<u>2,366,152</u>	<u>2,165,731</u>	<u>858,181</u>	<u>7,504,332</u>
Unrestricted net assets (deficit)	<u>677,998</u>	<u>(772,620)</u>	<u>1,962</u>	<u>(1,451,716)</u>	<u>(1,471,073)</u>	<u>(238,445)</u>	<u>(3,253,894)</u>
Total liabilities and net assets	<u>\$ 677,998</u>	<u>840,381</u>	<u>503,229</u>	<u>914,436</u>	<u>694,658</u>	<u>619,736</u>	<u>4,250,438</u>

SEPP MANAGEMENT COMPANY, INC. AND  
SEPP, INC. AND SUBSIDIARIES  
Consolidating Statement of Activities - SEPP, Inc. and Subsidiaries  
Year ended June 30, 2016

	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>	<u>Total</u>
Unrestricted revenue:							
Grants	\$ 86,825	-	-	-	-	-	86,825
Rental revenue	-	768,384	177,951	440,642	391,346	158,679	1,937,002
Laundry and exterminating income	-	2,661	686	1,411	1,550	1,897	8,205
Investment income	113	119	32	315	169	66	814
Other revenue	<u>26,000</u>	<u>22,226</u>	<u>-</u>	<u>66,253</u>	<u>3,906</u>	<u>-</u>	<u>118,385</u>
Total unrestricted revenue	<u>112,938</u>	<u>793,390</u>	<u>178,669</u>	<u>508,621</u>	<u>396,971</u>	<u>160,642</u>	<u>2,151,231</u>
Unrestricted expenses:							
Administrative	388,248	247,134	33,929	108,294	88,641	42,725	908,971
Utilities	-	50,937	-	58,679	26,412	-	136,028
Operating and maintenance	-	235,248	84,722	52,050	87,581	51,101	510,702
Tax and insurance	-	48,760	34,545	43,059	12,567	18,840	157,771
Financial	<u>-</u>	<u>113,006</u>	<u>35,438</u>	<u>316,637</u>	<u>108,952</u>	<u>14,249</u>	<u>588,282</u>
Total unrestricted expenses	<u>388,248</u>	<u>695,085</u>	<u>188,634</u>	<u>578,719</u>	<u>324,153</u>	<u>126,915</u>	<u>2,301,754</u>
Increase (decrease) in unrestricted net assets before depreciation	(275,310)	98,305	(9,965)	(70,098)	72,818	33,727	(150,523)
Depreciation	<u>(1,330)</u>	<u>(75,024)</u>	<u>(50,579)</u>	<u>(81,027)</u>	<u>(86,463)</u>	<u>(34,729)</u>	<u>(329,152)</u>
Increase (decrease) in net assets	(276,640)	23,281	(60,544)	(151,125)	(13,645)	(1,002)	(479,675)
Net assets (deficit) at beginning of year	<u>954,638</u>	<u>(795,901)</u>	<u>62,506</u>	<u>(1,300,591)</u>	<u>(1,457,428)</u>	<u>(237,443)</u>	<u>(2,774,219)</u>
Net assets (deficit) at end of year	<u>\$ 677,998</u>	<u>(772,620)</u>	<u>1,962</u>	<u>(1,451,716)</u>	<u>(1,471,073)</u>	<u>(238,445)</u>	<u>(3,253,894)</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, 2017

Revenue	<u>\$ 91,686</u>
Expenses:	
Staff salaries:	
Executive director	16,250
Director of accounting	23,504
Assistant properties director	22,246
Director of human resources	6,805
Fringe benefits	<u>6,801</u>
Total staff salaries	<u>75,606</u>
Regulated OTPS:	
Insurance/bonding	1,800
Agency audit	1,400
Legal fees	<u>2,500</u>
Total regulated OTPS	<u>5,700</u>
General OTPS:	
Telephone	1,600
Office supplies	2,125
Printing	1,275
Travel	2,150
Staff development/training/conferences	<u>3,230</u>
Total general OTPS	<u>10,380</u>
Total expenses	<u>\$ 91,686</u>