

**LUZERN REALTY FUND II, LP
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Partners of
Luzern Realty Fund II, LP
New Canaan, Connecticut

We have reviewed the accompanying financial statements of Luzern Realty Fund II, LP, which comprise the statement of assets, liabilities, and partners' capital—income tax basis, as of December 31, 2019, and the related statements of revenue, expenses, and changes in partners' capital, and cash flows—income tax basis for the year ended December 31, 2019, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the income tax basis of accounting described in Note 1; this includes determining that the basis of accounting the company uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the company uses for income tax purposes. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2019 financial statements in order for them to be in accordance with the basis of accounting the company uses for income tax purposes.

Basis of Accounting

We draw your attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Report on 2018 Financial Statements

The 2018 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated June 4, 2019. We have not performed any auditing procedures since that date.

Kahan Steiger & Company P.C.
KAHAN, STEIGER & COMPANY, P.C.

Stamford, Connecticut
July 1, 2020

LUZERN REALTY FUND II, L.P.
STATEMENTS OF ASSETS, LIABILITIES, AND
PARTNERS' CAPITAL - INCOME TAX BASIS
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents	\$ 2,238	\$ 20,632
Investment in Parcel U Phase A, LLC	48,920	58,275
Investment in VFW Parkway Holdings, LLC	440,784	792,616
Capitalized Costs - Net of Amortization	44,491	57,820
Investment Cost	37,494	37,494
Due from VFW Parkway Holdings, LLC	2,313	2,313
TOTAL ASSETS	<u><u>\$ 576,240</u></u>	<u><u>\$ 969,150</u></u>
LIABILITIES AND PARTNERS' CAPITAL		
LIABILITIES		
Due to Luzern RF II, LLC	\$ 32,395	\$ -
TOTAL LIABILITIES	<u>32,395</u>	<u>-</u>
PARTNERS' CAPITAL	<u>543,845</u>	<u>969,150</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u><u>\$ 576,240</u></u>	<u><u>\$ 969,150</u></u>

See Accompanying Notes and Independent Accountants' Review Report

LUZERN REALTY FUND II, L.P.
STATEMENTS OF REVENUE, EXPENSES, AND
CHANGES IN PARTNERS' CAPITAL - INCOME TAX BASIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
EXPENSES		
Management Fees	42,352	155,207
Professional Fees	15,140	26,155
Property Operating & Administration Expenses	975	21,559
Amortization	13,329	38,990
	<u>71,796</u>	<u>241,911</u>
NET LOSS BEFORE OTHER INCOME (LOSS)	(71,796)	(241,911)
OTHER INCOME (LOSS)		
Interest Income	124,582	51,828
Net Investment Income (Loss) - Parcel U Phase A, LLC	-	1,258,521
Net Investment Income (Loss) - VFW Parkway Holdings, LLC (Note 6)	<u>(356,717)</u>	<u>(1,647,060)</u>
	(232,135)	(336,711)
NET INCOME (LOSS)	(303,931)	(578,622)
BEGINNING PARTNERS' CAPITAL	969,150	5,702,182
Distributions	<u>(121,374)</u>	<u>(4,154,410)</u>
ENDING PARTNERS' CAPITAL	<u>\$ 543,845</u>	<u>\$ 969,150</u>

See Accompanying Notes and Independent Accountants' Review Report

LUZERN REALTY FUND II, L.P.
STATEMENTS OF CASH FLOWS - INCOME TAX BASIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (303,931)	\$ (578,622)
Adjustments to reconcile Net Income (Loss) to Net Cash provided by (used in) Operating Activities:		
Amortization	13,329	38,990
Investment (Income) Loss	232,135	388,539
Increase (Decrease) in:		
Due to Affiliate	32,395	-
Accrued Taxes	-	(120,010)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(26,072)</u>	<u>(271,103)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Return from Parcel U Phase A, LLC	9,354	3,964,240
Investment Return from VFW Parkway Holdings, LLC	119,698	75,392
Cash Payments Received on Loan to Parcel U Phase A, LLC	-	206,091
Cash Payments for Capitalized Costs	-	(30,013)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>129,052</u>	<u>4,215,710</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Partner Distributions	(121,374)	(4,154,410)
Principal Payments on Mortgage	-	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(121,374)</u>	<u>(4,154,410)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,394)	(209,803)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>20,632</u>	<u>230,435</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,238</u>	<u>\$ 20,632</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Income Taxes	\$ -	\$ -
Interest Expense	\$ -	\$ -

See Accompanying Notes and Independent Accountants' Review Report

**LUZERN REALTY FUND II, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Operations

Luzern Realty Fund II, L.P. (“the Fund”) is a Delaware Limited Partnership that was formed June 14, 2013 to invest, directly or indirectly through special purpose entities, in commercial and residential real estate located in the northeast region of the United States. Luzern RFII, LLC is the General Partner of the Fund and is responsible for managing and making all investment decisions on behalf of the Fund.

The Fund will dissolve after all of the portfolio investments are sold. The Fund will hold all of the portfolio investments until such time as the General Partner determines that it is in the best interest of the Fund to sell. As a result, there is no guarantee as to when the Fund will dissolve and when the assets of the Fund will be distributed in final liquidation.

Use of Estimates

The preparation of financial statements in conformity with income tax basis of accounting 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 amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Repairs and Maintenance

Repairs and maintenance are expensed as incurred. On January 1, 2014, the Fund adopted the routine maintenance safe harbor method to expense costs that keep systems in ordinary efficient operating condition more than once over 10 years.

Real Estate Costs

Costs that relate to the acquisition of real estate are capitalized and depreciated along with the property. Costs relating to development and renovation of real estate are capitalized as Construction in Progress and not depreciated until the renovation phase is complete.

Cash and Cash Equivalents

For purposes of this financial statement, the Fund considers all liquid debt instruments with maturity of three months or less to be cash equivalents.

LUZERN REALTY FUND II, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Fund expenses advertising costs as incurred. Total advertising costs for both years ended December 31, 2019 and 2018 the amount spent was \$0.

Amortization

Organization costs and acquisition fees capitalized are amortized over 60 months.

Basis of Accounting

The Fund's policy is to prepare its financial statements on the income tax basis of accounting. Consequently, certain revenue and expenses are recognized in the determination of income in different reporting periods than they would be if the financial statements were prepared in conformity with generally accepted accounting principles (GAAP). Although income tax rules are used to determine the timing of the reporting of revenue and expenses, certain nontaxable revenues and nondeductible expenses are included in the determination of net income.

The primary differences of the income tax basis of accounting to GAAP are the measurement of real estate and variable interest entities. In accordance with GAAP, the carrying amount of the real estate is measured for impairment using an annual fair value assessment. GAAP may also require consolidating in the financial statements the financial results of variable interest entities. The Fund accounts for its portfolio investments by reporting its share of income, deductions and changes in capital as reported by the entity.

Concentration of Credit Risk

Financial instruments, which potentially expose the Fund to concentrations of credit risk, consist principally of cash. The Fund places its cash in high credit quality financial institutions. At times during the year, the balance in any one bank may exceed the Federal Deposit Insurance Corporation insurance limit. The Fund does not believe that significant credit risk exists at December 31, 2019 and 2018.

Income Taxes

The Fund does not incur federal or state income taxes; instead, earnings are included in the partners' personal income tax returns and taxed depending on their personal tax situation. The financial statements do not reflect a provision for income taxes. It is the Fund's policy to charge interest and penalties on the underpayment of income taxes to interest expense and penalties expense categories, respectively. For both years ended December 31, 2019 and 2018 the amount recognized was \$0.

**LUZERN REALTY FUND II, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertain Tax Positions

Management has determined that the Fund does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Fund's tax returns will not be challenged by the taxing authorities and that the Fund or its partners will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the Fund's tax returns remain open for three years for federal income tax, Connecticut, and Massachusetts examination.

NOTE 2 – RELATED PARTY TRANSACTIONS

In the ordinary course of operations, the Fund enters into transactions with a related party, Luzern Management Company, Inc. The companies are considered related parties because of common ownership. The Fund has agreed to pay the related company certain fees for services associated with fund management, acquisition, refinancing and property management. Payments for such fees amounted to \$42,352 and \$131,473 for the years ended December 31, 2019 and 2018, respectively, which excludes fees paid by joint venture entities (see Note 3).

A loan was recorded during 2019 for the amount of \$32,395 which represents the distributions owed to the General Partner. This amount will be written off in 2020.

NOTE 3 – INVESTMENTS

Parcel U Phase A, LLC

On March 8, 2016, the Fund entered into an operating agreement with JP Parcel U Phase 1, LLC (Urbanica) forming Parcel U Phase A LLC (the Company). The Company acquired a 3.6-acre parcel of land located in Jamaica Plains, Massachusetts. The Company developed 24 residential condominium units on the parcel and completed sales of such units in 2018. As of December 31, 2019, the Fund had an investment of \$48,920 representing deposits held by the City of Boston related to certain permits. Such deposits have been deemed non-refundable and the investment amount and corresponding liability to the general partner of \$32,395 will be written off by the Fund in 2020.

LUZERN REALTY FUND II, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - INVESTMENTS (Continued)

VFW Parkway Holdings, LLC

On November 6, 2017, the Fund entered into an operating agreement with VFW Parkway Holdings, LLC. ("VFW") which entity is owned 37% by the Fund and 63% by Luzern Realty Fund III LP ("Fund III"). On November 17, 2017, VFW entered into an operating agreement with EAFD WRGP LLC (third party entity) for a 59.5% ownership interest in EAFD West Roxbury LLC ("EAFD"). EAFD acquired a 1.83-acre land parcel which completed construction of an 80 unit residential rental project located in West Roxbury, Massachusetts. VFW contributed initial equity of \$4,705,620 and preferred equity of \$2,089,850 into EAFD. The Fund owns a 37% interest in the initial equity and preferred equity, \$1,742,372 and \$773,244, respectively. The preferred equity provides for a 9% yield to be paid monthly and a total yield of 12% to be paid from operating cash flows, refinance or sale of the property subject to the terms of the operating agreement. The Fund advanced \$2,313 for startup costs, to be repaid as funds become available. The preferred equity distributions received in 2019 and 2018 were \$119,698 and \$75,391 respectively which was simultaneously distributed to the partners.

NOTE 4 - CAPITALIZED COSTS

Capitalized costs consist of the following at December 31:

	2019	2018
Organization Costs	\$ 25,649	\$ 25,649
Acquisition Fees	66,646	66,646
	92,295	92,295
Accumulated Amortization	(47,804)	(34,475)
	<u>\$ 44,491</u>	<u>\$ 57,820</u>

LUZERN REALTY FUND II, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 – PARTNERS’ CAPITAL SUMMARY

The activity in the capital account from inception to December 31, 2019 is as follows:

	<u>TOTAL</u>	<u>GENERAL PARTNER</u>	<u>LIMITED PARTNERS</u>
Initial Contributions	\$ 9,118,779	\$ 8,848	\$ 9,109,931
Net Loss - 2013	<u>(38,543)</u>	<u>(38)</u>	<u>(38,505)</u>
Balance at December 31, 2013	<u>9,080,236</u>	<u>8,810</u>	<u>9,071,426</u>
Contributions	702,303	-	702,303
Net Loss - 2014	(235,826)	(236)	(235,590)
Distributions	<u>(672,303)</u>	<u>(692)</u>	<u>(671,611)</u>
Balance at December 31, 2014	<u>8,874,410</u>	<u>7,882</u>	<u>8,866,528</u>
Net Income - 2015	1,158,965	784,908	374,057
Distributions	<u>(4,510,254)</u>	<u>(787,102)</u>	<u>(3,723,152)</u>
Balance at December 31, 2015	<u>5,523,121</u>	<u>5,688</u>	<u>5,517,433</u>
Contributions	3,201,475	3,202	3,198,273
Net Loss - 2016	(346,980)	(382)	(346,598)
Distributions	<u>(916,824)</u>	<u>(8,412)</u>	<u>(908,412)</u>
Balance at December 31, 2016	<u>7,460,792</u>	<u>96</u>	<u>7,460,696</u>
Contributions	2,634,503	3,356	2,631,147
Net Income - 2017	3,110,440	3,423	3,107,017
Distributions	<u>(7,503,553)</u>	<u>(5,883)</u>	<u>(7,497,670)</u>
Balance at December 31, 2017	<u>5,702,182</u>	<u>992</u>	<u>5,701,190</u>
Net Income (Loss) - 2018	(578,622)	228,661	(807,283)
Distributions	<u>(4,154,410)</u>	<u>(231,539)</u>	<u>(3,922,871)</u>
Balance at December 31, 2018	<u>969,150</u>	<u>(1,886)</u>	<u>971,036</u>
Net Income (Loss) - 2019	(303,931)	17,252	(321,183)
Distributions	<u>(121,374)</u>	<u>(17,767)</u>	<u>(103,607)</u>
Balance at December 31, 2019	<u>\$ 543,845</u>	<u>\$ (2,401)</u>	<u>\$ 546,246</u>

LUZERN REALTY FUND II, LP
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - EAFD - RESULTS OF OPERATIONS

The construction on the West Roxbury, Massachusetts property (EAFD) was completed in August 2018. A cost segregation study was performed to reclassify personal property to shorter class lives which optimizes depreciation for income tax deductions. The Fund's portion of operations from EAFD are as follows:

	2019	2018
Income	\$ 445,996	\$ 90,482
Operating Expenses	(302,312)	(43,242)
Interest Expense	(350,790)	(161,094)
Net Operating Income (Loss)	(207,106)	(113,854)
Depreciation	(149,611)	(1,533,206)
Net Income (Loss)	<u>\$ (356,717)</u>	<u>\$ (1,647,060)</u>

NOTE 7 - DISTRIBUTION WATERFALL

Once the Limited Partners have received a rate of return equal to 8% of their invested capital, distributable cash from operations is allocated on a pro-rata basis at 70% to Limited Partners and 30% to the General Partner. Distributable cash from each realized investment is first paid to the Limited Partners until all of the capital funding of the attributable investment is returned plus an annual yield of 8%. Second, 30% of remaining distributable cash is paid to the General Partner and 70% to the Limited Partners until the realized investment yields 13%. Finally, any excess is distributed 50/50 between the General and Limited Partners.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 1, 2020. On April 13, 2020 the 80-unit residential rental property located in West Roxbury, Massachusetts (see footnote 3) was sold for \$41,761,800. Upon closing, the net proceeds (after closing costs) were utilized to paydown the construction loan and preferred equity in full, establish a \$625,000 reserve in accordance with the terms of the purchase and sale agreement and make distributions to the joint venture partners. The Fund received a distribution of \$785,299 related to its preferred equity investment and a distribution of \$3,349,491 related to its initial equity investment. Funds received were distributed to the Partners on April 30, 2020 in accordance with the terms of the limited partnership agreement of the Fund. The Fund anticipates making its final distribution in November 2020. Dissolution of the Fund will be effective December 31, 2020 and final tax returns will be filed thereafter.