DVL, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2019

DVL, Inc. and Subsidiaries

Contents

Independent Auditor's Report

Board of Directors
DVL, Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of DVL, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2019, the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DVL, Inc. and its subsidiaries as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Philadelphia, Pennsylvania
May 18, 2020

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2019
(in thousands)

ASSETS

Residual interests in securitized portfolios	$	11,807
Mortgage loans receivable from affiliated partnerships		1,635
Allowance for loan losses		-
Net mortgage loans receivable		1,635
Cash		3,635
AMT refund receivable		1,255
Economic Redevelopment Grant receivable		4,545
Investments		
Equity interest in real estate		5,461
Real estate (net of accumulated depreciation and amortization of $1,768)		2,550
Real estate held for sale		2,017
Affiliated limited partnerships (net of allowance for losses of $185)		216
Operating lease - right of use asset		1,401
Deferred charges and other assets		677
Total assets	$	35,199

See notes to consolidated financial statements

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2019
(in thousands except share data)
(continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Secured debt - other	$	2,949
Accrued developer fee		1,698
Accrued liabilities, accounts payable and security deposits		2,084
Operating lease - right of use liability		1,555
Total liabilities		8,286
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.01 par value, authorized - 12,000 shares; issued and outstanding - 5,407 shares		-
Additional paid-in-capital		96,619
Deficit		(69,706)
Total shareholders' equity		26,913
Total liabilities and shareholders' equity	$	35,199

See notes to consolidated financial statements

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
Year Ended December 31, 2019
(in thousands)

Income from affiliates:		
Earnings from equity interest in real estate	$	6,441
Interest on mortgage loans		696
Partnership management fees		120
Management fees		228
Transaction and other fees from partnerships		153
Distributions and gains from partnership interests		856
Income from others:		
Interest income - residual interests		1,994
Rental income		381
Other income and interest		259
Gain on sale of property		246
		11,374
Operating expenses:		
General and administrative		2,611
Property operating expenses (including depreciation and amortization of $101)		190
Asset servicing fee - NPO Management LLC		974
Legal and professional fees		515
Litigation cost - Kearny		1,623
Interest expense:		
Notes payable - residual interests		36
Affiliates		147
Others		148
		6,244
Net Income	$	5,130

See notes to consolidated financial statements

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For The Period Ended December 31, 2019
(in thousands except share data)

	Common Stock		Additional Paid-In		
	Shares	Amount	Capital	Deficit	Total
Balance - January 1, 2019	5,404	$ -	$ 96,625	$ (74,836)	$ 21,789
Issuance of Common Shares	14	-	30	-	30
Purchase and retirement of shares	(11)	-	(36)	-	(36)
Net Income	-	-	-	5,130	5,130
Balance December 31, 2019	5,407	$ -	$ 96,619	$ (69,706)	$ 26,913

See notes to consolidated financial statements

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2019
(in thousands)

Cash flows from operating activities:		
Net income	$	5,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from equity interest in real estate		(6,441)
Gain on sale of property		(246)
Non-cash stock compensation		30
Interest accretion on residual interests		(95)
Net increase in accrued interest on debt		57
Depreciation and amortization		163
Amortization of prepaid financing costs		40
Recovery of losses		(135)
Change in operating assets and liabilities:		
Net decrease in economic redevelopment grant receivable		486
Net decrease in AMT refund receivable		1,258
Net decrease in deferred charges and other assets		169
Net decrease in accrued developer fee		(75)
Net decrease in accrued liabilities, accounts payable and security deposits		(732)
Collections on mortgage loans receivable from affiliated partnerships		1,119
Principal collections on residual interests		3,336
Net cash provided by operating activities		4,064
Cash flows from investing activities:		
Distributions from equity interest in real estate		2,870
Proceeds from sale of real estate		702
Real estate held for sale		(431)
Proceeds from liquidation of units in affiliated limited partnerships		222
Purchase of units in affiliated limited partnerships		(4)
Net cash provided by investing activities		3,359
Cash flows from financing activities:		
Principal payments on secured debt - other		(5,819)
Purchase and retirement of common stock		(36)
Net cash used in financing activities		(5,855)
Net increase in cash		1,568
Cash, beginning of period		2,067
Cash, end of period	$	3,635
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	165
Non cash operating activity		
Establishment operating lease - right of use asset	$	(1,589)
Establishment operating lease - right of use liability	$	1,749
Non cash investing activity		
Mortgage loans transferred to REO	$	1,887

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

a. THE COMPANY: DVL, Inc. is a Delaware corporation. DVL is a commercial finance company which is primarily, through subsidiaries, engaged in (a) the ownership of residual interests in securitized portfolios, (b) the direct and indirect ownership of real estate, (c) the ownership and servicing of a portfolio of secured commercial mortgage loans made to limited partnerships in which DVL serves as general partner, which we refer to as Affiliated Limited Partnerships and (d) the performance of real estate asset management and administrative services. All references to "DVL," "we," "us," "our," or the "Company" refer to DVL, Inc. and its consolidated subsidiaries.

DVL's investments consist primarily of residual interests in securitized portfolios, commercial mortgage loans due from and interests in Affiliated Limited Partnerships, direct and indirect ownership in other real estate. DVL has six 100%-owned active subsidiaries, all of which are consolidated for accounting purposes. All material inter-company transactions and accounts are eliminated in consolidation. DVL does not consolidate the various partnerships (the "Affiliated Limited Partnerships") in which it holds the general partner and limited partner interests, except where DVL has control, nor does DVL account for such interests on the equity method due to the following: (i) DVL's interest in the partnerships as the general partner is a 1% interest, (the proceeds of such 1% interest is payable to the limited partnership settlement fund pursuant to the 1993 settlement of the class action between the limited partners and DVL) (the "Limited Partnership Settlement"); (ii) under the terms of such settlement, the limited partners have the right to remove DVL as the general partner upon the vote of 70% or more of the limited partners; (iii) all major decisions must be approved by a limited partnership Oversight Committee in which DVL is not a member; (iv) there are no major operating policies or decisions made by the Affiliated Limited Partnerships, due to the triple net lease arrangements of the Affiliated Limited Partnership properties; and (v) there are no financing policies determined by the partnerships as all mortgages were in place prior to DVL's obtaining its interest and all potential refinancings are reviewed by the Oversight Committee. Accordingly, DVL accounts for its investments in the Affiliated Limited Partnerships on a cost basis with the cost basis adjusted for impairments, if any. Accounting for such investments on the equity method would not result in any material changes to the Company's financial position or results of operations.

b. REVENUE RECOGNITION: The Company earns revenue from several business activities, i) Earnings from equity interest in real estate, ii) Interest on mortgage loans, iii) Management fees, iv) Transaction fees, v) Distributions from affiliated limited partnerships, vi) Interest income from residual interests, and vii) Rental income.

i) The Company accounts for its investment in the real estate entity under the equity method of accounting whereby the Company's share of the net income or loss of the investment is recognized as a component of net income in the Company's consolidated statement of income with an offset to the carrying value of the investment. Dividends received from the investment are treated as a reduction of the investment account and evaluated as either a return on the investment or return of investment in evaluating the classification on the consolidated statement of cash flows. The real estate entity presents its investments at fair value and treats itself as an investment company for accounting purposes. As a result, amounts ultimately realized may differ from the fair values presented at the measurement date. Differences of which could be material to these consolidated financial statements. See notes 1d and 2 for additional disclosures on the equity investment in real estate entity.

ii) Interest income is recognized on the effective interest method for all performing loans. The Company stops accruing interest once a loan becomes non-performing. A loan is considered non-performing when scheduled interest or principal payments are not received on a timely basis and, in the opinion of management, the collection of such payments in the future appears doubtful,

iii) Management fees are earned for performing certain accounting and bookkeeping services for affiliated limited partnerships and other entities and are recognized as earned,

iv) Transaction fees are earned when a capital transaction occurs for an affiliated limited partnership such as a sale of the partnership property,

v) Distributions from affiliated limited partnerships are recorded as income when the amount to be received can be estimated and collection is probable,

vi) Interest income from residual interests is recorded on the effective interest method,

vii) Rental income is recognized on a straight-line basis in income as rent except for real estate held for sale which is recorded at the contractual rent. DVL records potential rents in the period in which all contingencies are resolved.

c. RESIDUAL INTERESTS: Residual interests represent the estimated discounted cash flow of the differential of the total interest to be earned on the securitized receivables and the contractual servicing fee. Since these residual interests are not subject to prepayment risk, they are accounted for as investments held-to-maturity and are carried at amortized cost using the effective interest method. Permanent impairments are recorded immediately through results of operations. Favorable changes in future cash flows are recognized through results of operations as interest over the remaining life of the retained interest.

d. INVESTMENT IN REAL ESTATE ENTITY: In December 2018, the Company made an investment to obtain a 30% ownership in a limited liability real estate entity. Because the Company has the ability to exert influence over the real estate entity but does not have the power to control the entity, the Company accounts for its investment in this real estate entity under the equity method of accounting whereby the Company's share of the net income or loss of the investment is recognized as a component of net income in the Company's consolidated statement of income with an offset to the carrying value of the investment account. Dividends received from the investment are treated as a reduction of the investment account and evaluated as either return on the investment or return of investment in evaluating the classification on the consolidated statement of cash flows. During the year ended December 31, 2019 the company received dividends of $2,870 and its equity in the entity was held at a value of $5,461 as of December 31, 2019. For the year ending December 31, 2019, the Company's share of the net income of the investment was $6,441. The limited liability real estate entity presents its investments at fair value and treats itself as an investment company for accounting purposes. The fair value of its investments in real estate is estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. The market prices for such investments may be volatile and may not be readily ascertainable. As a result, amounts ultimately realized may differ from the fair values presented, and the differences could be material to these consolidated financial statements.

e. ALLOWANCE FOR LOSSES: The adequacy of the allowance for losses is determined through a periodic review of the portfolios. Specific loss reserves are provided as required based on management's evaluation of the underlying collateral on each loan or investment.

DVL's allowance for loan losses generally is based upon the value of the collateral underlying each loan and its carrying value. Management's evaluation considers the magnitude of DVL's non-performing loan portfolio and internally-generated appraisals of certain properties.

For the Company's mortgage loan portfolio, the partnership properties are valued based upon the cash flow generated by base rents or base rent escalations to be received by the partnership plus an estimated residual value at the end of the primary term of the leases. The value of partnership properties which are not subject to percentage rents is based upon estimates of current market value rents and sale prices of similar properties. When any changes in tenants, lease terms, or timely payment of rent have occurred, management revalues the property as appropriate.

Allowances related to the Company's investments in Affiliated Limited Partnerships are adjusted based on Management's estimate of their realizable value.

f. REAL ESTATE: Land, buildings and equipment are stated at cost. Depreciation is provided by charges to operations on a straight-line basis over the estimated useful lives of the assets (5 to 40 years).

g. REAL ESTATE UNDER DEVELOPMENT: The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. Construction and development costs are capitalized while substantial activities are ongoing to prepare an asset for its intended use. At December 31, 2019, there was no real estate under development.

h. PREPAID FINANCING: Prepaid financing costs are deferred and amortized over the term of the respective debt using the effective interest method. Prepaid financing costs on interest-only loans are amortized using the straight-line method over the term of the financing and are netted against the related liability.

i. IMPAIRMENT OF REAL ESTATE INVESTMENTS: Long-lived assets are evaluated for impairment whenever events or changes in circumstances have indicated that an asset may not be recoverable and are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and such loss is recognized in income from operations in the period in which the determination is made.

A write-down is inherently subjective and is based upon management's best estimate of current conditions and assumptions about expected future conditions. The Company may provide for write-downs in the future and such write-downs could be material.

j. FEDERAL INCOME TAXES: All subsidiaries are included in DVL's consolidated federal income tax return. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. AMT credits are to be refunded under the Tax and Jobs Act of 2017 by the year 2022.

Guidance on accounting for uncertainties in income taxes addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The guidance for accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2016.

k. FAIR VALUE OF FINANCIAL INSTRUMENTS: As disclosed in Note 4, DVL's loan portfolio is valued based on the value of the underlying collateral. As all loans are either receivables from Affiliated Limited Partnerships or are collateralized by interests in Affiliated Limited Partnerships, it is not practical to estimate fair value of the loans. Due to the nature of the relationship between the Affiliated Limited Partners and DVL's general partner interest in the Affiliated Limited Partnerships and the authority of the Oversight Committee, the amount at which the loans and related mortgages could be exchanged with third parties is not reasonably determinable, as any such estimate would have to consider the intention of the Affiliated Limited Partners, the Oversight Committee, the amounts owed, if any, to DVL for its interests in the Affiliated Limited Partnerships and any transaction fees to which DVL might be entitled. See Note 3 for discussions on residual interests.

Financial instruments held by the Company include cash, receivables, accrued expenses, accounts payable and secured debt. The fair values of cash, accounts receivables, accrued expenses and accounts payable approximate their current carrying amounts due to their short-term nature. Secured debt approximates fair value due to the short-term nature and floating rate interest rates.

l. USE OF ESTIMATES: 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. Actual results could differ from those estimates. The allowance for credit losses is subject to significant change in the near term.

m. CASH AND CASH EQUIVALENTS: The Company considers all highly-liquid investments with original purchase maturity dates of three months or less to be cash equivalents.

n. CONCENTRATION OF CREDIT RISK: The Company has concentration of credit risk in cash, residual interests and its economic redevelopment grant. The risk associated with the residual interests is mitigated by the large number of insurance companies from which the payments are due. The Company's economic redevelopment grant ("ERG") receivable is from the State of New Jersey Economic Development Authority. All amounts due are to be paid from the collection of sales taxes from tenants, subject to the annual appropriation by the State of New Jersey to fund grants under the ERG program.

The Company maintains cash with several banking institutions, which amounts at times exceed federally insured limits.

o. RECENT ACCOUNTING PRONOUNCEMENTS: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard was effective on January 1, 2019. On January 1, 2019 the Company recorded a right-of-use asset of $1,589 (which is net of $160 of deferred rent) and a lease liability of $1,749. See note 11 for additional disclosures on the adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments Credit Losses*. ASU 2016-13 (Topic 326), replaces the incurred loss impairment methodology in current generally accepted accounting principles ("GAAP") with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years. The Company is currently evaluating the impact this standard will have on the Company's consolidated financial statements.

2. Investments

Real Estate

DVL's real estate properties consist of (i) an 89,000 square foot building on approximately eight acres of land leased to K-Mart in Kearny, New Jersey (ii) an approximate 97,000 square foot building on approximately eight acres in Del-Rio, Texas which the Company obtained through foreclosure of a mortgage loan which is classified as held for sale, and (iii) land underlying an industrial building in Bogota, New Jersey.

The K-Mart Property

Summary of Real Estate Held at December 31, 2019 (K-Mart property) (in thousands):

Land and land improvements	$	303
Buildings		4,015
Subtotal		4,318
Less: Accumulated depreciation		1,768
Total	$	2,550

The Company leases space to K-Mart under lease terms that include renewal options. As of December 31, 2019, no rents were outstanding.

The aggregate future minimum fixed lease payments receivable under non-cancellable leases at December 31, 2019 are as follows (in thousands):

Year Ending	Real Estate	
2020	$	364
2021		121
2022		-
2023		-
2024		-
Thereafter		-
	$	485

The Bogota Property

DVL is the owner of land underlying a certain warehouse property located in Bogota, New Jersey (the "Bogota Property"). The land and buildings are master leased to two unaffiliated limited partnerships ("Associates"). Prior to 1984, the Company subleased the Bogota Property back from Associates pursuant to a master sublease and entered into space leases with unaffiliated tenants. In October 2004, the Company agreed to cancel the leasehold of Associates and to permit Associates to acquire the land in the future for a nominal consideration in exchange for cancellation of the master sublease, payment of 50% of certain environmental remediation costs, and, upon the sale of the property, reimbursement of certain costs expended in connection with the environmental remediation described below.

The Company had previously discovered environmental contamination resulting from actions taken by prior owners of the Bogota Property. To date, the Company has expended in excess of $1,844 to remediate the contamination and has collected approximately $400 from the settlement of lawsuits against such prior owners. The Company continues to process the remediation of the contamination thereof.

The Kearny Shopping Center

In 2017, the Company completed construction and lease up of an approximate 140,000 square foot shopping center in Kearny NJ, (the "Kearny Shopping Center"). In 2016, the State of New Jersey Economic Development Authority approved an urban renewal grant of up to $9.6 million receivable by the Company over a period of years, based on the sales tax collected from tenants, subject to the annual appropriation by the State of New Jersey to fund grants under the ERG program, (the "ERG" See note 6 below). As of December 31, 2019, a cumulative amount of $1,750 has been received under the ERG, $213 of which was recorded as interest income in the consolidated statement of income in 2019. The Company retained the rights under the ERG upon the sale of the Kearny Shopping Center. During the demolition process at the Kearny Shopping Center site a significant amount of environmental contamination was discovered both in the certain buildings and in the soil, which resulted in significant delays and cost overruns.

In June of 2018, the Company sold the Kearny Shopping Center to an unaffiliated third party. In connection with the sale the Company was required to complete the delineation and reporting to environmental regulators of certain environmental issues and perform monitoring of groundwater for a period of years. At December 31, 2019, $200 was accrued for these costs. To date, the Company has expended approximately $224 to complete the delineation.

In 2016, the Company notified the prior owner of the Kearny Shopping Center site and its insurance company seeking reimbursement of the Company's costs for the removal of the environmental contamination and other damages which it asserts was the responsibility of such prior owners. A mediation during May 2017 was unsuccessful. Accordingly, in June 2017, the Company filed suit in the U.S. District Court for the District of New Jersey against such prior owner. The defendant then interpleaded a third party as an additional defendant. Discovery has been completed and expert reports have been exchanged. Because the claim remains unresolved, the Company has not included any recovery from the defendants. There is no assurance that a successful resolution will be reached (See Note 10 below). The Company incurred $3,473 through December 31, 2019 on such litigation (including $1,623 in 2019) and expects to spend significant additional funds. There can be no assurance that such litigation will be successful.

Investment in Real Estate Entity

During December 2018, DVL made an investment of $1,890 into an entity ("Residential LLC") in exchange for a 30% ownership interest in the entity. Residential LLC owns interests in entities which own four government subsidized low income housing tax credit ("LIHTC") housing properties and certain adjacent developable land parcels in Brooklyn, New York and certain other development rights in the Bronx, New York. Residential LLC has commenced construction of an approximate 175,000 square foot government subsidized rental property on one such parcel and expects to construct additional government subsidized housing and/or sell such land. Residential LLC receives developer fees associated with the ownership of such properties. At December 31, 2019, DVL's investment is held at a value of $5,461. During 2019 the Company received dividends of $2,870.

The remaining interest in Residential LLC is held by affiliates of NPO and others. The Company was permitted to invest in Residential LLC at the same cost basis and other terms as such affiliates. Upon realization by the Company of specified return on its investment, such affiliates are entitled to a portion of the Company's share of future distributions.

Residential LLC is considered a variable interest entity ("VIE") due to various guarantees and fee arrangements. The Company does not have the power to direct the activities that most significantly impact the economic performance of the VIE and consequently is not the primary beneficiary of the VIE. Accordingly, the Company does not consolidate the VIE.

The investment of $1,890 in 2018 was financed by a loan from an entity, whose members are affiliates of NPO and Residential LLC.

In April 2019 DVL received $2,041 in distributions from Residential LLC and the loan was paid in full. As of December 31, 2019, DVL has received $2,870 in distributions thereby exceeding the returns specified in the agreement, and therefore, its interest in Residential LLC was reduced in accordance with the agreement.

During 2019, the Company issued certain guarantees in connection with the investment in Residential LLC. See Note 10 for a detail description of the guarantees.

Affiliated Limited Partnerships

DVL acquired various interests in Affiliated Limited Partnerships pursuant to the terms of certain settlement agreements and through purchases. Allowances are adjusted based on Management's estimate of the realizable value. During 2019, DVL recorded income of $856 from distributions and gains received from these investments.

The activity on DVL's investments in Affiliated Limited Partnerships is as follows (in thousands):

Balance, beginning of year (net of allowance)	$	434
Purchase of Units		4
Cost of Units sold		(222)
Change in Allowance		-
Balance, end of year (net of allowance)	$	216

3. Residual Interests in Securitized Portfolios

The Company, through its wholly-owned consolidated subsidiary, S2 Holdings, Inc. ("S2"), owns 99.9% Class B member interests in two limited liability companies. The Class B member interests, which are consolidated into S2 for financial statement reporting purposes, entitle the Company to be allocated 99.9% of all items of income, loss and distribution of the limited liability companies. The limited liability companies receive all the residual cash flow from five securitized receivable pools after payment to any securitized note holders. The Company considered whether the member interests should be considered variable interest entities when consolidating S2's ownership of its member interests and determined that S2's member interests do not meet the definition of variable interest entities.

Any impairment, other than a temporary impairment, if any, is recorded immediately through results of operations. The Company performs quarterly comparisons of fair value to carrying value and updates the expectation of cash flows to be collected over the life of the residual interests. Favorable changes in future cash flows are recognized through results of operations as interest over the remaining life of the residual interest.

The following table presents the key economic assumptions at December 31, 2019 and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions (in thousands):

Carrying value of residual interests	$	11,807
Fair value of residual interest	$	12,886
Weighted-average life (in years)		2.3
Expected credit losses		2.6%
Impact on fair value of 10% adverse change	$	34
Impact on fair value of 20% adverse change	$	68
Discount rate		10.0%
Impact on fair value of 10% adverse change	$	262
Impact on fair value of 20% adverse change	$	515

Those sensitivities are hypothetical and should be used with caution. Also, in this table, the effect of a variation in a particular assumption on the fair value of the residual interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another which might magnify or counteract the sensitivities.

4. Mortgage Loans Receivable

At December 31, 2019, the Company's mortgage loan portfolio consisted of five first mortgage loans with a net carrying value of $1,635.

The following table presents the activity in the mortgage loans:

Activity on all collateralized loans is as follows (in thousands):

Balance, beginning of year - individually evaluated for impairment	$	4,641
Collections [1]		(1,314)
Transfer to Real Estate Held for Sale		(1,692)
Balance, end of year - individually evaluated for impairment	$	1,635

(1) A substantial amount of the collections was used to pay secured lenders.

5. Allowance for Losses

Allowance for loan loss activity is as follows (in thousands):

Balance, beginning of year	$	330
Recovery of loan loses		(135)
Transfer to Real Estate Held for Sale		(195)
Balance, end of year	$	-

6. Economic Redevelopment Grant Receivable

The Company has retained the ERG from the State of New Jersey that was issued in 2016 in connection with the development of the Kearny Shopping Center. The State of New Jersey Economic Development Authority approved a grant of up to $9.6 million receivable over a period of years. All amounts due are to be paid from the collection of sales taxes from tenants, subject to the annual appropriation by the State of New Jersey to fund grants under the ERG program. As of December 31, 2019, a cumulative amount of $1,750 has been received under the ERG, $213 of which was recorded as interest income in the consolidated statement of income in 2019. The present value of the of the remaining expected payments is $4,545.

7. Secured Debt and Loans Payable

Outstanding loans payable as of December 31, 2019 which are scheduled to become due at various times through 2021 are as follows:

Creditor	Original Loan Amount	Outstanding Balance Including Accrued Interest at December 31, 2019	Interest Rate	Maturity	Amount due at Maturity
Unaffiliated Bank (1)	$ 3,000	$ 2,859	LIBOR + 200 basis points	6/1/2021	$ 2,708
Unaffiliated Bank (2)	$ 500	118	4.00%	1/1/2021	$ -
		2,977			
Less: Unamortized debt issuance costs		(28)			
		$ 2,949			

(1) Secured by certain real property.

(2) Loan secured by certain leasehold improvements. Repaid in full in January 2020.

The aggregate amount of debt maturing during the next five years is as follows, including required principal amortization (in thousands):

	Debt
2020	$ 219
2021	2,758
2022	-
2023	-
2024	-
Thereafter	-
	$ 2,977

8. Redeemed Notes Payable – Litigation Settlement

In December 1995, DVL completed its obligations under a 1993 shareholder settlement by, among other things, issuing notes to the plaintiffs (the "Notes"). As of December 31, 2019, Notes of $763 remain payable. This liability is reflected as a non-interest-bearing liability and is included in accrued liabilities.

9. Transactions with Affiliates

Management Fee Income Earned and Reimbursements:
The Company earns fees and is reimbursed for accounting and administrative services to certain entities which are affiliated with NPO Management, LLC ("NPO"), which are entities engaged in real estate lending and management transactions and are affiliated with certain shareholders and insiders of the Company. The Company recorded fees and reimbursements of $396 for the year ending December 31, 2019.

Management and Other Fees and Expenses Incurred:

A. The Company incurred fees to NPO of $974 in 2019 under an Asset Servicing Agreement (the "Asset Servicing Agreement") between the Company and NPO, pursuant to which NPO provides the Company with asset management, advisory and administrative services relating to the assets of the Company and its Affiliated Limited Partnerships. During 2019, the Company provided office space under the Asset Servicing Agreement to NPO consisting of approximately 500 square feet of the Company's New York location.

B. The Developer Services Agreement (the "Developer Services Agreement") with P&A Associates and affiliates of NPO (collectively, the "Developer") provided that the Developer deliver services with respect to the development, construction and leasing of the Kearny Shopping Center as well as providing a completion guarantee to the Town of Kearny. The Developer's obligations under the Developer Services Agreement have been satisfied.

   Pursuant to the Developer Services Agreement, the Developer will be paid development fees based upon projected costs and rents received pursuant to leases. The development fee was due and payable upon completion of construction; however, the Developer has agreed to defer receipt of such fees without interest. As of December 31, 2019, the Company had paid $702 and $1,698 remained accrued under the Developer Services Agreement and is payable without interest.

C. The Millennium Group, an affiliate of NPO, received approximately $144 for 2019 representing management and analytical services.

D. The Philadelphia, Pennsylvania, law firm of Zarwin Baum DeVito ("Zarwin"), of which Alan E. Casnoff, the President, Chief Executive Officer and a director of the Company, is of counsel, has acted as counsel to the Company since November 2004. During 2019, the Company paid Zarwin $881 for legal services and $83 was payable at year-end.

E. During 2018, an affiliate of principals of NPO loaned the Company $2.1 million in order to facilitate the payment of an arbitration award relating to a litigation by a subcontractor on the Kearny Shopping Center. Such affiliate also loaned the Company $1,890 to facilitate the Company's 30% ownership in Residential LLC (the "Entity Loan"). In 2019, the Company incurred interest of $79 and paid principal and interest of $3,531. In 2019, the remaining principal of the $2.1 million loan was fully repaid, and the Entity Loan was fully repaid.

10. Commitments, Contingent Liabilities and Legal Proceedings

<u>Legal Proceedings</u>

As discussed in Note 2 above, in 2016, the Company notified the prior owner of the Kearny Shopping center and its insurance company seeking reimbursement of the Company's costs for the removal of the environmental contamination and other damages which it asserts was the responsibility of such prior owners. A mediation during May 2017 was unsuccessful. Accordingly, in June 2017 the Company filed suit in the U.S. District Court for the District of New Jersey against such prior owner. The defendant then interpleaded a third party as an additional defendant. Discovery has been completed and expert reports have been exchanged. Because the claim remains unresolved, the Company has not included any recovery from the prior defendants. There is no assurance that a successful resolution will be reached. The Company incurred $3,473 through December 31, 2019 on such litigation (including $1,623 in 2019) and expects to spend significant additional funds. There can be no assurance that such litigation will be successful.

Commitments and Contingent Liabilities

In connection with the investment in the Residential LLC, the Company, joint and several with Residential LLC and another entity owned by affiliates of NPO ("Liquidity LLC"), issued certain guarantees in connection with the preservation and rehabilitation of two low income housing tax credit ("LIHTC") affordable housing projects located in Brooklyn, NY. These guarantees include: (1) operating shortfall guarantees, which are capped and will be released if after 60 months after completion of construction each project is operated at a minimum 1.15 debt service coverage ratio for the previous 12 months; (2) a repurchase of the LIHTC investors' interest under certain events as well as a tax credit guaranty for any recapture, late delivery or reduction of LIHTC; (3) environmental matters; (4) underwritten commercial rents under a master lease structure in the amount of approximately $100 for each project; 5) typical "bad-boy" type acts.

The Company also issued certain guarantees, joint and several with Residential LLC and Liquidity LLC, in connection with the preservation and rehabilitation of another LIHTC affordable housing project located in Brooklyn, NY. These guarantees include: (1) operating shortfall guarantees, which are capped and will be released if after 36 months the project has operated at a minimum 1.15 debt service coverage ratio for the previous 12 months; (2) a repurchase of the investors' interest under certain events as well as a tax credit guaranty for any recapture, late delivery or reduction of LIHTC; (3) environmental matters; (4) fund 100% of all net income received from a telecom tower lease; (5) typical "bad-boy" type acts.

The Company also issued certain guarantees, joint and several with Residential LLC and Liquidity LLC, in connection with the preservation and rehabilitation of another LIHTC affordable housing project located in Brooklyn, NY. These guarantees include (1) typical "bad-boy" type acts; (2) environmental matters and; (3) completion of certain repairs to the façade.

In December 2018, Residential LLC commenced construction on approximately 175,000 square foot LIHTC government assisted affordable housing project in Brooklyn, NY. The Company issued certain guarantees, joint and several with Residential LLC and Liquidity LLC, in connection with the development and construction. These guarantees include; (1) completion guarantee during the construction period (approximate cost of $53 million); (2) an obligation to contribute an amount sufficient to fund the debt service reserve in the event that the LIHTC investor member's contributions are not sufficient to do so; (3) an obligation to make operating deficit loans to the property not to exceed $1,275 after the construction period, which will terminate if after 36 months the project is operated at a 1.15 debt service coverage ratio for the previous 12 months; (4) a repurchase of the investors' interest under certain events as well as a tax credit guaranty for any recapture, late delivery or reduction of tax credits ; (5) environmental matters; (6) typical "bad-boy" type acts.

The Company believes that the risk of such guarantees has been mitigated by; (1) all major construction contracts are bonded and have a completion guarantee from the general contractor; (2) each project has significant operating reserves; (3) each completed project currently operates with debt service coverage ratios in excess of 1.15; (4) each project has received tax opinions from reputable law and accounting firms; (5) Phase I environmental reports were obtained and showed no material environmental concern. In addition, each project is covered by an environmental insurance policy; (6) so called "bad-boy" type acts are within the control of the guarantors.

The Company's maximum exposure to loss associated with its investment in Residential LLC is limited to the carrying value of its investment as well as exposure on the previously mentioned guarantees, which the Company expects will have no significant impact on future operations of the Company.

Pursuant to the terms of the Limited Partnership Settlement, a fund has been established into which DVL is required to deposit 20% of the cash flow received on certain of its mortgage loans from Affiliated Limited Partnerships after repayment of certain creditors and 50% of DVL's receipts from certain loans to, and general partnership

investments in, Affiliated Limited Partnerships. During 2019, the Company expensed approximately $285 for amounts due to the fund based on collection of principal and interest on mortgage loans, of which $0 was accrued at year end. These costs have been netted against interest or gain/loss on mortgage loans, where appropriate.

The Asset Servicing Agreement, pursuant to which NPO is providing the Company and the Affiliated Limited Partnerships with administrative, management, and advisory services, requires monthly payments of approximately $82 through March 2023, with cost of living increases. Expense under the Asset Servicing Agreement was $974 in 2019.

11. Leases

The Company leases approximately 5,600 square feet of office space. The lease expires October 31, 2025. During the first extended term, from April 1, 2015 to October 31, 2020 base rent is $315 per year. During the second extended term, from November 1, 2020 to October 31, 2025, base rent is $338 per year. Rent expense was $315 in 2019.

On January 1, 2019, the Company adopted the Accounting Standards Update (ASU) 2016-02, and recognized an operating lease – right of use asset of $1,589 (which is net of $160 of deferred rent), and an operating lease – right of use lease liability of $1,749. The right of use asset and liabilities were initially recorded at the present value of the lease payments using a discount rate of 8%. The Company used an interest rate implicit in the lease or incremental borrowing rate in determining the present value of lease payments. At December 31, 2019, the Company had future minimum lease payments of $1,953, lease liability of $1,555, and imputed interest of $398, respectively.

The Company elected the practical expedients package, which allows the Company to not reassess the lease classification of lease and non-lease components for any existing lease. The lease existed before the adoption of the new standard, and was measured under operating leases according to the then applicable GAAP standard. As a result, the Company has recorded our lease as an operating lease.

Undiscounted future minimum rentals during the next five years are as follows (in thousands):

Year Ending	Amount
2020	$ 319
2021	338
2022	338
2023	338
2024	338
Thereafter	282
	$ 1,953

12. Shareholders' Equity

Stock Compensation Plans

In November 2012, the Company adopted the DVL, Inc. Stock Compensation Program for Directors, Officers and Consultants. In January of 2019 and February of 2020, the Company granted 14 shares and 24 shares, respectively, of common stock to the independent directors of the Company.

13. Income Taxes

The benefit for income taxes for the years ended December 31, 2019 is (in thousands):

Current Benefit (Provision)		
Federal	$	-
State		-
Total Current Benefit		-
Deferred Benefit		
Federal		-
State		-
Total Deferred Benefit		-
Total Benefit	$	-

The Company's effective income tax rate as a percentage of income differed from the U.S. federal statutory rate primarily due to a change in the valuation allowance.

Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. The major components of deferred tax assets and the provision for deferred taxes were the following: tax basis of land and building in excess of book, net operating loss carry-forwards, residual interests, and mortgage loans receivable. The Company has determined that a full valuation reserve was necessary on the deferred tax assets. The Company has AMT credits of $1,255 which are expected to be refunded under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), by the year 2020 and are reflected as a receivable on the consolidated balance sheet.

Deferred tax assets and the valuation allowance against deferred tax assets as of December 31, 2019 are detailed below (in thousands):

Net Deferred Tax Assets	$	12,134
Valuation Allowance		(12,134)
Net Deferred Tax Assets after Valuation Allowance	$	-

At December 31, 2019, the Company had aggregate unused net operating loss carry forwards ("NOLs") of approximately $47,156. These NOLs expire as follows (in thousands):

2030 - 2036	$	21,473
Carryforwards without expiration		25,683
	$	47,156

The Company has assessed the tax positions of the federal and state tax returns for all open years (2016 through 2019) and has concluded that it has no material uncertain tax liabilities to be recognized.

14. Subsequent Events

The Company has evaluated subsequent events through May 18, 2020, the date at which its financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Company's financial condition, results of operations and cash flows, to date, the Company is expecting to experience possible defaults by retail and/or commercial tenants of properties owned by the Company or for which the Company has a mortgage; reduction in the sale value of properties which the Company is in the process of selling or Partnerships in which the Company holds limited partner interests. Our concentrations within the retail and commercial tenant market, make it reasonably possible the risk of a near-term severe impact on our portfolio.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including expected credit losses on receivables and investments.

In March 2020, the Company received net proceeds of $1,313 on the satisfaction of a mortgage loan receivable which was being carried at a net book value of $287.