WOODMONT
properties

July 15, 2019

Via UPS Delivery

Hon. Fred Henry, Mayor
City of South Amboy
140 North Broadway
South Amboy, New Jersey 08879

Mr. Glenn Skarzynski
Business Administrator
City of South Amboy
140 North Broadway
South Amboy, New Jersey 08879

Re: Woodmont Cove
2018 Audit

Dear Mayor and Glenn:

Pursuant to the requirements of the Long Term Tax Exemption Act (PILOT Law), enclosed is the Woodmont Amboy Urban Renewal, LLC Audited Financial Statement for the year ending December 31, 2018. This Audit also includes the "total project cost" as required in the PILOT Law.

Please feel free to call with any questions.

Very truly yours,
WOODMONT PROPERTIES, LLC

Stephen A. Santola
Executive Vice President, General Counsel

SS:kp
Enclosure

cc: Eric F. M. Chubenko

WOODMONT AMBOY URBAN RENEWAL, LLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

WOODMONT AMBOY URBAN RENEWAL, LLC

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Members
Woodmont Amboy Urban Renewal, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Woodmont Amboy Urban Renewal, LLC (the "Company"), which comprise the balance sheet as of December 31, 2018, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Marcum LLP ▪ 750 Third Avenue ▪ 11th Floor ▪ New York, New York 10017 ▪ Phone 212.485.5500 ▪ Fax 212.485.5501 ▪ marcumllp.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

New York, NY
July 3, 2019

WOODMONT AMBOY URBAN RENEWAL, LLC

BALANCE SHEET

DECEMBER 31, 2018

Assets		
Rental Property, net	$ 31,657,374	
Cash	133,980	
Restricted cash - tenant security deposits	292,458	
Accounts receivable	78,204	
Prepaid expenses and other assets	489,117	
Due from member	48,644	
Total Assets		$ 32,699,777
Liabilities and Members' Equity		
Liabilities		
Construction loan payable, net	$ 23,802,435	
Accounts payable and accrued expenses	351,136	
Tenant security deposits	305,053	
Rental income received in advance	28,241	
Total Liabilities		$ 24,486,865
Commitments		
Members' Equity		8,212,912
Total Liabilities and Members' Equity		$ 32,699,777

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

WOODMONT AMBOY URBAN RENEWAL, LLC

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

Revenues		
Rental income	$ 1,200,237	
Recoveries	47,096	
Other income	79,190	
Total Revenues		$ 1,326,523
Expenses		
Payment in lieu of taxes	114,338	
Salaries and benefits	402,992	
Utilities	70,673	
Repairs and maintenance	103,883	
General and administrative	65,943	
Management fees	47,401	
Insurance	21,269	
Professional fees	4,725	
Advertising and marketing	177,188	
Depreciation	359,827	
Interest expense	783,278	
Total Expenses		2,151,517
Net Loss		$ (824,994)

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

WOODMONT AMBOY URBAN RENEWAL LLC

STATEMENT OF CHANGES IN MEMBERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2018

Balance - January 1, 2018	$ 5,562,906
Contributions	3,475,000
Net loss	(824,994)
Balance - December 31, 2018	$ 8,212,912

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

WOODMONT AMBOY URBAN RENEWAL, LLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities				
Net loss	$	(824,994)		
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation		359,827		
Amortization of debt issuance costs		69,396		
Changes in operating assets and liabilities:				
Accounts receivable		(75,604)		
Tenant security deposits		(286,278)		
Due from member		32		
Prepaid expenses and other assets		84,519		
Accounts payable and accrued expenses		207,953		
Tenant security deposits		305,053		
Rental income received in advance		17,806		
Net Cash Used in Operating Activities			$	(142,290)
Cash Flows Used in Investing Activities				
Additions to rental property				(12,002,953)
Cash Flows From Financing Activities				
Proceeds from construction loan payable		8,758,647		
Contributions from members		3,475,000		
Net Cash Provided by Financing Activities				12,233,647
Net Change in Cash				88,404
Cash - Beginning of year				45,576
Cash - End of year			$	133,980
Supplemental Disclosure of Cash Flow Information				
Cash paid during the year for interest, net of capitalized interest			$	660,228
Interest capitalized to rental property			$	347,812
Supplemental Disclosure of Non-Cash Investing Activities				
Amortization of debt issuance costs capitalized to rental property			$	34,181

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

NOTE 1 – NATURE OF OPERATIONS

Woodmont Amboy Urban Renewal, LLC (the "Company") is a Delaware limited liability company which was formed on February 16, 2016 for the purpose of acquiring, developing and operating a 126-unit luxury multifamily rental apartment community in South Amboy, New Jersey (the "Project"). The Project began rental operations in February 2018. The members of the Company are Woodmont Realty Holdings, LLC 87.5% (the "Class WRH Member"), and Michael Perrucci 12.5% (the "Class MP Member").

The Company will continue perpetually, unless terminated earlier pursuant to the terms of its Operating Agreement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

USE OF ESTIMATES

The preparation of financial statements, in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

RENTAL PROPERTY

Rental property is stated at cost less accumulated depreciation. Cost during development of the Project included property taxes, interest, construction fees and other project costs incurred during the period of construction. Ordinary repairs and maintenance are expensed as incurred. Major replacements and betterments, which improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed on straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	15 years
Building and improvements	40 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RENTAL PROPERTY (CONTINUED)

At least annually, Company management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying value of the assets exceeds such cash flows, the assets are considered impaired. The impairment charge to be recognized is measured by the amount by which the carrying amount of the assets exceeds their estimated fair value. Company management does not believe that there are any factors or circumstances indicating impairment of the Company's property.

CONCENTRATION OF CREDIT RISK

The Company maintains cash at financial institutions that may from time to time exceed federally insured amounts. The Company periodically assesses the financial conditions of the institutions and believes that the risk of any loss is minimal.

RESTRICTED CASH

Restricted cash is comprised of tenant security deposits established pursuant to the respective leases.

ACCOUNTS RECEIVABLE

Accounts receivable consist generally of rental payments which have not been collected in accordance with specific contractual terms of individual leases. An allowance for doubtful accounts is maintained which is based on management's assessment of the collectability of accounts receivable. As of December 31, 2018, there is no allowance for doubtful accounts.

DEBT ISSUANCE COSTS

The Company incurred legal and financing fees in connection with obtaining the debt. These amounts were recorded as a direct deduction of the construction loan payable on the accompanying balance sheet. Debt issuance costs are amortized over the term of the related debt obligation and included in construction in progress during the period of development and expensed thereafter. For the year ended December 31, 2018, amortization of debt issuance costs of $34,181 has been capitalized to rental property and $69,396 is included in interest expense in the statement of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Company recognizes rental income as earned under short-term operating leases at the date when payments become due.

Reimbursable expenses incurred by the Company related to water and sewer of the property and are charged to the tenants and included in recoveries in the accompanying statement of operations.

ADVERTISING

Advertising costs are expensed as incurred.

INCOME TAXES

No provision for income taxes is necessary in the financial statements of the Company because limited liability companies are treated as partnerships for federal and state income tax purposes and are generally not subject to income tax at the entity level. All income and losses accrue directly to the members and are reported by them individually for tax purposes.

NOTE 3 - RENTAL PROPERTY

Rental property consists of the following at December 31, 2018:

Land	$ 2,306,855
Land improvements	1,015,635
Building and improvements	28,694,711
	32,017,201
Less: Accumulated depreciation	(359,827)
Rental property, net	$ 31,657,374

The Company recorded depreciation expense of $359,827 in 2018.

NOTE 4 – DEPOSITS

Included in prepaid expenses and other assets on the accompanying balance sheet are recoverable utility deposits related to the redevelopment of the area. As of December 31, 2018, the recoverable balance is $476,568.

NOTE 5 – CONSTRUCTION LOAN PAYABLE

On December 22, 2016, the Company entered into a construction loan agreement with Valley National Bank ("Lender") in the maximum loan amount of $24,120,000 (the "Construction Loan"). The Construction Loan requires interest-only payments through maturity on January 1, 2020 with an option to extend through January 2021, subject to certain conditions under the Construction Loan. The Construction Loan bears interest at the bank's prime rate. The interest rate at December 31, 2018 was 5.50%. As of December 31, 2018, the Construction Loan balance is $23,906,297.

The Construction Loan is collateralized by the property and guaranteed by an affiliate of a member.

The Company incurred interest of $1,061,694 for the year ended December 31, 2018 of which $713,882 was expensed and $347,812 was capitalized to rental property.

Construction loan payable consists of the following at December 31, 2018:

Principal balance	$ 23,906,297
Less: unamortized debt issuance costs	103,862
Construction loan payable, net of unamortized debt issuance costs	$23,802,435

NOTE 6 – COMMITMENTS

FINANCIAL AGREEMENT

The Company is party to a financial agreement (the "Agreement") with the City of South Amboy. Pursuant to the Agreement, the land and improvements to be constructed and maintained by the Company are exempt from real estate taxes for a minimum of 30 years from the service charge start date for the Project. In lieu of real estate taxes, the Company will pay an annual service charge. The annual service charge shall commence on the annual service charge date, and be an amount equal to the greater of: (a) 13.5% of annual gross revenues for the first five years; (ii) 14% of annual gross revenues for years 6-10; (iii) 14.5% of annual gross revenues for the years 11-15 or (b) the minimum annual service charge. Beginning in year 16, the annual service charge is the greater of (a) the minimum annual service charge, (b) 15% of the annual gross revenues or (c) a percentage of the taxes otherwise due on land and improvements as follows: 20% for years 16-21; 40% for years 22-27; 60% for years 28-29; and 80% for year 30.

Upon expiration of the Agreement, it is expected that real estate taxes would be charged at then current rates, without abatement or exemptions.

NOTE 6 – COMMITMENTS (CONTINUED)

FINANCIAL AGREEMENT (CONTINUED)

The Company is also required to pay the City of South Amboy excess profits in accordance with the provisions of N.J.S.A 40A:20-15. For the year ended December 31, 2018, no excess profits are due.

TOTAL PROJECT COST

Pursuant to the Agreement, the Company is subject to a limitation on its profits, which required any profits, in excess of the allowable net profits, all as defined in the Agreement and New Jersey State Legislative Statute N.J.S.A 40A:20-1 (the "Statute"), to be remitted to the City of South Amboy, as additional taxes. Allowable net profit was defined in the Statute as the amount arrived at by applying the allowable profit rate as the greater of 12% of the total project cost or the percentage per annum arrived at by adding 1.25% to the annual interest percentage rate payable on the Company's initial permanent mortgage financing.

PROFIT LIMITATION

The allowable net profit is calculated under N.J.S.A. 40A:20-1 as follows:

Total gross revenues	$ 1,326,523
Expenses	
Operating expenses	894,074
Payment in lieu of taxes	182,662
Debt service	713,881
Allowable total project cost amortization	1,067,240
Total allowable expenses	2,857,857
Net loss in accordance with N.J.S.A 40A:20-3	(1,531,334)
Less: Allowable Net Profit	3,842,064
Excess loss	$ (5,373,398)
Total Project Cost	$ 32,017,201

NOTE 7 – RELATED PARTY TRANSACTIONS

MANAGEMENT FEES

Pursuant to a management agreement dated February 1, 2018, the Company is required to pay Woodmont Management, LLC (the "Manager") a management fee equal to 3% of gross collected operating revenues or a minimum fee of $2,000 per month, whichever is greater. Management fees incurred for the year ended December 31, 2018 amounted to $47,401.

CONSTRUCTION MANAGEMENT AGREEMENT

On December 12, 2016, the Company entered into a construction agreement with an affiliate of a member, Woodmont South Amboy Construction, LLC ("Contractor"). The Contractor, as an independent contractor, is responsible for managing, arranging, supervising, and coordinating the planning, design, construction and completion of the Project. The construction costs incurred as of December 31, 2018 were $25,521,646 of which $152,183 is unpaid and included in accounts payable and accrued expenses on the accompanying balance sheet. In accordance with the terms of the agreement, the Contractor was paid a construction fee of $850,907 which was capitalized to rental property.

DUE FROM MEMBER

Due from member represents a non-interest bearing advance to a member of the Company.

NOTE 8 – SUBSEQUENT EVENTS

The Company evaluated all events and transactions that occurred after December 31, 2018 up through July 3, 2019, the date these financial statements were available for issue. During this period, the Company did not have any material subsequent events.