MORRISTOWN DEVELOPMENT URBAN RENEWAL PHASE I, LLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

MORRISTOWN DEVELOPMENT URBAN RENEWAL PHASE I, LLC

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INDEPENDENT AUDITORS' REPORT

To the Member
Morristown Development Urban Renewal Phase I, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Morristown Development Urban Renewal Phase I, LLC (the "Company"), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in member's capital (deficit) 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, 2019, 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
May 12, 2020

MORRISTOWN DEVELOPMENT URBAN RENEWAL PHASE I, LLC

BALANCE SHEET

DECEMBER 31, 2019

Assets		
Rental Property		
Land and land improvements	$ 12,377,426	
Building and building improvements	52,170,604	
Furniture, fixtures and equipment	2,243,481	
	66,791,511	
Less: accumulated depreciation	8,597,610	
Rental Property, Net		$ 58,193,901
Other Assets		
Cash		942,045
Restricted cash		199,628
Accounts receivable		28,222
Prepaid expenses and other assets		285,129
Total Assets		$ 59,648,925
Liabilities and Member's Deficit		
Liabilities		
Mortgage loan payable, net	$ 59,581,865	
Accounts payable and accrued expenses	175,893	
Accrued interest	199,412	
Due to affiliates	646,686	
Interest rate swap liability	3,662,293	
Tenants' security deposits	159,220	
Prepaid rent	226,868	
Total Liabilities		$ 64,652,237
Commitments		
Member's Deficit		(5,003,312)
Total Liabilities and Member's Deficit		$ 59,648,925

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

MORRISTOWN DEVELOPMENT URBAN RENEWAL PHASE I, LLC

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2019

Revenues		
Rental income	$ 6,918,275	
Reimbursement income	168,536	
Parking and other income	656,557	
Total Revenues		$ 7,743,368
Expenses		
Payment in lieu of taxes (annual service charge)	793,713	
Utilities	272,236	
Repairs and maintenance	520,117	
General and administrative	123,090	
Management fees	189,191	
Insurance	78,660	
Professional fees	92,512	
Advertising and marketing	139,189	
Cleaning	122,127	
Payroll	485,693	
Depreciation	1,767,623	
Bad debt expense	12,043	
Interest expense	2,679,066	
Unrealized loss on interest rate swap	3,662,293	
Total Expenses		10,937,553
Net Loss		$ (3,194,185)

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

MORRISTOWN DEVELOPMENT URBAN RENEWAL PHASE I, LLC

STATEMENT OF CHANGES IN MEMBER'S CAPITAL (DEFICIT)

FOR THE YEAR ENDED DECEMBER 31, 2019

Balance - January 1, 2019	$ 1,301,201
Contributions	19,672
Distributions	(3,130,000)
Net loss	(3,194,185)
Balance - December 31, 2019	$ (5,003,312)

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

MORRISTOWN DEVELOPMENT URBAN RENEWAL PHASE I, LLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

Cash Flows From Operating Activities		
Net loss	$ (3,194,185)	
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,767,623	
Amortization of debt issuance costs	273,602	
Unrealized loss on interest rate swap	3,662,293	
Realized loss on interest rate cap	1,840	
Bad debt expense	12,043	
Changes in operating assets and liabilities:		
Accounts receivable	26,290	
Prepaid expenses and other assets	4,310	
Accounts payable and accrued expenses	34,208	
Accrued interest	(6,037)	
Tenants' security deposits	(5,129)	
Prepaid rent	11,907	
Net Cash Provided by Operating Activities		$ 2,588,765
Cash Flows Used in Investing Activities		
Additions to rental property		(31,299)
Cash Flows From Financing Activities		
Payoff of loan payable	(60,000,000)	
Proceeds from mortgage payable	60,000,000	
Debt issuance costs	(473,550)	
Proceeds received from affiliates	459,750	
Contributions from member	19,672	
Distributions to member	(3,130,000)	
Net Cash Used in Financing Activities		(3,124,128)
Net Change in Cash and Restricted Cash		(566,662)
Cash and Restricted Cash - Beginning		1,708,335
Cash and Restricted Cash - Ending		$ 1,141,673

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

MORRISTOWN DEVELOPMENT URBAN RENEWAL PHASE I, LLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$	2,448,467
Supplemental Disclosure of Non-Cash Financing		
Write off of financing costs	$	487,933
Reconciliation of Cash and Restricted Cash		
Cash	$	942,045
Restricted cash		199,628
Cash and Restricted Cash - Ending	$	1,141,673

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

NOTE 1 – NATURE OF OPERATIONS

Morristown Development Urban Renewal Phase I, LLC (the "Company") is a Delaware limited liability company formed on May 15, 2012 for the purpose of acquiring, constructing and operating a 268-unit apartment building containing approximately 230,000 net rentable square feet located in Morristown, New Jersey (the "Property"). The sole member of the Company is Morristown Development LLC ("Member").

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The Company's records are maintained on the accrual basis of accounting for financial reporting purposes. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the depreciable life of property, realizability of accounts receivable and recoverability of rental property. Actual results could differ from those estimates.

RENTAL PROPERTY

Rental property is stated at cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments, which improve or extend the life of the asset are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Building and building improvements are depreciated over 40 years, land improvements over 20 years and furniture, fixtures and equipment are being depreciated over 5 years. For the year ended December 31, 2019, depreciation expense was $1,767,623.

On a periodic basis, management assesses whether there are any indicators that the value of the real estate property may be impaired. A property's value is impaired if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the estimated fair value of the property. Management does not believe that the value of the Property is impaired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a reserve for environmental guarantees and tenants' security deposits established pursuant to the respective leases.

ACCOUNTS RECEIVABLE

Accounts receivable are reflected net of allowance for doubtful accounts. The Company evaluates its accounts receivable on an individual tenant basis and establishes an allowance for doubtful accounts based on its evaluation of outstanding overdue accounts. At December 31, 2019, there was no allowance for doubtful accounts. The Company considers its accounts receivable balance to be collectible in full.

INTEREST RATE CAP

The Company had an interest rate cap that was used to mitigate the economic impact of changes in interest rates and was recognized on the balance sheet at fair value. The fair value of the interest rate cap as of December 31, 2018 was $1,840. The interest rate cap expired during 2019 and the Company recognized a loss of $1,840, which is included with interest expense on the accompanying statement of operations.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate swaps in order to reduce the effect of interest rate fluctuations on the Company's variable rate financing. The Company is potentially exposed to credit loss in the event of non-performance by counterparties; however, due to the counterparties' credit rating, the Company does not anticipate that the counterparties will fail to meet their obligations. Derivatives that are not hedges must be adjusted to fair value through earnings. The Company records the interest rate swaps at fair value with changes in fair value recorded in earnings.

DEBT ISSUANCE COSTS

Debt issuance costs represent costs incurred in connection with obtaining long-term debt and are recorded as a direct deduction of the related obligation on the accompanying balance sheet. Debt issuance costs are amortized over the term of the related debt obligation and included in interest expense on the accompanying statement of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RENTAL INCOME

Rental income is recognized as earned under operating leases, which are generally short term. As of December 31, 2019, approximately 84% of the residential units were occupied.

Reimbursable expenses incurred by the Company relate to the operation and maintenance of the Property and are charged to the tenants and included in reimbursement income 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 the Company is a single member limited liability company and is a disregarded entity for federal and state income tax purposes.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The guidance requires that the statement of cash flows explain the change during the period in the total of cash and amounts generally described as restricted cash. As a result, entities will no longer present transfers between these items on the statement of cash flows. The Company adopted the guidance on January 1, 2019 and has included restricted cash with cash when reconciling the beginning-of-period and end-of-period total amounts on the statement of cash flows.

NOTE 3 – MORTGAGE LOAN PAYABLE

On March 23, 2016, the Company entered into a loan agreement with TD Bank, N.A. and Santander Bank, N.A. (the “Lenders”) in the maximum loan amount of $60,000,000 (the “Mortgage Loan”). The Mortgage Loan was set to mature on April 1, 2021. The Mortgage Loan required interest only payments through maturity at an interest rate equal to (1) LIBOR plus 1.65% or (2) U.S. Prime Rate plus 1.00%, as determined.

In connection with the Mortgage Loan, the Company purchased an interest rate cap (the “CAP”) on March 23, 2016, which limited the interest rate to 6.25% per annum. As of December 31, 2019, there was a realized loss on the interest rate cap of $1,840, which was included with interest expense on the accompanying statement of operations.

NOTE 3 – MORTGAGE LOAN PAYABLE (CONTINUED)

On January 4, 2019, the Mortgage Loan was refinanced with TD Bank, N.A. and PNC Bank, National Association for $60,000,000 (the "New Loan"). The New Loan has a maturity date of December 1, 2026. The New Loan requires interest only payments through maturity at an interest rate equal to LIBOR plus 1.40%. As of December 31, 2019, the interest rate on the New Loan was 3.11%.

For the year ended December 31, 2019, the Company incurred interest expense of $2,232,866, of which $160,606 was unpaid and included in accrued interest on the accompanying balance sheet.

The Company is required to maintain a minimum debt service coverage ratio ("DSCR") of 1.20. At December 31, 2019, the required minimum DSCR was met.

Further, on January 4, 2019, in connection with the New Loan, the Company entered into an interest rate swap agreement (the "Swap"), effectively swapping the variable portion of the Floating Rate for a fixed rate of 2.5575% on a notional of up to $60,000,000. As of December 31, 2019, the Swap interest rate was 3.9575%. The Swap matures on December 1, 2026, in accordance with the agreement. At December 31, 2019, the fair value of the swap was a liability in the amount of $3,662,293. For the year ended December 31 2019, the Company incurred $170,758 of interest expense related to the Swap, of which $38,806 is unpaid and included in accrued interest.

The New Loan is collateralized by the Property and guaranteed by an affiliate of the Member.

Mortgage loan payable consists of the following as of December 31, 2019:

Principal balance	$ 60,000,000
Less: unamortized debt issuance costs	(418,135)
Mortgage loan payable, net of unamortized debt issuance costs	$ 59,581,865

NOTE 4 – FAIR VALUE MEASUREMENT

All financial instruments of the Company are reflected in the accompanying balance sheet at amounts which reasonably approximate their fair values based upon interpretation of available market information and valuation methodologies.

NOTE 4 – FAIR VALUE MEASUREMENT (CONTINUED)

Fair value is determined using a hierarchy which groups investments into three levels, based on the markets in which the assets are traded, if any, and the observability of the assumptions used to determine fair value. These levels are as follows:

Level 1 – Fair value is based on unadjusted quoted prices for identical investments traded in active markets as of the reporting date.

Level 2 – Pricing inputs other than quoted prices included within Level 1, which are either directly or indirectly observable as of the reporting date. Fair values are obtained from third party pricing services for comparable investments, quoted prices for identical investments in markets that are not active, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Pricing inputs that are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Fair values are derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques.

The input values used in the Company's fair value measurement of the interest swap are obtained from observable market data, therefore, classified as Level 2 under the fair value hierarchy. The estimated fair value is based on discounting future cash flows at interest rates that management believes reflect the risks associated with debt instruments of similar risk and duration.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2019. Although management is not aware of any factors that would significantly affect the fair value amounts, current estimates of fair value presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the asset or liability. The interest rate swap is valued within level 2 of the valuation hierarchy for the year ended December 31, 2019 as follows:

NOTE 4 – FAIR VALUE MEASUREMENT (CONTINUED)

	Level I	Level II	Level III	Total
Interest rate swap liability	$ --	$ 3,662,293	$ --	$ 3,662,293

There were no transfers in or out of Level 3 or between Level 1 and 2 investments during the year ended December 31, 2019.

NOTE 5 – COMMITMENTS

FINANCIAL AGREEMENT

The Company is party to a financial agreement (the "Agreement") with the Town of Morristown (the "Town") whereby the improvements to the land on which the Property is constructed are exempt from real estate taxes for a period of 30 years commencing on November 19, 2014. In lieu of real estate taxes, an Annual Service Charge ("ASC"), as defined, is charged during the term of the Agreement. Land taxes are not exempt; however, land tax payments are applied as a credit against the ASC.

The ASC is equal to the greater of the Minimum Annual Service Charge or 10.1% of Annual Gross Revenues ("AGR"), which excludes reimbursement income as defined, for each of years 1-12; the greater of 10.1% of AGR or 20% of the amount of taxes otherwise due for each of years 13-17; the greater of 10.1% of AGR or 40% of the amount of taxes otherwise due for each of years 18-22; the greater of 10.1% of AGR or 60% of the amount of taxes otherwise due for each of years 23-26; and the greater of 10.1% of AGR or 80% of the amount of taxes otherwise due for each of years 27-30. The Company is also required to pay to the Town an Administrative Fee equal to 2% of the Annual Service Charge.

For the year ended December 31, 2019, the Company paid an ASC of $793,713. The Company is also obligated to pay the Town excess profits in accordance with the provisions of N.J.S.A. 40A:20-1.

Minimum annual payments due under the Agreement as of December 31, 2019 are as follows:

2020	$ 265,200
2021	265,200
2022	265,200
2023	265,200
2024	265,200
Thereafter	5,273,567
	$ 6,599,567

NOTE 5 – COMMITMENTS (CONTINUED)

EXCESS PROFITS

During the period of tax exemption granted under the Agreement, the Company is obligated to pay the Town excess profits in accordance with the provisions of the Long-Term Tax Exemption Law ("N.J.S.A. 40A:20-1"). The Company is subject to a limitation on its profits, which requires any profits, in excess of the Allowable Net Profits, as defined in the Agreement, to be remitted to the Town as an additional service charge.

Allowable Net Profit is defined as the amount arrived at by applying the Allowable Profit Rate (the "Rate") to the Total Project Costs, as defined. The Rate, under the provision of the N.J.S.A. 40A:20-1 is the greater of 12% or 1.25%, plus the annual interest rate payable on the Company's initial permanent mortgage financing. The Rate was determined by management to be 12% per annum. The Total Project Costs were $68,012,052. For the year ended December 31, 2019, no excess profits were due.

The calculation of allowable net profit and excess profit (loss) under N.J.S.A. 40A:20-1 is as follows:

Total Gross Revenues	$ 7,743,368
Total Expenses	10,937,553
Adjustment to Expenses:	
Depreciation	(1,767,623)
Amortization of debt issuance costs	(273,602)
Allowable amortization of project costs	2,267,068
Adjusted Expenses	11,163,396
Net Income in accordance with N.J.S.A. 40A:20-1	(3,420,028)
Less: allowable annual net profit	8,161,446
Excess Loss	(11,581,474)
Excess Loss - Beginning	(27,395,827)
Excess Loss - Ending	$ (38,977,301)

NOTE 6 – MANAGEMENT AGREEMENT

Pursuant to a management agreement dated September 2, 2014, the Company is required to pay Mill Creek Residential a management fee equal to 2.5% of gross collected operating revenues. Management fees incurred for the year ended December 31, 2019 amounted to $189,191.

In addition, the Company is required to reimburse Mill Creek Residential for the costs of employees' salaries and benefits. The Property is known as the Modera44 and has a new sister property named Modera55. Beginning in May 2018, the cost of employees' salaries and benefits who work on both properties were allocated 60% for the Modera44 and 40% for Modera55.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company obtains insurance coverage from an affiliate of Prudential. For the year ended December 31, 2019, the Company was charged $78,660 by this affiliate.

On January 4, 2019, an affiliate of Prudential paid for loan refinancing costs on behalf of the Company in the amount of $453,750, which is included in due to affiliates on the accompanying balance sheet. At December 31, 2019, the total balance due to affiliates was $646,686.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent to year-end, the virus COVID-19, which was having a serious impact in Asia and Europe reached the US and has been spreading throughout the country. The virus has had a significant impact on the current economic conditions. As such, the operations of our tenants may be negatively impacted, and affect their ability to meet obligations in the near term. Long-term impact on the economy and tenancy is unknown. However, the effects could have a material impact on our operations, and we will continue to monitor the COVID-19 situation closely.

The Company evaluated all events and transactions that occurred after December 31, 2019 up through May 12, 2020, the date these financial statements were available for issue. During this period, other than as noted above, the Company did not have any material subsequent events.