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

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

Kahan
Steiger & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying financial statements of Luzern Realty Fund III, 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 taxes 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 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 puposes.

**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 III, L.P.**
**STATEMENTS OF ASSETS, LIABILITIES, AND PARTNERS' CAPITAL - INCOME TAX BASIS**
**DECEMBER 31, 2019 AND 2018**

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 75,821 | $ 302,388 |
| Investment in VFW Parkway Holdings, LLC | 753,183 | 1,352,248 |
| Capitalized Costs - Net of Amortization | 78,393 | 102,198 |
| Investment Cost | 11,933 | - |
| Due from Affiliates | 3,944 | 4,979 |
| **TOTAL ASSETS** | $ 923,274 | $ 1,761,813 |
| **PARTNERS' CAPITAL** | | |
| PARTNERS' CAPITAL | $ 923,274 | $ 1,761,813 |
| **TOTAL PARTNERS' CAPITAL** | $ 923,274 | $ 1,761,813 |

See Accompanying Notes and Independent Accountants' Review Report

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

| | 2019 | 2018 |
|---|---|---|
| EXPENSES | | |
| Amortization | $ 23,805 | $ 16,732 |
| Management Fees | 175,000 | - |
| Professional Fees | 37,819 | 19,722 |
| | 236,624 | 36,454 |
| NET LOSS BEFORE OTHER INCOME (LOSS) | (236,624) | (36,454) |
| OTHER INCOME (LOSS) | | |
| Interest Income | 212,127 | - |
| Net Investment Income (Loss) - VFW Parkway Holdings, LLC (Note 8) | (607,381) | (2,804,453) |
| | (395,254) | (2,804,453) |
| **NET LOSS** | (631,878) | (2,840,907) |
| **BEGINNING PARTNERS' CAPITAL** | 1,761,813 | 4,731,089 |
| Distributions | (206,661) | (128,369) |
| **ENDING PARTNERS' CAPITAL** | $ 923,274 | $ 1,761,813 |

See Accompanying Notes and Independent Accountants' Review Report

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

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Loss | $ (631,878) | $ (2,840,907) |
| Adjustments to Reconcile Net Loss to Net Cash Provided By (Used in) Operating Activities: | | |
| Amortization | 23,805 | 16,732 |
| Investment Loss | 395,254 | 2,804,453 |
| (Increase) Decrease In: | | |
| Subscription Receivable | - | 97,989 |
| Due From Affiliate | 1,035 | (2,066) |
| Investment Cost | (11,933) | - |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (223,717) | 76,201 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Cash Payments for Capitalized Costs | - | (47,149) |
| Investment Return from VFW Parkway Holdings, LLC | 203,811 | 128,369 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 203,811 | 81,220 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Partner Distributions | (206,661) | (128,369) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (206,661) | (128,369) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (226,567) | 29,052 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 302,388 | 273,336 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 75,821 | $ 302,388 |

| | 2019 | 2018 |
|---|---|---|
| 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 III, 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 III, L.P. ("the Fund") is a Delaware Limited Partnership that was formed October 23, 2017 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 RFIII, 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 the 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.

### 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.

### 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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the years ended December 31, 2019 and 2018 the amount recognized was $0.

### 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 – INVESTMENTS

On November 6, 2017, the Fund entered into an operating agreement with VFW Parkway Holdings, LLC. ("VFW") which entity is owned 63% by the Fund and 37% by Luzern Realty Fund II LP ("Fund II"). On November 17, 2017, VFW entered into an operating agreement with

**NOTE 2 – INVESTMENTS (Continued)**

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 63% interest in the initial equity and preferred equity, $2,964,541 and $1,316,606, 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 preferred equity distributions received in 2019 and 2018 were $203,811 and $128,369 respectively, which were simultaneously distributed to the partners.

**NOTE 3 – PARTNERS' CAPITAL SUMMARY**

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

| | TOTAL | GENERAL PARTNER | LIMITED PARTNERS |
|---|---|---|---|
| Initial Contributions | $ 4,741,362 | $ 4,741 | $ 4,736,621 |
| Net Loss - 2017 | (10,273) | (12) | (10,261) |
| Balance at December 31, 2017 | 4,731,089 | 4,729 | 4,726,360 |
| Net Loss - 2018 | (2,840,907) | (3,251) | (2,837,656) |
| Distributions | (128,369) | (3,252) | (125,117) |
| Balance at December 31, 2018 | 1,761,813 | (1,774) | 1,763,587 |
| Net Loss - 2019 | (631,878) | 29,286 | (661,164) |
| Distributions | (206,661) | (30,251) | (176,410) |
| Balance at December 31, 2019 | $ 923,274 | $ (2,739) | $ 926,013 |

## NOTE 4 - COMMITMENTS

Total subscriptions received from Limited Partners for Luzern Realty Fund III L.P. in accordance with the terms of the Limited Partnership Agreement dated October 23, 2017 ("Partnership Agreement"), was $18,000,000. Total contributions received as of December 31, 2018 was $4,741,362. Remaining commitments in accordance with the terms of the Partnership Agreement are $13,258,639. As of December 31, 2019, and 2018 equity of 26.27% is owned by five Limited Partners, while 7.51% is held by individual members of the General Partner.

Capital commitments will be drawn as necessary to make portfolio investments and meet organization and fund expenses. According to the partnership agreement, the Fund's manager, can charge a management fee of 1½% per annum of capital commitments of the Limited Partners. As of December 31, 2019, and 2018 the deferred fees were $195,000 and $170,000 respectively, and were satisfied in March 2020. A Funding Notice will be provided by the General Partner to the Limited Partners ten days in advance of the required funding date.

## NOTE 5 - 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 $175,000 and $47,149 for the years ending December 31, 2019 and 2018, respectively. Also, the Fund has advanced amounts to the related party of $3,944 and $4,979 as of December 31, 2019, and 2018 respectively. These amounts are reflected on the balance sheet as Due from Affiliates and will be repaid in 2020.

## NOTE 6 – 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 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.

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

### NOTE 7 – CAPITALIZED COSTS

Capitalized costs consist of the following at December 31, 2018:

| | 2019 | 2018 |
|---|---|---|
| Organization Costs | $ 5,543 | $ 5,543 |
| Acquisition Fees | 113,479 | 113,479 |
| | 119,022 | 119,022 |
| Accumulated Amortization | (40,629) | (16,824) |
| | $ 78,393 | $ 102,198 |

### NOTE 8 – 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 | $ 759,398 | $ 154,065 |
| Operating Expenses | (514,745) | (73,630) |
| Interest Expense | (597,291) | (274,294) |
| Net Operating Income (Loss) | (352,638) | (193,859) |
| Depreciation | (254,743) | (2,610,594) |
| Net Income (Loss) | $ (607,381) | $ (2,804,453) |

## NOTE 9 – 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 2) was sold for $41,761,800. Upon closing, the net proceeds (after closing costs) were utilized to pay down 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 $1,337,130 related to its preferred equity investment and a distribution of $5,703,135 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.

On April 13, 2020 the Fund closed on the acquisition of 410 Forest Street located in Marlborough Massachusetts, a 32,500-sf industrial building 100% occupied by a single tenant. The property is 100% owned by the Fund and the acquisition was capitalized with a first mortgage loan in the amount of $3,010,000 and an equity contribution of $1,517,783.

On March 16, 2020 the Fund manager issued a capital call in the total amount of $1,890,783. Contributions received were used for the above investment and to pay asset management fees in accordance with the Partnership Agreement. Remaining commitments after such contribution are $11,367,856.