

DVL, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2020

DVL, Inc. and Subsidiaries

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RSM US LLP

Independent Auditor's Report

To the 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, 2020, 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, 2020, 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
April 30, 2021

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020
(in thousands)

ASSETS

Residual interests in securitized portfolios	\$ 8,410
Mortgage loans receivable from affiliated partnerships	518
Cash	1,723
Cash designated for long term investments	6,602
Economic Redevelopment Grant receivable	4,378
Investments	
Equity interest in real estate	5,447
Real estate (net of accumulated depreciation and amortization of \$1,870)	2,448
Real estate held for sale	1,642
Affiliated limited partnerships	271
Operating lease - right of use asset	1,209
Deferred charges and other assets	665
Total assets	<u>\$ 33,313</u>

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020
(in thousands except share data)
(continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Secured debt - other	\$	2,752
Accrued liabilities, accounts payable and security deposits		2,020
Operating lease - right of use liability		1,353

Total liabilities		6,125
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Commitments and contingencies

Shareholders' equity:

Common stock, \$0.01 par value, authorized - 12,000 shares; issued and outstanding - 5,431 shares		-
Additional paid-in-capital		96,664
Deficit		(69,476)

Total shareholders' equity		27,188
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Total liabilities and shareholders' equity	\$	33,313
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DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2020
(in thousands)

Income from affiliates:

Loss from equity interest in real estate	\$ (14)
Gains on satisfaction of mortgage loans	1,204
Interest on mortgage loans	331
Partnership management fees	118
Management fees	157
Transaction and other fees from partnerships	164
Distributions and gains from partnership interests	793
Reversal of allowance for losses	185

Income from others:

Interest income - residual interests	1,450
Rental income	639
Other income and interest	750
	5,777

Operating expenses:

General and administrative	2,513
Property operating expenses (including depreciation and amortization of \$102)	264
Asset servicing fee - NPO Management LLC	990
Legal and professional fees	472
Litigation cost - Kearny	1,600

Interest expense:

Affiliates	35
Others	100
	5,974

Other:

Gain on recovery of insurance proceeds	427
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Net Income

\$ 230

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2020
(in thousands except share data)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - January 1, 2020	5,407	\$ -	\$ 96,619	\$ (69,706)	\$ 26,913
Issuance of Common Shares	24	-	45	-	45
Net Income	-	-	-	230	230
Balance December 31, 2020	<u>5,431</u>	<u>\$ -</u>	<u>\$ 96,664</u>	<u>\$ (69,476)</u>	<u>\$ 27,188</u>

See notes to consolidated financial statements

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020
(in thousands)

Cash flows from operating activities:

Net income	\$	230
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from equity interest in real estate		14
Gains from satisfaction of mortgage loans		(1,204)
Gains from partnership interests		(678)
Gain on recovery of insurance proceeds		(427)
Non-cash stock compensation		45
Interest accretion on residual interests		(2)
Accrued interest on mortgage loans receivable from affiliated partnerships		(24)
Depreciation and amortization		155
Amortization of prepaid financing costs		21
Reversal of allowance for losses		(185)
Change in operating assets and liabilities:		
Net decrease in AMT refund receivable		1,255
Net decrease in Economic Redevelopment Grant receivable		167
Net increase in deferred charges and other assets		(40)
Net decrease in accrued developer fee		(1,698)
Net increase in accrued liabilities, accounts payable and security deposits		178
Collections on mortgage loans receivable from affiliated partnerships		2,345
Principal collections on residual interests		3,399
Net cash provided by operating activities		<u>3,551</u>

Cash flows from investing activities:

Proceeds from liquidation of units in affiliated limited partnerships		905
Cash proceeds from insurance claims		927
Real estate held for sale		(475)
Net cash provided by investing activities		<u>1,357</u>

Cash flows from financing activities:

Principal payments on secured debt - other		(218)
Net cash used in financing activities		<u>(218)</u>

Net increase in cash and cash designated for long term investments		4,690
Cash and cash designated for long term investments, beginning of year		<u>3,635</u>

Cash and cash designated for long term investments, end of year	\$	<u>8,325</u>
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Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$	<u>79</u>
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Reconciliation to cash and cash designated for long term investments:

Cash	\$	1,723
Cash designated for long term investments		<u>6,602</u>
	\$	<u>8,325</u>

DVL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands unless otherwise noted
(except share and per share amounts)

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 four 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 1992 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) Gains on satisfaction of mortgage loans iii) Interest on mortgage loans, iv) Management fees, v) Transaction fees, vi) Distributions from Affiliated Limited Partnerships, vii) Interest income from residual interests, and viii) 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) Gains on satisfaction of mortgage loans are recognized when proceeds exceed the mortgage loan receivable from affiliated partnerships carrying value, see notes 1k and 4 for additional disclosures,
- iii) 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,

DVL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands unless otherwise noted
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- iv) Management fees are earned for performing certain accounting and bookkeeping services for affiliated limited partnerships and other entities and are recognized as earned,
- v) Transaction fees are earned when a capital transaction occurs for an affiliated limited partnership such as a sale of the partnership property,
- vi) Distributions from affiliated limited partnerships are recorded as income when the amount to be received can be estimated and collection is probable,
- vii) Interest income from residual interests is recorded on the effective interest method,
- viii) 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 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, 2020 the company did not receive any dividends and its equity in the entity is held at a value of \$5,447 as of December 31, 2020. For the year ended December 31, 2020, the Company's share of the net loss of the investment was \$14. 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 with marketplace participants at the measurement date. Market prices for such investments may be volatile and not be readily ascertainable. As a result, amounts ultimately realized may differ from the fair values presented, differences which 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.

DVL, INC. AND SUBSIDIARIES
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Allowances related to the Company's investments in Affiliated Limited Partnerships are adjusted based on Management's estimate of their realizable value. As of December 31, 2020, no allowance was credited against the carrying value of the Affiliated Limited Partnerships in the consolidated balance sheet.

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 HELD FOR SALE:** Real estate expected to be sold is not depreciated and is measured at the lower of its carrying amount or fair value less costs to sell, and presented separately in the consolidated balance sheet. Real estate held for sale is reviewed by management for impairment annually. Any loss would be recognized for all periods presented. A gain for any subsequent increase can be recognized to the extent it is not in excess of the cumulative impairment loss.

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.

An impairment charge 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 impairments in the future and such impairments could be material.

As a result of natural disasters, assets may be destroyed, damaged or impaired. Asset impairments, liabilities and losses related to natural disasters are recognized independent of any related insurance recoveries. To the extent that the impairment of a long-lived asset is less than the amount of insurance proceeds received, the transaction results in a gain, even if the insurance proceeds are reinvested in replacement of the long-lived asset. Gains are recognized when all uncertainties have been resolved, typically when insurance proceeds are received and no further dispute to the Company's insurance claim exists, and are reported as a separate component in the consolidated statement of income.

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.

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 2017.

DVL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands unless otherwise noted
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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. At times, the Company may designate cash for required capital improvements, long-term investments, or to satisfy certain guarantee requirements. As of December 31, 2020, cash of \$802 related to insurance proceeds that had not been spent related to the real estate held for sale (Note 2), and \$5,800 related to required levels of liquidity (Note 9), for a total of \$6,602, which is designated and shown separately in the consolidated balance sheet as cash designated for long term investments.

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 June 2016, the Financial Accounting Standard Board (FASB) issued ASU 2016-13, *Financial Instruments Credit Losses*. Accounting Standard Update (ASU) 2016-13 (Topic 326), replaces the incurred loss impairment methodology in current generally accepted accounting principles 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. Guidance is effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years. The Company is evaluating the impact this standard will have on the Company's consolidated financial statements.

DVL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands unless otherwise noted
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2. Investments

Real Estate

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

The Del-Rio Property

The Company leases space to various tenants under lease terms that include escalation provisions, renewal options and obligations of the tenants to reimburse certain property operating expenses. In April of 2020, a hail storm caused damages to the Del-Rio Property's building and equipment. In conjunction with the provisions of the insurance policy, an initial claim of \$927 was approved and paid. The remaining claims are subject to both a deductible and a limit of insurance and will be considered for payment after costs to repair the current damages are incurred. The Company is undergoing a project to repair the damaged components, and expects full repairs to be completed by May 2021. The Company estimated the damaged assets had a carrying value of \$500. The \$427 received in excess of the carrying value of the damaged assets, was recorded as a gain on the recovery of insurance proceeds, and classified as a separate component in the consolidated statement of income.

The K-Mart Property

Summary of Real Estate at December 31, 2020, the K-Mart Property (in thousands):

Land and land improvements	\$	303
Buildings		4,015
		<hr/>
Subtotal		4,318
Less: Accumulated depreciation		<hr/> 1,870
		<hr/>
Total	\$	<u>2,448</u>

The Company leases space to K-Mart under lease terms that include renewal options. Subsequent to December 31, 2020, K-Mart assigned its lease interest to Target Corporation, which simultaneously amended and extended the previous lease agreement. See Note 13.

The aggregate future minimum fixed lease payments under non-cancellable leases for the K-Mart and Del-Rio Properties, as of the financial statement issuance date are as follows (in thousands):

<u>Year Ending</u>	<u>Real Estate</u>	<u>Real estate held for sale</u>
2021	\$ 697	\$ 363
2022	744	495
2021	744	495
2024	744	511
2025	744	521
Thereafter	7,688	1,543
	<hr/> \$ 11,361	<hr/> \$ 3,928

DVL, INC. AND SUBSIDIARIES
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Dollars in thousands unless otherwise noted
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The Bogota Property

DVL is the owner of land underlying certain industrial buildings 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 \$1,923 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. During the year end December 31, 2020, the Company entered into an agreement to sell the Bogota Property to an unaffiliated third party. As of December 31, 2020, due diligence was complete, and the unaffiliated third party was required to remit a \$650 non-refundable deposit into escrow. In March 2021, the Company sold the Bogota Property, see Note 13.

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, 2020, a cumulative amount of \$2,709 has been received under the ERG, \$697 of which was recorded as interest income in the consolidated statement of income in 2020. 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, 2020, \$225 remains accrued for these costs. To date, the Company has expended approximately \$384 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 joined a third party as an additional defendant. Discovery has been completed and expert reports have been exchanged, with expert depositions scheduled to be completed by June 30, 2021. In the interim, the prior owner has filed for bankruptcy protection. 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 9 below). The Company has incurred \$5,073 through December 31, 2020 on such litigation (including \$1,600 in 2020), 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. 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,

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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. During the year ended December 31, 2020 the Company did not receive any dividends, and its equity is held at a carrying value of \$5,447 as of December 31, 2020.

The remaining interest in Residential LLC is held by affiliates of NPO Management, LLC (“NPO”), and others. The Company was permitted to invest in Residential LLC at the same cost basis and other terms as NPO’s 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.

In April 2019 DVL received \$2,041 in distributions from Residential LLC. As of December 31, 2020, the Company 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 2020, DVL recorded income of \$114, and gains of \$793, from distributions 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)	\$	216
Purchase of Units		-
Cost of Units sold		(130)
Reversal of Allowance		185
		<hr/>
Balance, end of year (net of allowance)	\$	<u>271</u>

3. Residual Interests in Securitized Portfolios

The Company, through its wholly-owned consolidated subsidiary, S2 Holdings, Inc. (“S2”), owns 99.9% of the 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 a VIE when consolidating S2’s ownership of its member interests and determined that S2’s member interests do not meet the definition of a VIE.

Any impairment, other than a temporary impairment, 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.

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The following table presents the key economic assumptions at December 31, 2020 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	\$	8,410
Fair value of residual interest	\$	9,107
Weighted-average life (in years)		2.2
Expected credit losses		2.6%
Impact on fair value of 10% adverse change	\$	24
Impact on fair value of 20% adverse change	\$	48
Discount rate		10.0%
Impact on fair value of 10% adverse change	\$	175
Impact on fair value of 20% adverse change	\$	343

Those sensitivities are hypothetical and should be used with caution. 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, 2020, the Company's mortgage loan portfolio consisted of three first mortgage loans with a net carrying value of \$518.

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	\$	1,635
Collections		(1,117)
Balance, end of year - individually evaluated for impairment	<u>\$</u>	<u>518</u>

5. 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, 2020, a cumulative amount of \$2,709 has been received under the ERG, \$697 of which was recorded as interest income in the consolidated statement of income in 2020. The present value of the remaining expected payments is \$4,378.

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6. Secured Debt and Loans Payable

The outstanding loan payable as of December 31, 2020 scheduled to become due in 2021 is as follows:

Creditor	Original Loan Amount	Outstanding Balance Including Accrued Interest at December 31, 2020	Interest Rate	Maturity	Amount due at Maturity
Unaffiliated Bank ⁽¹⁾	\$ 3,000	\$ 2,759	LIBOR + 200 basis points	6/1/2021	\$ 2,708
Less: Unamortized debt issuance costs		<u>7</u>			
		<u>\$ 2,752</u>			

(1) Secured by certain real property. The Company intends to refinance this loan prior to maturity.

7. Redeemed Notes Payable – Litigation Settlement

In December 1995, DVL completed its obligations under a 1992 shareholder settlement by, among other things, issuing notes to the plaintiffs (the “Notes”). As of December 31, 2020, Notes of \$763 remain payable. This liability is reflected as a non-interest-bearing liability and is included in accrued liabilities.

8. 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. These entities are engaged in real estate lending and management transactions, and are affiliated with certain shareholders and insiders of the Company. The Company earned fees and reimbursements of \$372 for the year ending December 31, 2020.

Management and Other Fees and Expenses Incurred:

- A. The Company incurred fees to NPO of \$990 in 2020 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 2020, 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 developer fee was due and payable upon completion of construction; however, the Developer agreed to defer receipt of such fees without interest. As of December 31, 2020, the full developer fee of \$2,400 has been paid by the Company. Of which \$1,698 was paid in 2020.

- C. The Millennium Group, an affiliate of NPO, received approximately \$235 for 2020, 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 2020, the Company incurred \$931 for legal services from

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Zarwin, of which \$348 was payable at year-end. During 2020, \$926 of the \$931 of legal fees incurred from Zarwin, related to legal services for the Kearny Shopping Center litigation, as further described in Note 9.

- E. As discussed in Note 9, the Company is required to maintain certain levels of liquidity, in connection with its investment in Residential LLC. As DVL did not have sufficient liquidity at the time it was required, another entity owned by affiliates of NPO (“Liquidity LLC”), agreed to provide additional liquidity in order for Residential LLC to satisfy its obligation. Liquidity LLC is entitled to a fee equal to .25% per quarter based on the amount of liquidity necessary to comply with the applicable covenant. As of the year ended December 31, 2020, the Company incurred \$35 of fees, which were recorded as interest expense – affiliates, in the consolidated statement of income.

9. Commitments, Contingent Liabilities and Legal Proceedings

Legal Proceedings

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 joined a third party as an additional defendant. Discovery has been completed and expert reports have been exchanged. In the interim, the prior owner has filed for bankruptcy protection. 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 \$5,073 through December 31, 2020 on such litigation (including \$1,600 in 2020), 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

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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, along with Residential LLC and Liquidity LLC, are required to maintain certain levels of combined liquidity. At December 31, 2020 the Company's portion of the required liquidity was approximately \$5,800, and is presented in designated cash for long term investments in the consolidated balance sheet.

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 2020, the Company expensed approximately \$281 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 \$83 through March 2023, with cost-of-living increases. Expense under the Asset Servicing Agreement was \$990 in 2020.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 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 position, results of operations, and cash flows, our portfolio concentrations within the retail and commercial tenant markets continue to be at risk in the near-term. It is reasonably possible, that estimates made in the financial statements could be materially and adversely impacted as a result of these conditions, including expected credit losses on the Company's investments in real estate, mortgage loan receivables and investments in affiliated limited partnerships

10. 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 2020.

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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, and recorded \$192 of amortization related to the right of use asset for the year ended December 31, 2020. At December 31, 2020, the Company had future minimum lease payments of \$1,634, a lease liability of \$1,353, and imputed interest of \$281, 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
2021	\$ 338
2022	338
2023	338
2024	338
2025	282
	\$ 1,634

11. Shareholders' Equity

Stock Compensation Plans

In November 2012, the Company adopted the DVL, Inc. Stock Compensation Program for Directors, Officers and Consultants. In February of 2020 and February of 2021, the Company granted 24 shares and 32 shares, respectively, of common stock to the independent directors of the Company.

12. Income Taxes

The benefit for income taxes for the years ended December 31, 2020 is (in thousands):

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

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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 basis, 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. AMT credits of \$1,255 were refunded under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in 2020.

Deferred tax assets and the valuation allowance against deferred tax assets as of December 31, 2020 are detailed below (in thousands):

Net Deferred Tax Assets	\$ 12,294
Valuation Allowance	<u>(12,294)</u>
Net Deferred Tax Assets after Valuation Allowance	<u>\$ -</u>

At December 31, 2020, the Company had aggregate unused net operating loss carry forwards ("NOLs") of approximately \$50,004. These NOLs expire as follows (in thousands):

2030 - 2036	\$ 21,473
Carryforwards without expiration	<u>28,531</u>
	<u>\$ 50,004</u>

The Company has assessed the tax positions of the federal and state tax returns for all open years (2017 through 2020) and has concluded that it has no material uncertain tax liabilities to be recognized.

13. Subsequent Events

The Company has evaluated subsequent events through April 30, 2021, the date at which its financial statements were available to be issued.

In February 2021, the K-Mart lease was assigned and further amended with Target Corporation. The current lease entitles the Company to receive non-cancelable payments for 15 years with seven additional 5-year extension options, as further outlined in the amended agreement and Note 2. As part of the amended agreement, Target agreed to renovate the premises.

In March 2021, the Bogota property was sold, and the Company was reimbursed approximately \$1,640 for its costs expended in connection with the environmental remediations. The company recorded a gain of \$1,590 in 2021 relating to the sale as all prior costs had been expensed. As part of the purchase and sale agreement, the Company was relieved of its responsibilities to further process the environmental remediations described in Note 2.

In April 2021, the Company and the Oversight Committee reached a financial agreement regarding the five remaining limited partnerships, modifying the 1992 settlement described in Notes 1 and 9. As part of the agreement, the Oversight Committee has agreed to take responsibility to distribute any remaining net settlement funds, subject to court approval.

The Company has determined that there were no other material subsequent events requiring adjustment to, or disclosure in, the consolidated financial statements for the year ended December 31, 2020.