

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

**FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020**



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, 2021 and 2020, and the related statements of revenue, expenses, and changes in partners' capital income tax basis, and cash flows—income tax basis for the years ended December 31, 2021 and 2020, 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 the income tax basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying 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.

Kahan Steiger & Company PC.

KAHAN, STEIGER & COMPANY, P.C.

Stamford, Connecticut
July 12, 2022

LUZERN REALTY FUND III, L.P.
STATEMENTS OF ASSETS, LIABILITIES, AND
PARTNERS' CAPITAL - INCOME TAX BASIS
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents	\$ 915,737	\$ 874,876
Real Estate - Net of Depreciation	10,856,737	8,574,892
Capitalized Costs - Net of Amortization	627,298	297,858
Investment Cost	23,846	23,846
Due from Affiliates	24,851	-
TOTAL ASSETS	<u><u>\$ 12,448,469</u></u>	<u><u>\$ 9,771,472</u></u>
 LIABILITIES AND PARTNERS' CAPITAL		
LIABILITIES		
Security Deposits	\$ 360,891	380,333
Mortgages Payable	10,271,708	8,110,000
TOTAL LIABILITIES	<u>10,632,599</u>	<u>8,490,333</u>
 PARTNERS' CAPITAL	<u>\$ 1,815,870</u>	<u>\$ 1,281,139</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u><u>\$ 12,448,469</u></u>	<u><u>\$ 9,771,472</u></u>

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
RENTAL INCOME	\$ 908,258	\$ 274,698
EXPENSES		
Insurance	8,176	4,604
Property Taxes	66,105	55,215
Management Fees	254,528	470,825
Professional Fees	61,379	79,207
Utilities	5,607	-
Property Operating & Administration Expenses	1,093	1,325
	<u>396,888</u>	<u>611,176</u>
NET INCOME (LOSS) BEFORE DEPRECIATION & AMORTIZATION	511,370	(336,478)
DEPRECIATION & INTEREST EXPENSE		
Interest Expense	261,077	56,381
Depreciation & Amortization	1,015,462	3,154,030
	<u>1,276,539</u>	<u>3,210,411</u>
NET LOSS BEFORE OTHER INCOME (LOSS)	(765,169)	(3,546,889)
OTHER INCOME (LOSS)		
Interest Income	375	50,156
Net Investment Income - VFW Parkway Holdings, LLC	-	6,500,255
	<u>375</u>	<u>6,550,411</u>
NET INCOME (LOSS)	(764,794)	3,003,522
BEGINNING PARTNERS' CAPITAL	1,281,139	923,274
Contributions	1,714,331	4,592,800
Distributions	(414,806)	(7,238,457)
ENDING PARTNERS' CAPITAL	<u>\$ 1,815,870</u>	<u>\$ 1,281,139</u>

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, 2021 AND 2010

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (764,794)	\$ 3,003,522
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Investment (Income) Loss	-	(6,550,403)
Amortization & Depreciation	1,015,462	3,154,030
(Increase) Decrease in Due From Affiliate	(24,851)	3,944
Increase in Investment Cost	-	(11,913)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>225,817</u>	<u>(400,820)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Return from VFW Parkway Holdings, LLC	-	7,303,586
Cash Payments for Real Estate Purchases	(3,626,747)	(11,948,387)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(3,626,747)</u>	<u>(4,644,801)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash (Paid) Received from Security Deposits	(19,442)	380,333
Partner Contributions	1,714,331	4,592,800
Partner Distributions	(414,806)	(7,238,457)
Principal Payments	(101,404)	-
Mortgage Proceeds	2,263,112	8,110,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>3,441,791</u>	<u>5,844,676</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	40,861	799,055
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>874,876</u>	<u>75,821</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 915,737</u></u>	<u><u>\$ 874,876</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Income Taxes	\$ -	\$ -
Interest Expense	\$ 261,077	\$ 56,381

See Accompanying Notes and Independent Accountants' Review Report

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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.

Real Estate Holdings

The Fund owns one hundred percent interest of three subsidiaries; 90-104 John Murphy Drive LLC (JMD), 410 Forest LLC (Forest), and 305 Kenneth Welch LLC (Kenneth), whose operations are included in the financial statements. JMD owns a 64,722 square foot industrial building located in New Haven, Connecticut. Forest owns a 32,500 square foot industrial building located in Marlborough, Massachusetts. Kenneth owns a 33,600 square foot industrial building located in Lakeville, Massachusetts.

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. Closing costs are capitalized over the life of the mortgage. Leasing commissions are amortized over the life of the lease.

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020.

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, 2021 and 2020 the amount recognized was \$0. The Fund's wholly-owned subsidiaries are single-member limited liability companies, and as such, are not separate taxable entities. Their activity is included in the Fund's earnings, and are taxed accordingly.

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

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Repairs and Maintenance

Repairs and maintenance costs are expensed as incurred. The Fund uses 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.

Depreciation and Amortization

A cost segregation study was performed to reclassify personal property to shorter class lives which optimizes depreciation for income tax deductions. As a result, certain building and fixtures were allocated from the 39-year building category to shorter lives and depreciated using the 100% bonus depreciation deduction for the first year. The remaining building and improvements are being depreciated using the straight-line method over the estimated useful life 39 years. The states have not adopted the bonus method of depreciation.

NOTE 2 – INVESTMENTS

On November 6, 2017, the Fund entered into an operating agreement with VFW Parkway Holdings, LLC. ("VFW") which was 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 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 owned a 63% interest in the initial equity and preferred equity, \$2,964,541 and \$1,316,606, respectively. The preferred equity provided for a 9% yield paid monthly and a total yield of 12% paid from operating cash flows. On April 13, 2020 the property was sold for \$41,761,800. The net proceeds (after closing costs) were utilized to pay down the construction loan and preferred equity in full, and make distributions to the joint venture partners. The Fund received a

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2 – INVESTMENTS (Continued)

distribution of \$1,337,130 related to its preferred equity investment and a distribution of \$5,966,456 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.

NOTE 3 – PARTNERS' CAPITAL SUMMARY

The activity in the capital account from inception to December 31, 2021 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
Contributions	4,592,800	4,228	4,588,572
Net Income - 2020	3,003,522	1,080,381	1,923,141
Distributions	(7,238,457)	(1,087,513)	(6,150,944)
Balance at December 31, 2020	1,281,139	(5,643)	1,286,782
Contributions	1,714,331	1,719	1,712,612
Net Loss - 2021	(764,794)	(765)	(764,029)
Distributions	(414,806)	(21,126)	(393,680)
Balance at December 31, 2021	\$ 1,815,870	\$ (25,815)	\$ 1,841,685

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 was \$10,964,677. Remaining commitments in accordance with the terms of the Partnership Agreement are \$7,035,323. As of December 31, 2021, 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, 2021, and 2020 the total deferred fees were \$158,300 and \$193,300, respectively. 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 \$509,528 and \$578,325 for the years ending December 31, 2021 and 2020, respectively. Also, the Fund has received advances of \$24,851 during 2021 which is reflected as Due from Affiliates on the balance sheet. The advances will be repaid in 2022.

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 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.

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 7 - CAPITALIZED COSTS

Capitalized costs consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Organization Costs	\$ 5,543	\$ 5,543
Leasing Commissions	146,751	-
Acquisition Fees	362,500	107,500
Closing Costs	210,888	210,888
	<u>725,682</u>	<u>323,931</u>
Accumulated Amortization	(98,384)	(26,073)
	<u><u>\$ 627,298</u></u>	<u><u>\$ 297,858</u></u>

NOTE 8 - REAL ESTATE

Real estate holdings consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,922,253	\$ 2,058,200
Building	11,932,742	9,571,799
	<u>14,854,995</u>	<u>11,629,999</u>
Accumulated Depreciation	(3,998,258)	(3,055,107)
	<u><u>\$ 10,856,737</u></u>	<u><u>\$ 8,574,892</u></u>

NOTE 9 - LONG TERM DEBT

Upon purchase of the Forest property, the Fund entered into a mortgage loan agreement payable to a bank for \$3,010,000. The loan is secured by the building which has a carrying cost of \$4.3 million, and matures on April 1, 2027. The note bears interest at LIBOR plus 2% per annum, but is fixed at 2.9% pursuant to a swap agreement amortized over 30 years. The mortgage is payable monthly over 84 months, with the first 36 months at interest only, and is guaranteed by the Fund at 10% of the loan subject to renewal or release of space upon expiration of exiting tenant.

Upon purchase of the JMD property, the Fund entered into a mortgage loan agreement payable to a bank for \$5,100,000. The loan is secured by the building which has a carrying cost of \$7.33

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 9 - LONG TERM DEBT (Continued)

million, as well as a nonrecourse carveout guarantee of the General Partner of the Fund. The mortgage is payable in monthly installments of principal and interest over 30 years, at a fixed rate of 3.25%, and matures on December 22, 2025. For a fee of .25% of the unpaid balance, the Fund has two options to extend the maturity date in 12 month intervals.

Upon purchase of the Kenneth property, the Fund entered into a mortgage loan agreement payable to a bank for \$1,660,000 with an additional credit facility of \$880,000 for capital improvements. The loan is secured by the building which has a carrying cost of \$3.2 million, as well as the assignment of tenant leases and the nonrecourse carveout guarantee of the General Partner of the Fund. The mortgage bears interest at a rate of 3.50% per annum and is payable in monthly payments of interest only. The principal is due at the maturity date of June 10, 2028.

The following is a summary of principal maturities of loans payable over the next 5 years ending December 31:

2022	104,796
2023	167,038
2024	201,315
2025	208,126
2026	214,712

NOTE 10 - DESCRIPTION OF LEASING ARRANGEMENTS

The Fund has operating lease agreements with commercial tenants in 410 Forest St and 90/104 John Murphy Drive and 305 Kenneth Welch Drive through 12/31/24 and 12/31/32, respectively, for rental space in the buildings. The commercial leases provide for fixed base rents which include operating expense and real estate tax reimbursement.

For the years ending December 31, future minimum lease payments through 12/31/26 to be received are as follows:

2022	\$	1,093,000
2023	\$	1,115,015
2024	\$	1,137,628
2025	\$	884,606
2026	\$	908,465
Thereafter	\$	4,347,047
	\$	<u>9,485,761</u>

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 11 - RESULTS OF OPERATIONS

The Fund's rental operations for the current and prior years are as follows:

	<u>2021</u>			
	<u>410 Forest *</u>	<u>John Murphy Drive *</u>	<u>Kenneth Welch Drive ***</u>	<u>Total</u>
Income	\$ 353,982	\$ 526,878	\$ 27,398	\$ 908,258
Operating Expenses	(89,988)	(31,992)	(21,837)	\$ (143,817)
Interest Expense	(88,502)	(166,524)	(6,050)	\$ (261,076)
Net Operating Income (Loss)	175,492	328,362	(489)	503,365
Depreciation	(87,118)	(145,877)	(781,358)	(1,014,353)
Net Income (Loss)	<u>\$ 88,374</u>	<u>\$ 182,485</u>	<u>\$ (781,847)</u>	<u>\$ (510,988)</u>

	<u>2020</u>			
	<u>410 Forest *</u>	<u>John Murphy Drive *</u>	<u>EAFD **</u>	<u>Total</u>
Income	\$ 261,650	\$ 13,049	\$ 232,493	\$ 507,192
Operating Expenses	(67,847)	-	(187,842)	\$ (255,689)
Interest Expense	(56,381)	-	(128,767)	\$ (185,148)
Net Operating Income (Loss)	137,422	13,049	(84,116)	66,355
Depreciation	(1,203,005)	(1,874,756)	(87,572)	(3,165,333)
Net Income (Loss)	<u>\$ (1,065,583)</u>	<u>\$ (1,861,707)</u>	<u>\$ (171,688)</u>	<u>\$ (3,098,978)</u>

* Bought in 2020

** Sold in 2020

*** Bought in 2021

LUZERN REALTY FUND III, LP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 12, 2022. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which have not impacted the Fund's operations as of the date of this report. However, if the outbreak causes weaknesses that could negatively impact occupancy levels at the Fund's properties, future rental income could be affected.

On March 20, 2022, the Fund issued a capital call in the amount of \$4,063,851 of which \$3,192,515 was utilized for investments in real estate (see below). The balance is being held in cash.

On March 24, 2022, the Fund closed on the acquisition of 770-790 Marshall Phelps Road, located in Windsor, Connecticut, a 62,080 square foot industrial building. The acquisition was Funded with equity of \$2,192,515 and a first mortgage loan of \$3,396,000. The property is 100% owned by the Fund.

On April 27, 2022, the Fund entered into an operating agreement with FF DHR LLC (third party entity) for a 50% ownership interest in LFF JV LC ("LFF"). Simultaneously LFF acquired 415 and 425 Day Hill Road, located in Windsor, Connecticut, an 80,000 square foot two building complex. LFF intends to redevelop the property into a 170,000 square foot industrial building. LFF was capitalized with initial equity of \$2,000,000 of which \$1,000,000 was contributed by the Fund.