

**GENTRY MILLS CAPITAL, LLC  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2015**



SHAREHOLDERS

David B. Epperson  
J. Clinton Pugh  
Virginia L. DeBrow  
John P. Boyd  
Tamara Berley  
Kurtis N. Smith  
Daniel W. DeLaughter  
Michael K. Frank  
Michael S. Woodruff

—  
John W. Saville 1923–1996  
—

PRINCIPALS

Ann Searcy

INDEPENDENT AUDITORS' REPORT

To the Members of  
Gentry Mills Capital, LLC and Subsidiaries  
Dallas, Texas

We have audited the accompanying consolidated financial statements of Gentry Mills Capital, LLC and Subsidiaries, a Texas limited liability company (the "Company"), which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, changes in partners' capital, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

Saville, Dodgen & Company, P.L.L.C.  
Certified Public Accountants & Advisors

700 North Pearl Street, Suite 1100  
Dallas, Texas 75201

214-922-9727 Tel  
214-740-1726 Fax

www.savillecpa.com

Gentry Mills Capital, LLC

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with GAAP.

A handwritten signature in black ink that reads "Saville Dodgen & Co PLLC". The signature is written in a cursive, flowing style.

Saville, Dodgen & Company, P.L.L.C.  
Dallas, Texas

August 4, 2016

GENTRY MILLS CAPITAL, LLC  
CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2015

---

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,418,349
Accounts receivable, net	43,650
Restricted cash	891,194
Other current assets	<u>56,508</u>

Total current assets 3,409,701

OTHER ASSETS

Property and equipment, net	12,927,909
Investment in affiliates	35,823,909
Other assets	<u>307,725</u>

Total other assets 49,059,543

TOTAL ASSETS \$ 52,469,244

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Bridge loans	\$ 18,112,800
Accounts payable	216,591
Accrued liabilities	681,165
Current portion of long-term debt	<u>174,181</u>

Total current liabilities 19,184,737

LONG-TERM DEBT, net of current portion 9,978,446

TOTAL LIABILITIES 29,163,183

MEMBERS' EQUITY 23,306,061

TOTAL LIABILITIES AND MEMBERS' EQUITY \$ 52,469,244

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC  
CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2015

---

REVENUE	
Hotel room rental revenue	\$ 4,220,088
Other hotel revenue	980,385
Management fees	356,150
Total revenue	5,556,623
COST OF REVENUE	295,350
GROSS PROFIT	5,261,273
OPERATING EXPENSES	
Salaries, wages, and benefits	1,926,939
Advertising and marketing	1,066,693
Other operating costs	1,514,252
Property administration expenses	1,678,741
Professional fees	1,094,901
Depreciation and amortization	807,014
Total operating expenses	8,088,540
OTHER INCOME (EXPENSE)	
Gain from sale of operating properties	6,581,775
Interest expense	(524,741)
Other income	74,278
Other expense	(56,727)
Total other income	6,074,585
NET LOSS BEFORE EQUITY IN	
NET EARNINGS OF AFFILIATES	3,247,318
EQUITY IN NET LOSS OF AFFILIATES	(1,331,513)
NET INCOME	\$ 1,915,805

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC  
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2015

	Parent	Non-Controlling Interest	Total
Balance, January 1, 2015	\$ 642,453	\$ 20,772,662	\$ 21,415,115
Contributions	-	15,799,123	15,799,123
Distributions	(1,053,425)	(14,770,557)	(15,823,982)
Net income	(837,206)	2,753,011	1,915,805
Balance, December 31, 2015	\$ (1,248,178)	\$ 24,554,239	\$ 23,306,061

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income	\$ 1,915,805
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	843,941
Equity in net loss of affiliates	1,331,513
Gain on sale of operating properties	(6,581,775)
Changes in operating assets and liabilities:	
Accounts receivable, net	229,176
Other current assets	7,652
Accounts payable	(284,721)
Accrued liabilities	49,927
	<u>49,927</u>
Net cash used in operating activities	<u>(2,488,482)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Restricted cash	392,828
Purchase of property and equipment	(711,360)
Contributions to affiliates	(22,581,603)
Distributions from affiliates	1,814,662
Net proceeds from sale of operating properties	14,038,695
	<u>14,038,695</u>
Net cash used in investing activities	<u>(7,046,778)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from line of credit	286,303
Line of credit payments	(306,303)
Proceeds from long-term debt	22,213,250
Principal payments on long-term debt	(11,916,629)
Equity contributions	15,799,123
Equity distributions	(15,823,982)
	<u>(15,823,982)</u>
Net cash provided by financing activities	<u>10,251,762</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>716,502</b>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,701,847</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,418,349</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>	
Cash paid during the year for interest	<u><u>\$ 487,501</u></u>

See accompanying independent auditors' report and notes.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2015

---

1) NATURE OF BUSINESS

Gentry Mills Capital, LLC, a Texas limited liability company (the “Company”), was formed in 1998. The Company principally provides investment offerings in existing and developmental real estate projects. The Company’s primary operations are located in Dallas, Texas.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements of the Company are prepared using accounting principles generally accepted in the United States of America (GAAP). These consolidated financial statements include the accounts of the Company and its interests in the related parties listed below, collectively referred to as “Investment Level Partnerships.”

Investment Level Partnerships	
GMI-108 Mission, LP	GMI-Broomfield 139, LP
GMI-192 Mission, LP	GMI-Orlando, LP
GMI-Mueller Hospitality, LP	GMI-Overland Park, LP
GMI-ALH 20, LP	GMI-Lake Mary 125, LP
GMI-Bay Vista Apartments I, LP	GMI-Shiloh/O’Fallon, LP
GMI-164 Corpus, LP	GMI-Palmdale Hospitality, LP
GMI-Camp Creek, LP	GMI-Long Island 154, LP
GMI-Pine Hill Crossing, LP	

The Company has 100% ownership of the entities that are the general partner of the above listed Investment Level Partnerships. The Company has determined that the Investment Level Partnerships are *variable interest entities* as defined in the Financial Accounting Standards Board Accounting Standards Codification (ASC) 810, *Consolidation*. Under ASC 810, an entity is a variable interest entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. As the primary beneficiary of the Investment Level Partnerships, the Company is required to consolidate the Investment Level Partnerships. Refer to Note 5 for further details.

The consolidated financial statements also include the results of Broomfield 139, LLC which owns the aLoft Hotel in Broomfield, Colorado. This hotel is consolidated as it is a wholly-owned subsidiary of GMI-Broomfield 139, LP (“Broomfield”). All significant intercompany transactions have been eliminated in consolidation.

See accompanying independent auditors’ report.



GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

---

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

The Company considers all instruments with an original maturity of three months or less to be cash equivalents. The Company has a concentration of credit risk for cash deposits maintained at certain financial institutions which, at times, may exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Accounts Receivables, net

Accounts receivables include both individual and corporate accounts at Broomfield, and asset management fees due to the Company from the other operating properties. The Company does not maintain an allowance for doubtful accounts due to its collection history. The Company has never written off a receivable as uncollectible as no receivable has been due greater than 90 days. Receivables are considered past due based on the due date determined by contractual terms.

Restricted Cash

Restricted cash is from Broomfield and includes money held by the mortgage holder in escrow for taxes, insurance, and other expenses.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Building	39 years
Building improvements	15 years
Furniture, fixtures, and equipment	5-7 years

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

---

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Controlling Interest

Multiple outside investors also hold interests in the Investment Level Partnerships. The portion of equity attributed to the outside investors is shown as the non-controlling interest on the Consolidated Statement of Changes in Members' Equity. The non-controlling interest is measured using the hypothetical liquidation at book value method. This method uses the contractual waterfalls to calculate the hypothetical liquidation at book value as of December 31, 2015. The non-controlling interest is shown as a contra-equity balance on the face of the balance sheet.

Revenue Recognition

The Company's room and other revenue are derived from operations of the Broomfield hotel and are recognized as services are provided. Management fees due to the Company from each operating property and are earned monthly.

Income Taxes

The Company has elected to be treated as a partnership for federal income tax purposes. The income tax effects of its operations are attributed to the members. Therefore, no provision for federal income tax has been included in the Company's consolidated financial statements. The Company is subject to state margin tax, but no provision has been recorded for the year ended December 31, 2015.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred. Advertising expense for the year ended December 31, 2015 amounted to \$136,354.

3) PROPERTY AND EQUIPMENT

Net property and equipment consists of the following at December 31, 2015:

Buildings	\$ 8,968,961
Building improvements	448,658
Furniture, fixtures, and equipment	2,764,698
Project improvement plan (PIP)	603,473
Land	1,482,165
Property, at cost	<u>14,267,955</u>
Less accumulated depreciation	<u>(1,340,046)</u>
Property, net	<u>\$12,927,909</u>

Depreciation expense for the period ended December 31, 2015 was \$ 807,014.

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4) INVESTMENT IN AFFILIATES

The Investment Level Partnerships have limited partnership interests in the below partnerships that own the operating properties (the “Property Level Partnerships”).

Property Level Partnerships	
108 Mission, LTD	Pine Hill Crossing, LLC
192 Mission, LTD	SI Orlando, LP
Mueller Hospitality, LP	SI Overland Park, LP
ALH Properties No. Twenty, LP	SI Lake Mary 125, LP
Bay Vista Apartments I, LP	Excel Holdings 3, LLC
164 Corpus, LTD	Palmdale Hospitality, LP
SI Camp Creek, LP	Excel Long Island, LLC

The Investment Level Partnerships account for the interests in the Property Level Partnerships using the equity method of accounting. The investment balances are measured using the hypothetical liquidation at book value method as of December 31, 2015. This method uses the contractual waterfall schedule outlined in the partnership agreement and determines the hypothetical proceeds that would be received by the reporting entity if the underlying partnership was liquidated at book value as of the balance sheet date. The following is a summary of the aggregate financial position at December 31, 2015 and the aggregate results of operations for the year then ended:

Assets	\$ 171,999,574
Liabilities	\$ 133,940,579
Net loss	\$ 4,109,255

The balance, less the amount attributable to the general partners of each property, is shown as the investment in affiliates line item on the balance sheet.

5) VARIABLE INTEREST ENTITIES

The Company has determined it is the primary beneficiary of the Investor Level Partnerships because it directs all of their activities and because of its financial interest in the distribution waterfall schedules established in each of the partnership agreements. According to each waterfall schedule, the Company is entitled to a percentage of remaining distributions after the outside investors receive a return of their capital and a preferred rate of return established in the agreements. The potential payoff to the Company could be significant.

The Investment Level Partnerships are managed by the Company, and have no employees in addition to the Company’s employees. The sole purpose of the Investment Level Partnerships is to own and manage the equity interests in the Property Level Partnerships.

See accompanying independent auditors’ report.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

---

5) VARIABLE INTEREST ENTITIES (Continued)

The following is a summary of the aggregate financial position at December 31, 2015 of the variable interest entities that are consolidated in the Company's consolidated balance sheet:

Assets	\$34,746,398
Liabilities	\$10,970,599

The consolidated assets primarily consist of the equity method investment in the Property Level Partnerships. The consolidated liabilities primarily consist of the bridge loans entered into to fund the Property Level Partnerships.

6) NOTES PAYABLE

Broomfield Note

On April 17, 2014, in conjunction with the acquisition of the hotel, Broomfield entered into a note agreement with a financial institution in the amount of \$10,400,000 maturing on May 6, 2024. The note's interest rate is 4.7% annually. Monthly payments are due based upon a 30-year amortization. The unpaid principal amount plus any unpaid accrued interest is due on the maturity date. As of December 31, 2015, the note payable balance is \$10,152,627. Principal payments related to this note were \$159,334 during the year ended December 31, 2015. Loan origination costs of \$369,270 were capitalized in other assets and are being amortized over the life of the loan. Amortization expense of \$36,927 was recognized within interest expense.

Bridge Loans

With each investment offering made, the Company uses the proceeds of a bridge loan to provide the upfront capital to the Investment Level Partnerships. These bridge loans are short term in nature and are in the name of the Company. The Company deposits the bridge loans received into the Investment Level Partnerships, and the Investment Level Partnerships make the principal payments in accordance with the loan documents on behalf of the Company. During the year ended December 31, 2015, there were four new borrowings in the name of the Company providing net proceeds of \$22,213,250 and \$11,757,295 was repaid by certain Investment Level Partnerships.

At December 31, 2015, the Company has three bridge loans outstanding, which will expire in 2016. The bridge loans accrue interest at a rate of 12%. Interest is payable monthly, and principal is payable as amounts are received from the investment offerings but no later than the maturity date. The bridge loans are secured by the Company's membership interests in the applicable Investment Level Partnerships. As of December 31, 2015, the bridge loans balance is \$18,112,800, which is shown as a current liability on the accompanying balance sheet.

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

---

6) NOTES PAYABLE (Continued)

Line Of Credit

On December 15, 2015, the Company renewed a line of credit with Texas Capital Bank of \$300,000 maturing on December 15, 2016. The line of credit's interest rate is 4.5% annually. There was no outstanding balance as of December 31, 2015.

Future Principal Payments

The aggregate amounts of required principal payments due at December 31, 2015 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2016	\$ 18,286,981
2017	182,546
2018	191,313
2019	200,501
2020	210,130
Thereafter	9,193,956
Total	<u>\$ 28,265,427</u>

7) RELATED PARTY TRANSACTIONS

Management Fees

During the year ended December 31, 2015, the Company recognized \$356,150 in management fees from certain Investment Level Partnerships, of which \$43,650 has yet to be collected and is included in accounts receivable on the balance sheet.

Distributions

During the year ended December 31, 2015, the Company and the Investment Level Partnerships paid distributions to members and outside investors in the amount of \$15,823,982.

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7) RELATED PARTY TRANSACTIONS (Continued)

Expense Reimbursements

The Company is entitled to reimbursement from the Investor Level Partnerships for organization and operating costs, as well as general and administrative expenses incurred. During the year ended December 31, 2015, in accordance with the terms of the applicable partnership agreements, the Company received the following amounts as expense reimbursements from certain Investor Level Partnerships:

Entity	Property Administrative Expenses	Interest Expense	Total
GMI-164 Corpus, LP	\$ 3,118	\$ -	\$ 3,118
GMI-108 Mission, LP	2,156	-	2,156
GMI-Overland Park, LP	164,000	189,415	353,415
GMI-Orlando, LP	116,610	49,141	165,751
GMI-Lake Mary 125, LP	175,000	232,916	407,916
GMI-Pine Hill Crossing, LP	147,000	4,870	151,870
GMI-Shiloh/O'Fallon, LP	5,000	23,220	28,220
GMI-Palmdale Hospitality, LP	5,000	-	5,000
GMI-Long Island 154, LP	5,000	-	5,000
Total	<u>\$ 622,884</u>	<u>\$ 499,562</u>	<u>\$ 1,122,446</u>

Additionally, the following amounts were due to the Company as of December 31, 2015:

Entity	Bridge Loan	Expense Reimbursement	Total
GMI-164 Corpus, LP	\$ -	\$ 44,509	\$ 44,509
GMI-Bay Vista Apartments I, LP	-	100,855	100,855
GMI-108 Mission, LP	-	146,236	146,236
GMI-192 Mission, LP	-	191,675	191,675
GMI-Camp Creek, LP	-	121,882	121,882
GMI-Broomfield 139, LP	-	88,352	88,352
GMI-Overland Park, LP	-	44,761	44,761
GMI-Pine Hill Crossing, LP	-	46,915	46,915
GMI-Orlando, LP	-	57,499	57,499
GMI-Lake Mary 125, LP	-	42,486	42,486
GMI-Shiloh/O'Fallon, LP	4,012,800	50,855	4,063,655
GMI-Palmdale Hospitality, LP	4,200,000	93,284	4,293,284
GMI-Long Island 154, LP	9,900,000	3,649	9,903,649
	<u>\$18,112,800</u>	<u>\$ 1,032,958</u>	<u>\$19,145,758</u>

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

---

7) RELATED PARTY TRANSACTIONS (Continued)

Expense Reimbursements

These reimbursements eliminate in consolidation, and therefore have no effect on the consolidated results.

8) OPERATING LEASES

The Company leased office space and a copier under operating leases expiring through 2020. Rent expense of approximately \$40,989 has been included in general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2015. The future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2015 are as follows:

<u>Years Ending December 31,</u>	<u>Amounts</u>
2016	\$ 57,017
2017	60,255
2018	61,440
2019	62,880
2020	<u>21,120</u>
	<u>\$ 262,712</u>

9) SALE OF OPERATING PROPERTIES

During the year ended December 31, 2015, the Company sold both ALH Properties No. Twenty, LP and Mueller Hospitality, LP. Prior to the sales of the properties, there was \$537,971 in negative cash flow from operations. The Company received \$14,038,695 in total proceeds for the sales of the two properties and distributed \$13,602,901 to the members. The income from these properties prior to sale and the gain from the sale attributable to the non-controlling interest is \$533,604 and \$6,128,394, respectively.

10) 401(K) PLAN

The Company participates in a 401(k) plan (the Plan) which covers all eligible employees of the Company. The Plan provides for contributions by the Company at management's discretion. The Company made \$49,976 in contributions to the Plan for the year ended December 31, 2015.

See accompanying independent auditors' report.

GENTRY MILLS CAPITAL, LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

---

11) CONCENTRATION OF CREDIT RISK

The Company has a concentration of receivables arising from three related parties that comprise approximately 69% of the receivables balance at December 31, 2015.

12) SUBSEQUENT EVENTS

The Company evaluated events through August 4, 2016, which is the date these consolidated financial statements were available to be issued, and noted there were no events that met recognition or disclosure criteria.