# Annual Report
Index Enterprise, LLC and subsidiaries

Tarpon Harbour

2016

# Contents

# Independent Auditors' Report

**Index Enterprise, LLC**
**Jupiter, Florida**

We have audited the accompanying consolidated financial statements of Index Enterprise, LLC and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in members' deficit and cash flows for the year then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the 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; 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.

**Auditor's 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.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Index Enterprise, LLC and Subsidiaries as of December 31, 2016, 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.

*Kaufman, Rossin & Co., P.A.*
April 27, 2017
Miami, Florida

# Consolidated Balance Sheet
# December 31, 2016

## ASSETS

| | |
|---|---|
| RENTAL PROPERTY (NOTES 4 AND 11) | $ 151,203,314 |
| ASSETS HELD FOR DEVELOPMENT (NOTES 5 AND 11) | 17,363,376 |
| NOTES RECEIVABLE (NOTES 6 AND 8) | 7,388,865 |
| CASH AND CASH EQUIVALENTS | 2,811,377 |
| INVESTMENT IN UNCONSOLIDATED INVESTEES (NOTE 7) | 1,664,546 |
| PREPAIDS AND OTHER | 1,198,625 |
| PRE-ACQUISITION COSTS | 829,865 |
| RESTRICTED CASH | 651,865 |
| ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS OF $ 216,932 | 374,113 |
| DEFERRED LEASING COSTS, NET | 218,034 |
| DUE FROM RELATED PARTIES (NOTE 11) | 149,101 |
| | **$ 183,853,081** |

## LIABILITIES AND MEMBERS' DEFICIT

| | |
|---|---|
| LONG-TERM DEBT, NET OF DEFERRED COSTS (NOTE 9) | $ 104,580,575 |
| LONG-TERM DEBT - RELATED PARTIES (NOTES 2 AND 10) | 91,365,946 |
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (NOTES 11 AND 12) | 4,542,082 |
| FAIR VALUE OF INTEREST RATE SWAPS (NOTES 8 AND 9) | 521,657 |
| TENANT SECURITY DEPOSITS | 245,417 |
| UNEARNED RENT | 136,206 |
| COMMITMENTS AND CONTINGENCIES (NOTE 12) | |
| MEMBERS' DEFICIT OF INDEX ENTERPRISE, LLC | (22,613,523) |
| NONCONTROLLING INTEREST | 5,074,721 |
| | **$ 183,853,081** |

# Consolidated Statement of Income
# Year ended December 31, 2016

## INCOME

| | |
|---|---|
| Rental | $ 12,140,757 |
| Tenant expense recovery | 808,709 |
| Resort, net | 784,367 |
| Assisted living | 618,501 |
| **Total income** | **14,352,334** |

## OPERATING EXPENSES

| | |
|---|---|
| Depreciation (Note 4) | 4,862,203 |
| Management fees (Note 11) | 2,910,323 |
| Common area maintenance | 2,122,252 |
| Real estate taxes | 1,627,564 |
| Professional fees | 977,520 |
| Impairment loss (Note 4) | 366,470 |
| Other operating expenses | 7,057,749 |
| **Total operating expenses** | **19,924,081** |
| **LOSS FROM OPERATIONS** | **(5,571,747)** |

OTHER INCOME (EXPENSE)

| | |
|---|---|
| Gain on sales of properties (Note 4) | 30,643,483 |
| Gain on insurance proceeds from fire loss, net (Note 4) | 1,674,322 |
| Interest income | 426,809 |
| Other income | 114,187 |
| Change in fair value of interest rate swap (Note 8) | (521,657) |
| Interest expense (Notes 9 and 10) | (9,544,536) |
| **Total other income (expense)** | **22,792,608** |
| **NET INCOME** | **17,220,861** |

| | |
|---|---|
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST | (5,448,448) |
| **NET INCOME ATTRIBUTABLE TO INDEX ENTERPRISE, LLC** | **$ 11,772,413** |

# Consolidated Statement of Changes in Members' Deficit Year ended December 31, 2016

| | Members' deficit – Index Enterprise, LLC | Accumulated other comprehensive loss | Non controlling Interest | Total |
|---|---|---|---|---|
| Members' deficit as of December 31, 2015 | $ (25,622,484) | $ (672,598) | $ 5,523,571 | $ (20,771,511) |
| Capital contributions – cash | – | – | 66,150 | 66,150 |
| Capital contributions - noncash (note 11) | – | – | 2,042,200 | 2,042,200 |
| Distributions | (8,763,452) | – | (8,148,321) | (16,911,773) |
| Net income | 11,772,413 | – | 5,448,448 | 17,220,861 |
| Settlement of interest rate swaps | – | 672,598 | 142,673 | 815,271 |
| Members' deficit as of December 31, 2016 | $ (22,613,523) | $ – | $ 5,074,721 | $ (17,538,802) |

# Consolidated Statement of Cash Flows
# Year ended December 31, 2016

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Net income | $ 17,220,861 |
| **Adjustments to reconcile net income to net cash used in operating activities:** | |
| Gain on sales of properties | (30,643,483) |
| Bad debt expense | 1,011,329 |
| Amortization of deferred loan costs included in interest expense | 450,304 |
| Amortization of deferred selling costs | 29,383 |
| Depreciation | 5,573,187 |
| Accrued interest income | (402,240) |
| Change in fair value of interest rate swaps | 521,657 |
| Impairment loss | 366,470 |
| Accrued interest on long-term debt - related parties | 3,717,950 |
| **Changes in operating assets and liabilities:** | |
| Accounts receivable | (113,406) |
| Prepaids and other | (520,300) |
| Accounts payable and accrued liabilities | (3,004,818) |
| Tenant security deposits | (2,005) |
| Unearned rent | (121,129) |
| **Total adjustments** | **(23,137,101)** |
| **Net cash used in operating activities** | **(5,916,240)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | |
| Advances on loans receivable | (6,986,625) |
| Increase in restricted cash | (82,971) |
| Investments in assets held for development | (43,878,243) |
| Investments in rental properties | (2,533,881) |
| Proceeds from sales of properties | 89,541,861 |
| Investments in unconsolidated investees | (1,664,546) |
| Proceeds from settlement of put derivative | 1,170,000 |
| Pre-acquisition costs | (829,865) |
| Net advances to related parties | (80,988) |
| **Net cash provided by investing activities** | **34,654,742** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | |
| Stockholder distributions | (8,763,452) |
| Capital contributions - noncontrolling interest | 66,150 |
| Distributions - noncontrolling interest | (8,148,321) |
| Proceeds from long-term debt - related parties | 14,734,649 |
| Repayments of long-term debt - related parties | (20,343,975) |
| Proceeds from long-term debt | 47,381,044 |
| Repayments of long-term debt | (51,850,505) |
| Repayments of convertible debt | (1,000,000) |
| Deferred financing costs | (392,415) |
| **Net cash used in financing activities** | **(28,316,825)** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **421,677** |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 2,389,700 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | **$ 2,811,377** |

# Consolidated Statement of Cash Flows (continued)
# Year ended December 31, 2016

| | |
|---|---|
| **Supplemental Disclosure of Cash Flow Information:** | |
| Interest paid, net of capitalized interest | $ 4,760,112 |
| Income taxes paid | $ – |

| | |
|---|---|
| **Supplemental Disclosure of Noncash Financing and Investing Activities:** | |
| Paid in kind capitalized interest | $ 796,614 |
| Settlement of interest rate swaps | $ 815,271 |
| Developer fees included in assets held for development recorded as capital contributions | $ 2,042,200 |
| Net transfers from assets held for development to rental property | $ 75,898,884 |
| Amortization of loan costs capitalized to assets held for development | $ 83,104 |

# Notes to Consolidated Financial Statements

## Note 1 Summary of Significant Accounting Policies

**Business Activity**
Index Enterprise, LLC ("Index") is a Florida limited liability company formed on November 19, 2012. Index was established as a real estate investment vehicle; its primary purpose is the pursuit of opportunistic investments within the real estate industry. Index owns, develops and invests in real estate through its wholly-owned and controlled subsidiaries in Florida, New York and Michigan and its unconsolidated investees in Florida and Nevada. Index's portfolio includes a primary emphasis on multi-family residential rental developments in Florida, as well as industrial property redevelopments, commercial office and retail space, development of assisted living facilities, and development of a resort and golf club. Approximately 89 % of Index's rental property at December 31, 2016 and approximately 59 % of income for the year ended December 31, 2016 were from multi-family residential developments.

**Basis of Consolidation**
The consolidated financial statements include the accounts of Index and its wholly-owned and controlled subsidiaries, collectively referred to as the "Company." All material intercompany accounts and transactions have been eliminated in consolidation. Noncontrolling interest represents the portion of equity that Index does not own in entities that are consolidated. The following is a list of consolidated entities grouped by their respective lines of business:

**Multi-family residential rental developments**
Index Apartments, LLC
Investor Management, LLC
Dakota Abacoa Housing, LLC *
Mangrove Bay Housing, LLC
Little Palm Cottages, LLC
Bridgewater Lake Osborne, LLC *
High Ridge Housing, LLC
Sonoma Pointe Housing, LLC
Marathon Ocean Housing, LLC
Monterey Pointe Housing, LLC

**Assisted living facilities**
Index Senior Living Group, LLC
Index Senior Living Hobe Sound, LLC
Index Senior Living Sebastian, LLC
Index Senior Living East Lake, LLC
Index Senior Living Lake Nona, LLC *
Watercrest of Lake Nona Senior Living, LLC *
Watercrest of Lake Nona Real Estate, LLC *
Index Senior Living Huntsville, LLC
Index Senior Living Viera, LLC

**Industrial**
Viking Ventures America, LLC
Vector Venture, LLC
OMX, LLC
ONX1, LLC
ONX3, LLC

**Residential Condominium**
Index Riva, LLC *

**Commercial**
Index Acquisitions, LLC
Jupiter Harbour Office, LLC
Jupiter Inlet Development, LLC

**Resort**
Index Resort Development, LLC
Florida Keys Resort Holdings, LLC
Florida Keys Resort, LLC

**Residence**
Index Residence, LLC
Commerce Pointe, LLC
Westshore Pointe Holdings, LLC
Westshore Pointe, LLC
Seaward Marathon Holdings, LLC
Seaward Properties, LLC
* Company and/or underlying assets disposed in 2016

**Unconsolidated Investees**
Investments in unconsolidated investees, in which the Company exercises significant influence, but is not the managing member nor possesses control, are accounted for under the equity method of accounting, whereby the Company recognizes its proportionate share of the investee's undistributed earnings or losses and reduces its investment to reflect distributions received from the investee.

**Assets Held for Development**
Assets held for development are recorded at cost and no depreciation is recorded. All direct and indirect costs related to development activities are capitalized. Costs incurred include land costs and pre-development expenditures directly related to a specific project including development and construction costs, interest, insurance and real estate taxes. Indirect general and administrative development costs include travel and other related costs that are associated with the development of the project. The capitalization of such expenses ceases when the project is ready for its intended use. If it is determined that a project is no longer probable, all development project costs are expensed.

**Rental Property**
Rental property is recorded at cost. Expenditures for major betterments and additions are charged to the asset accounts, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred.

**Depreciation and Amortization**
Depreciation of rental property is computed by the straight-line method using various rates based generally on the estimated useful lives of the assets, which are 39 years for buildings, 15 years for property improvements, and 5 years for furniture and fixtures.

# Notes to Consolidated Financial Statements

## Note 1. Summary Of Significant Accounting Policies (Continued)

**Pre-acquisition Costs**
Costs related to locating, evaluating, negotiating and structuring property investment prior to acquisition are capitalized if all of the following conditions are met: (i) costs are directly identifiable with the specific property, (ii) costs would be capitalized if the property was already acquired and, (iii) acquisition of the property is probable. Costs are charged to expense when it is known that the property will not be acquired.

**Impairment of Long-Lived Assets**
Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized to the extent the carrying amount of the impaired asset exceeds fair value. Management's assessment of the recoverability of its long-lived assets includes, but is not limited to, recent operating results, expected undiscounted net operating cash flow and management's plans for future operations. If an asset is considered held for sale, a provision for loss is recognized if the fair value of the asset, less the estimated cost to sell, is less than the carrying amount of the asset. Depreciation and amortization expense, related to an asset, ceases once an asset is considered held for sale.

**Cash and Cash Equivalents**
The Company considers all highly liquid investments with original purchased maturities of three months or less to be cash equivalents.

From time to time, the Company maintains cash balances with financial institutions in excess of federally insured limits.

**Restricted Cash**
Restricted cash consists principally of tenant security deposits and reserves for real estate taxes, insurance and improvements on rental property.

**Notes Receivable and Due from Related Parties**
Amounts due on notes receivable and from related parties are stated at the outstanding balance of funds due for loans and repayment of cash advances. The carrying amount may be reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. As management believes that the amounts are fully collectible and are therefore stated at net realizable value, management has not recorded an allowance for doubtful accounts.

**Accounts Receivable**
Accounts receivable consists principally of amounts due from tenants which are uncollateralized and due under normal lease terms. The carrying amount of tenant receivables may be reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all tenant receivables and based on assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. Receivables are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**Deferred Leasing Costs**
Costs incurred in connection with executing leases, such as broker commissions and legal fees, are deferred and amortized over the initial term of the related lease using the straight line method.

**Debt Issuance Costs**
Effective January 1, 2016, the Company adopted Accounting Standards Update ("ASU") 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires the Company to present debt issuance costs as a reduction to the contractual principal balance of the related debt. In prior years, the Company presented unamortized debt issuance costs as an asset. Debt issuance costs consist principally of loan origination and related fees, and are amortized on a straight line basis over the term of the loan, which approximates the interest method. The related amortization is included in interest expense for operating properties or capitalized for qualified expenditures to assets held for development.

**Revenue Recognition**
*Rental Income and Tenant Expense Reimbursement*
Tenant leases are classified as operating leases. Rental income is recognized when rent is due from tenants and collectibility is reasonably assured. For leases that provide rent concessions or fixed escalations over the lease term, rental income is recognized on a straight-line basis over the terms of the respective leases. Contingent rents are not recognized until realized. Base minimum rents in excess of actual tenant billings are classified as deferred rent receivable. Operating expense reimbursements charged to tenants for estimated operating expenses to run the properties are billed monthly to tenants with an annual actual to estimate reconciliation adjustment performed at calendar year end in accordance with the tenant leases. Tenant rents received in advance of the due date are classified as unearned rent. The Company presents revenues net of any applicable sales tax.

*Resort Income*
Resort income consists of revenue from membership dues, golf course fees, and restaurant revenue, net of direct expenses as the expenses are not significant. Membership dues are recorded as earned ratably over the term of a membership and collectibility is reasonably assured. Golf course fees and restaurant revenue are recorded when earned and collectibility is reasonably assured. The Company presents revenues net of any applicable sales tax.

*Assisted Living Income*
Assisted living income consists principally of contractual monthly fees from residents for nursing care and other related services and is recognized when fees are due from residents and collectibility is reasonably assured. The Company presents revenues net of any applicable sales tax.

# Notes to Consolidated Financial Statements

## Note 1. Summary Of Significant Accounting Policies (Continued)

**Environmental Costs**
Costs related to environmental remediation are charged to expense. Other environmental costs are also charged to expense unless they increase the value of the property and/or provide future economic benefits, in which event they are capitalized. Liabilities are recognized when the expenditures are considered probable and can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology, and undiscounted site-specific costs. Generally, such recognition coincides with the Company's commitment to a formal plan of action. Accruals for environmental matters exclude claims for recoveries from insurance carriers and other third parties until it is probable that such recoveries will be realized.

**Interest Rate Swaps**
The Company uses interest rate swaps to manage or hedge interest risks and records the derivatives in its consolidated balance sheet at fair value. The Company has elected to adopt Financial Accounting Standards Board Accounting Standards Update No. 2014-03 for interest rate swaps that meet the requirements thereof, which permits private companies to use a simplified hedge accounting approach to account for swaps that are entered into for the purpose of economically converting a variable-rate borrowing into a fixed-rate borrowing. Under this simplified approach, an eligible private company can assume that a hedging relationship is perfectly effective if the swap and the debt meet certain qualitative criteria.

Interest rate swaps that do not meet the requirements for simplified hedge accounting are recorded as either assets or liabilities on the balance sheet at estimated fair value. Changes in the fair value of cash flow hedges are recorded each period in other comprehensive income (loss) as long as the hedge is effective. If a cash flow hedge is determined to be ineffective, the hedge is immediately recognized in earnings to the extent that the change in value of the derivative does not perfectly offset the change in value of the instrument being hedged.

**Fair Value Measurements**
Fair value is defined as the price that the Company would receive to sell an asset or pay to transfer a liability in a timely transaction with an independent counter-party in the principal market or in the absence of a principal market, the most advantageous market for the investment or liability. "Fair Value Measurements" as prescribed by the Accounting Standards Codification, establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Company's assets and liabilities. The inputs are summarized in the three broad levels listed below.

**Level 1** quoted prices in active markets for identical assets and liabilities

**Level 2** observable inputs other than Level 1 process, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities (including the Company's own assumptions in determining the fair values of assets and liabilities).

The following is a description of the valuation methodologies used for the Company's financial assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

**Interest rate swaps –** The Company's interest rate swaps are valued under an income approach using industry standard models that consider various assumptions, including time value, volatility factors, current market and contractual prices for the underlying and counter-party non-performance risk. Substantially all of these assumptions are observable in the marketplace throughout the full-term of the instrument, and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. This financial instrument is measured at fair value on a recurring basis, using Level 2 measurement inputs in the three-tier fair value hierarchy.

# Notes to Consolidated Financial Statements

## Note 1. Summary Of Significant Accounting Policies (Continued)

**Convertible Note Receivable –** The Company's convertible note receivable is valued using a discounted cash flow approach considering the fair market value of the asset underlying the conversion feature, the value of the collateral and the probability of conversion. A significant decrease in the value of the collateral could result in a lower fair market value and a significant increase in the value of the asset underlying the conversion feature could result in a higher fair market value. This financial instrument is measured at fair value on a recurring basis, using Level 3 measurement inputs in the three-tier fair value hierarchy.

In addition, the Company has certain assets measured at fair value on a nonrecurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. The following is a description of the valuation methodologies used for the Company's non-financial assets measured at fair value on a nonrecurring basis, as well as the general classification of such assets pursuant to the valuation hierarchy:

**Rental property –** Impaired rental property is recorded at the lower of carrying amount or fair value. Rental property value is estimated using Level 3 inputs (Note 4).

### Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair values of each class of non-derivative financial instruments disclosed herein:

*Long-term debt, long-term debt - related parties, and notes receivable* – Based upon the interest rates, current economic conditions, risk characteristics, collateral and other factors, the carrying amount of these financial instruments approximates fair value.

*Due from related parties* – Based on the short-term nature, the carrying amount of this financial instrument approximates fair value.

### Federal Withholding Liabilities

The Company regularly borrows money from certain lenders in Sweden. Should the related loan agreements not meet the U.S. Internal Revenue Service ("IRS") requirements for portfolio interest, the IRS rules may require withholding of federal income taxes for foreign note holders. Additionally, the Company may be required to withhold federal income taxes on earnings and distributions to foreign owners. The Company believes it is in compliance with all applicable regulations.

### Advertising and Marketing Costs

Advertising and marketing costs are charged to operations as incurred. For the year ended December 31, 2016, advertising and marketing costs amounted to approximately $ 242,000 and are included as a component of other operating expenses in the accompanying consolidated statement of income.

### Income Taxes

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by the Company. Members are taxed individually on their share of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the operating agreement of the Company. No provision for income taxes is included in the accompanying financial statements. The Company is subject to certain state income taxes.

The Company assesses its tax positions in accordance with "Accounting for Uncertainties in Income Taxes" as prescribed by the Accounting Standards Codification, which provides guidance for financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return for open tax years (generally a period of three years from the later of each return's due date or the date filed) that remain subject to examination by the Company's major tax jurisdictions.

The Company assesses its tax positions and determines whether it has any material unrecognized liabilities for uncertain tax positions. The Company records these liabilities to the extent it deems them more likely than not to be incurred. Interest and penalties related to uncertain tax positions, if any, would be classified as a component of income tax expense.

The Company believes that it does not have any significant uncertain tax positions requiring recognition or measurement in the accompanying financial statements.

### Use of Estimates in the Preparation of Financial Statements

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 as of the balance sheet date and the reported amounts of revenues and expenses for the year presented. Actual results could differ from those estimates.

# Notes to Consolidated Financial Statements

## Note 2. Economic Dependency

A large part of the Company's financing is derived from related parties, principally Swedish entities. The Company is dependent upon such financing to fund its real estate investment activities, including capital commitments. In the absence of receiving sufficient operating cash flow from its current real estate investments, the Company's ongoing liquidity and ability to make future investments is dependent upon continued financing from its related parties. Additionally, any changes in the laws, economy or political conditions of Sweden that curtail related parties lending to the Company could result in a material adverse effect on the operating results and financial condition of the Company.

## Note 3. Asset Acquisitions

**Seaward Properties, LLC**

On November 16, 2016, in order to expand its real estate portfolio, the Company acquired through a newly formed subsidiary, Seaward Properties, LLC, ("Seaward"), real estate in Marathon, Florida for $ 6,000,000. The property consists of 4.65 acres of waterfront land with an existing motel. The fair value of the assets acquired were allocated to the land as it was determined that there was minimal value to the hotel or any intangible assets as of the date of acquisition. The Company plans to sub-divide and develop the property as residential homes and workforce housing. The purchase price was financed with a $ 3,000,000 bank loan and a capital contribution of $ 3,000,000.

**Commerce Pointe, LLC**

On April 21, 2016, in order to expand its real estate portfolio, the Company acquired through a newly formed subsidiary, Commerce Pointe, LLC, a parcel of land in Tampa, Florida for $ 380,000. The vacant piece of land is expected to be developed as part of a planned multi-family residential rental development.

## Note 4. Rental Property

Rental property, consisting of industrial property located in New York and Michigan, residential rental property located in Florida, and a commercial office building in Jupiter, Florida is as follows at December 31, 2016:

| | |
|---|---|
| Land and improvements | $ 19,225,014 |
| Buildings and improvements | 130,823,745 |
| Furniture and fixtures | 6,658,151 |
| | 156,706,910 |
| Less: accumulated depreciation | (5,503,596) |
| | **$ 151,203,314** |

Depreciation expense of rental property amounted to $ 4,862,203$ - for the year ended December 31, 2016. Rental property located in Florida accounts for 95 % of all rental property.

**Impairment Loss**

During 2016, the Company recognized an impairment loss on OMX, LLC industrial property of approximately $ 366,000. The impairment was determined based on an executed agreement to sell the property for $ 3,150,000, which was less than the carrying value at December 31, 2016.

**Casualty Gain**

In April 2016, a portion of the ONX1, LLC property was damaged by a fire. The Company received insurance proceeds of approximately $ 2,145,000. There was no physical damage to the property, however, the Company incurred costs of approximately $ 543,000 to clean up the property and for other expenses associated with the claim. The net amount of the gain on proceeds received from the insurance claim was approximately $ 1,602,000, which is included in other income in the accompanying consolidated statement of income.

**Sales of Properties**

*Dakota Abacoa Housing, LLC*

In December 2015, the Company executed a Purchase and Sale Agreement with an unrelated party for the sale of the residential rental property owned by Dakota Abacoa Housing, LLC, for $ 42,000,000. The sale was finalized in February 2016 and resulted in a net gain of approximately $ 15,407,000, which is included as a component of net gain on sale of properties in the accompanying statement of income. The Company repaid approximately $ 24,900,000 of third party debt and $ 12,900,000 of related party date with proceeds from the sale.

*Bridgewater Lake Osborne, LLC*

In February 2016, the Company executed a Purchase and Sale Agreement with an unrelated party for the sale of the residential rental property owned by Bridgewater Lake Osborne, LLC for $ 24,000,000. The sale was finalized in April 2016 and resulted in a net gain of approximately $ 7,414,000 which is included as a component of net gain on sale of properties in the accompanying statement of income. The Company repaid approximately $ 12,900,000 of third party debt as part of the closing.

# Notes to Consolidated Financial Statements

*Watercrest of Lake Nona Senior Living, LLC and Watercrest of Lake Nona Senior Living RE, LLC*
In October 2016, the Company executed an Interest Purchase Agreement with an unrelated party for the transferred interest of Watercrest of Lake Nona Senior Living, LLC and Watercrest of Lake Nona Senior Living RE, LLC (Collectively "Lake Nona") for $ 25,650,000, while retaining certain liabilities for matters arising prior to closing date, taxes and assessments and employment matters. The sale resulted in a net gain of approximately $ 7,822,000 which is included as a component of net gain on sale of properties in the accompanying statement of income. The Company repaid approximately $ 13,100,000 of third party debt as part of the closing.

## Note 5. Assets held for Development

Assets held for development are as follows at December 31, 2016:

| | |
|---|---|
| Seaward Properties | $ 6,342,842 |
| Florida Keys Resort Holdings | 5,944,019 |
| Jupiter Inlet Development | 4,696,515 |
| Commerce Pointe | 380,000 |
| | **$ 17,363,376** |

In 2016, certain assets held for development were placed into service as rental property.

**Seaward**
Acquired in November 2016 (see Note 3), the property consists of 4.65 acres of waterfront land with an existing motel in Marathon, Florida. The Company plans to sub-divide and develop the property as residential homes and workforce housing.

**Florida Keys Resort Holdings**
Acquired in January 2015, the property consists of 11.7 acres of land in Marathon, Florida with a golf course, restaurant, pro shop, clubhouse and tennis courts. The Company is operating the current facilities, but plans to redevelop the property as a luxury resort and golf club. Depreciation expense amounted to approximately $ 711,000 for the year ended December 31, 2016.

**Jupiter Inlet Development**
Acquired in December 2012, the Company is currently redeveloping the Jupiter, Florida property with a 15,000 square foot freestanding mixed use restaurant/office building, which is currently under construction.

**Commerce Pointe**
Acquired in April 2016 (see Note 3), the property consists of a parcel of land in Tampa, Florida which is expected to be developed as part of a planned multi-family residential rental development.

## Note 6. Notes Receivable

Notes receivable consisted of the following at December 31, 2016:

**Bermuda Bay Associates, LLC**
The Company has a loan receivable from Bermuda Bay Associates, LLC with a principal balance of $ 4,336,625 plus accrued interest of $ 364,632. The loan bears interest at 9 % per annum, is collateralized by real property in Hillsborough County, Florida and matured on December 31, 2016. The Company is currently negotiating with the borrower to purchase the property.

**Millhess, Inc. and Southall, Inc.**
The Company has a convertible note receivable from Millhess, Inc and Southall, Inc. with a principal balance of $ 2,650,000 plus accrued interest of $ 37,608. Borrowings are collateralized by real property in Saint Lucie County, Florida. The note provides for interest to accrue at 7 % per annum, with all accrued interest paid on December 18, 2017. Thereafter, monthly payments of interest only will be due until June 18, 2018, at which time all principal and interest will be due and payable. The note is convertible at any time prior to repayment, at the option of the holder, into a 37.5 % membership interest in The Atlantic at Hutchinson Island, LLC, which is the entity formed to develop the property. The convertible note receivable is recorded at its fair value of $ 2,687,608.

# Notes to Consolidated Financial Statements

## Note 7. Investments in Unconsolidated Investees

Investments in unconsolidated investees at December 31, 2016, consisted of the following:

| Assisted Living Facility | |
|---|---|
| Market Street Palm Coast RE, LLC | $ 1,078,971 |
| Market Street Summerlin RE, LLC | $ 585,575 |
| Viera ALF, LLC | $ – |

**Market Street Palm Coast RE, LLC**

In December 2016, the Company acquired a 50 % interest in Market Street Palm Coast RE, LLC ("Palm Coast"), an entity developing an assisted living facility in Palm Coast, Florida. Although the Company is a 50 % owner, it is not the managing member and does not control the investee, as such it reflects its investment on the equity method. At December 31, 2016, the unaudited balance sheet of Palm Coast consisted principally of property under development of approximately $ 1,226,000 and liabilities of approximately $ 147,000. Palm Coast had no operations through December 31, 2016.

**Market Street Summerlin RE, LLC**

In March 2016 the Company acquired a 50 % interest in Market Street Summerlin RE, LLC ("Summerlin"), an entity developing an assisted living facility in Las Vegas, Nevada. Although the Company is a 50 % owner, it is not the managing member and does not control the investee, as such it reflects its investment on the equity method. At December 31, 2016, the unaudited balance sheet of Summerlin consisted principally of property under development of approximately $ 2,053,000 and liabilities of approximately $ 1,478,000. Summerlin had no operations through December 31, 2016.

**Viera ALF, LLC**

The Company owns a 50 % interest in Viera ALF, LLC. Viera ALF, LLC owns 50 % of Market Street Viera Senior Real Estate LLC, the development entity for the Viera assisted living facility. Since the Company effectively owns 25 % of the development entity, it is not the managing member, and does not control the investee, it accounts for this investment on the equity method. As the Company has no obligation, and does not intend to fund future deficits, the equity in net loss has not been reduced to below zero.

The results of operations and financial position of Market Street Viera Senior Real Estate LLC consisted of the following:

| **Condensed Statement of Operations Information** | **For the year ended December 31, 2016 (unaudited)** |
|---|---|
| Revenue | $ 62,000 |
| Expenses | (129,000) |
| **Net loss** | **$ (67,000)** |
| **Company's equity in net income/loss** | **$ (16,750)** |

| **Condensed Balance Sheet Information** | **December 31, 2016 (unaudited)** |
|---|---|
| Total assets | $ 16,254,000 |
| Total liabilities | (16,397,000) |
| **Members' deficit** | **$ (143,000)** |

# Notes to Consolidated Financial Statements

## Note 8. Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

| **ASSETS AND LIABILITIES, at fair value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
|---|---|---|---|---|
| Interest rate swap | $ – | $ 521,657 | $ – | $ 521,657 |
| Convertible note receivable | – | – | 2,687,608 | 2,687,608 |
| | **$ –** | **$ 521,657** | **$ 2,687,608** | **$ 3,209,265** |

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2016 are as follows:

| **ASSETS, at fair value** | |
|---|---|
| Balance - January 1, 2016 - Put derivative | $ 1,170,000 |
| Settlement of put derivative | (1,170,000) |
| Convertible note receivable | 2,650,000 |
| Interest income on convertible note receivable | 37,608 |
| **Balance - December 31, 2016 - Convertible loan receivable** | **$ 2,687,608** |

The following table presents information about the Company's assets measured at fair value on a non-recurring basis as of December 31, 2016:

| **ASSETS, at fair value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
|---|---|---|---|---|
| **OMX, LLC (included in rental property)** | **$ –** | **$ –** | **$ 3,125,000** | **$ 3,125,000** |

## Note 9. Long-Term Debt

*Long-term debt at December 31, 2016 consisted of the following:*

**Little Palm Cottages, LLC**
Little Palm Cottages, LLC ("Little Torch") holds a loan with Branch Banking and Trust Company, dated October 11, 2013, in an amount not to exceed $ 9,300,000 to fund the construction and development of the project. The loan requires monthly payments of $ 37,786, including principal and interest at 2.8 % per annum, through maturity in October 2019. The loan is collateralized by the real estate owned by Little Torch with a net book value of approximately $ 12,700,000 and guaranteed by the noncontrolling member and related entity to the Company.

*$ 8,985,283*

**Mangrove Bay Housing, LLC**
Mangrove Bay Housing, LLC ("Mangrove Bay") held a loan with KeyBank National Association, dated July 26, 2013, in an amount not to exceed $ 14,100,000 to fund the construction and development of the project. The construction loan required monthly payments of interest only at an annual rate equal to 2.94 %. All outstanding principal and unpaid interest amounts were payable on or before the loan's extended maturity date of July 26, 2016. The loan was collateralized by the real estate owned by Mangrove Bay with a net book value of approximately $ 22,800,000 and guaranteed by the noncontrolling member and a related entity to the Company. The loan was refinanced in March 2017 (see Note 15).

*13,956,597*

**Sonoma Pointe Housing, LLC**
Sonoma Pointe Housing, LLC ("Sonoma Pointe") entered into the second amended and restated loan agreement with PNC Bank on June 28, 2016. The loan amount increased to $ 24,500,000, interest rate changed to LIBOR plus 2 % (2.77 % at December 31, 2016). The loan requires monthly principal payment of $ 32,560 and interest. All outstanding principal and unpaid interest amounts are payable on or before the loan's maturity date, June 20, 2021. The loan is collateralized by the real-estate owned by Sonoma Pointe with a net book value of approximately $ 24,700,000 and guaranteed by the noncontrolling member and a related entity to the Company. The Company has interest rate swaps on this debt which were transferred from Dakota Abacoa Housing, LLC which fix the variable rate exposure to 2.305 % on the initial approximately $ 19,500,000 and 1.91 % on the remaining balance.

*24,272,110*

# Notes to Consolidated Financial Statements

## Note 9. Long-Term Debt (Continued)

**Marathon Ocean Housing, LLC**
Marathon Ocean Housing, LLC ("Marathon Ocean") holds a loan with Branch Banking and Trust Company, dated March 10, 2015, in an amount not to exceed $ 21,200,000 to fund the construction and development of the project. The previous loan was refinanced and paid off with the existing loan. The construction loan requires monthly payments of interest only at an annual rate equal to 3.19 % at December 31, 2016. All outstanding principal and unpaid interest amounts are payable on or before the loan's maturity date, March 10, 2018. The loan is collateralized by the real estate owned by Marathon Ocean with a net book value of approximately $ 29,100,000 and guaranteed by the noncontrolling member and related entity to the Company.

*20,498,230*

**High Ridge Housing, LLC**
HighRidge Housing, LLC ("High Ridge") holds a loan with PNC Bank, National Association, dated October 16, 2015, in an amount not to exceed $ 20,363,000 to fund the construction and development of the project. The construction loan requires monthly payments of interest only at an annual rate equal to LIBOR plus 2.25 % (2.58 % at December 31, 2015). All outstanding principal and interest amounts are payable on or before the loan's maturity date, October 16, 2018. The loan is collateralized by the real estate owned by High Ridge with a net book value of approximately $ 27,300,000 and guaranteed by the noncontrolling member and a related entity to the Company.

*18,330,800*

**Jupiter Harbour Office, LLC**
Jupiter Harbour Office, LLC ("Jupiter Harbour") holds a loan with Stonegate Bank, dated March 7, 2014, in an amount not to exceed $ 1,750,000 as a mortgage collateralized by the property. The mortgage requires monthly payments of approximately $ 7,800 of principal and interest at an annual rate equal to 4.80 % during the initial 5 year term, to be adjusted thereafter. All outstanding principal and unpaid interest amounts are payable on or before the loan's maturity date, March 7, 2024. The loan is collateralized by the real-estate owned by Jupiter Harbour with a net book value of approximately $ 2,200,000 and guaranteed by a member of the Company.

*1,260,532*

**Monterey Pointe Housing, LLC**
Monterey Pointe Housing, LLC ("MPL"), holds a loan with PNC Bank, dated September 4, 2015, in the amount of $ 14,500,000 to fund the construction and development of the project. The construction loan requires monthly interest only payments at an annual rate equal to LIBOR plus 2.4 % (3.095 % at December 31, 2016). All outstanding principal and unpaid interest amounts are payable on or before the loan's maturity date, September 4, 2018. The loan is collateralized by the real estate owned by MPL with a net book value of approximately $ 19,600,000 and guaranteed by the noncontrolling member and a related entity to the Company.

*14,099,531*

**Jupiter Inlet Development, LLC**
Jupiter Inlet Development, LLC ("JID"), holds a loan with Professional Bank, dated October 3, 2016, in the amount of $ 5,565,000, of which $ 4,380,000 may be used for the construction and development of the property. The interest rate is the lesser of 5.5 % or 1 month LIBOR plus 4.5 % (5.27 % at December 31, 2016). Upon completion of the construction period, the Company can access up to the total loan amount based on the loan to value calculation set forth in the loan agreement. During the construction period, monthly interest only payments are required. At the end of the construction period, monthly principal and interest payments are required based on the outstanding balance as of that date through the maturity date of March 3, 2028. The loan is collateralized by the real estate owned by JID with a net book value of approximately $ 4,700,000 and guaranteed by the member and a related entity to the Company.

*664,910*

**Seaward Properties, LLC**
Seaward Properties, LLC ("Seaward"), holds a loan with Iberia Bank, dated November 17, 2016, in the amount of $ 3,000,000. The loan requires monthly interest only payments at an annual rate equal to the prime lending rate, as defined, plus 1 % (4.75 % at December 31, 2016) but not less than 3.5 % per annum. All outstanding principal and unpaid interest is payable at the maturity date of April 17, 2018. The loan is collateralized by the real estate owned by Seaward with a net book value of approximately $ 6,400,000.

*3,000,000*

| | |
|---|---|
| Total long-term debt | 105,067,993 |
| Debt issuance costs, net of accumulated amortization | (487,418) |
| **Long-term debt, net** | **$ 104,580,575** |

Aggregate maturities of long-term debt subsequent to December 31, 2016 are as follows:

| | |
|---|---|
| 2017 | $ 14,853,640 |
| 2018 | 56,801,744 |
| 2019 | 8,779,756 |
| 2020 | 534,275 |
| 2021 | 22,351,089 |
| Thereafter | 1,747,489 |
| | $ 105,067,993 |

Principally all of the long-term debt is subject to certain covenants that if not met, could cause the loans to be due on demand.

Interest incurred on third-party obligations and related interest rate swap agreements amounted to approximately $ 3,727,000 for the year ended December 31, 2016, of which approximately $ 845,000 was capitalized to assets held for development. Amortization expense of deferred financing costs amounted to approximately $ 533,000 for the year ended December 31, 2016 of which approximately $ 83,000 was capitalized to assets held for development.

# Notes to Consolidated Financial Statements

## Note 10. Long-Term Debt – Related Parties

Long-term debt with related parties at December 31, 2016, consisted of the following:

**Index Apartments, LLC**
Promissory note with Index International AB (”IIAB”), a Swedish company related by virtue of common ownership and management; interest accrues at a variable rate that corresponds with IIAB registered bond obligations plus 0.5 % (effectively 8.1 % at December 31, 2016); principal and accrued interest are due upon maturity on December 31, 2018; uncollateralized; outstanding balance includes accrued interest of $ 1,606,000.

*$ 44,082,402*

**ONX1, LLC**
Promissory note with Index Alternative Equity AB (”IAEAB”), a Swedish company related by virtue of common ownership and management; with a stated interest amount of $ 1,750,000 through the original maturity date of December 9, 2013 (effectively 50 % per annum); currently, non-interest bearing and due on demand; collateralized by the membership interest in ONX1, LLC (”ONX1”), a 75 % owned, controlled subsidiary of the Company, and a first mortgage and security agreement on industrial property located in Syracuse, New York, with a net book value of approximately $ 6,800,000, personally guaranteed by the noncontrolling member of ONX1.

*3,502,602*

**Index Enterprise, LLC**
Promissory note with IIAB; interest accrues at a variable rate that corresponds with IIAB registered bond obligations plus 0.5 % (effectively 8.1 % at December 31, 2016); principal and accrued interest are due upon maturity on December 31, 2018; uncollateralized; outstanding balance includes accrued interest of $ 1,172,000. During the period, the balance of $ 4,917,000 outstanding from Index Senior Living Lake Nona, LLC was transferred to Index Enterprise, LLC.

*22,810,408*

**OMX, LLC**
Promissory note with Index Alternative Investment 2 AB (”IAI2AB”), a Swedish company related by virtue of common ownership and management; interest accrues at 15 % compounding monthly; default interest of 16 %; principal and accrued interest were due on December 31, 2014; collateralized by the property with a net book value of approximately $ 3,094,000 and members’ ownership interest in OMX, LLC; outstanding balance includes accrued interest of $ 614,000; loan is in default.

*4,743,397*

**ONX 3, LLC**
Promissory note with Index Alternative Investment 1 AB (”IAI1AB”), a Swedish company related by virtue of common ownership and management; interest accrues at a fixed rate of 15 % per annum; principal and accrued interest are due on demand; uncollateralized; outstanding balance includes accrued interest of $ 458,000.

*2,358,548*

**ONX1, LLC**
Promissory note with IAEAB; interest accrues at a fixed rate of 9 % per annum; principal and accrued interest are due on demand; uncollateralized; outstanding balance includes accrued interest of $ 108,000.

*2,378,623*

**ONX3, LLC**
Building loan with IAI1AB; interest accrues at a fixed rate of 15 % per annum; principal and accrued interest are due on demand; uncollateralized; outstanding balance includes accrued interest of $ 309,000.

*1,008,663*

**ONX3, LLC**
Promissory note with IAI1AB; interest accrues at a fixed rate of 9 % per annum; principal and accrued interest are due on demand; uncollateralized; outstanding balance includes accrued interest of $ 101,000.

*603,323*

**ONX 3, LLC**
Promissory note with IAI1AB; interest accrues at a fixed rate of 9 % per annum; principal and accrued interest are due on demand; uncollateralized; includes accrued interest of $ 35,000.

*135,211*

**Index Resort Development, LLC**
Promissory note with Hornsberg 10 AB (”H10AB”), a Swedish company related by virtue of common ownership and management; interest accrues at a fixed rate of 9 % per annum; principal and accrued interest are due on demand; uncollateralized; includes accrued interest of $ 459,000.

*5,557,036*

**Florida Keys Resort, LLC**
Promissory note with a member of Florida Keys Resort LLC as an individual; interest payable monthly at a fixed rate of 7 % per annum; principal and unpaid accrued interest due upon maturity on February 4, 2018; uncollateralized.

*3,000,000*

**Index Senior Living Group, LLC**
Promissory note with a member of the Company; interest accrues at a fixed rate of 9 % per annum; principal and accrued interest are due on demand; uncollateralized; includes accrued interest of $ 35,280.

*525,281*

**ONX1, LLC**
Promissory note with a member of ONX1; interest accrues at a fixed rate of 9 % per annum; principal and accrued interest are due on demand; uncollateralized; includes accrued interest of $ 22,043.

*179,043*

# Notes to Consolidated Financial Statements

## Note 10. Long-Term Debt – Related Parties (Continued)

**Index Enterprise, LLC**
Promissory note with a Index Investment, LLC, a Swedish company related by virtue of common ownership; interest accrues at a fixed rate of 6 % per annum; principal and accrued interest are due on demand; uncollateralized; includes accrued interest of $ 6,000.

| | |
|---|---|
| | *364,456* |
| Various loans under $ 100,000 | 116,953 |
| **Total long-term debt - related party** | **$ 91,365,946** |

**Subordination**
All long-term debt - related parties obligations are subordinate to the Company's Guarantee related to IIAB's bond offering (Note 12).

Aggregate maturities of long-term debt - related parties, including accrued interest due upon maturity, for the years subsequent to December 31, 2016 are as follows:

| | |
|---|---|
| 2017 | $ 21,496,705 |
| 2018 | 69,869,241 |
| | **$ 91,365,946** |

Interest incurred on long-term debt - related parties amounted to approximately $ 7,010,000 for the year ended December 31, 2016 of which approximately $ 797,000 was capitalized to assets held for development.

## Note 11. Related Party Transactions

**Note Receivable**
In February 2013, the noncontrolling member of ONX1 entered into a promissory note in the amount of $ 1,000,000 with ONX1. The note was unsecured, bore interest at a fixed rate of 0.21 %, and matured on February 21, 2016. During the year ended December 31, 2016, the Company determined that this promissory note was uncollectible and accordingly wrote off the balance.

**Due from Related Parties**
Amounts due from related parties represent advances to entities related by virtue of common ownership and management. These advances are unsecured, non-interest bearing, and due on demand and amounted to approximately $ 149,000 at December 31, 2016.

**General and Administrative Expenses**
Related parties of the Company provide assistance in locating, evaluating, negotiating, structuring and disposing of investments for the Company, as well as providing all office facilities, equipment and personnel needed by the Company to carry out its business. Generally, no charge is levied to the Company by its related parties for such services.

**Construction Costs**
As of December 31, 2016, the Company's industrial property redevelopment subsidiaries capitalized approximately $ 8,753,000 of construction related costs to a general contractor entity owned by the noncontrolling member. For the year ended December 31, 2016, approximately $ 1,585,000 was incurred and capitalized as a component of rental property and approximately $ 184,000 owed to the contractor at December 31, 2016 is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet.

On September 23, 2015, one of the Company's multi-tenant rental subsidiary entered into a construction contract with a related entity through common ownership in the amount of $ 18,700,000. Through December 31, 2016, the Company capitalized the full amount plus $ 455,000 in change orders, which is included in rental property in the consolidated balance sheet. At December 31, 2016, $ 1,005,000 was owed to the contractor which includes $ 856,000 of retainage. This amount is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet at December 31, 2016.

On, August 22, 2016, one of the Company's commercial properties entered into a construction contract with a related entity through common ownership in the amount of $ 3,680,000. Through December 31, 2016, the Company capitalized $ 690,000, which is included in assets held for development in the consolidated balance sheet. At December 31, 2016, $ 636,000 was owed to the contractor which includes $ 60,000 of retainage. This amount is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet at December 31, 2016.

**Development and Construction Management Fees**
Typically, the Company enters into development and construction management agreements with the noncontrolling member of its multi-family residential rental development subsidiaries. As compensation for the planning and management of the development projects, the member earns a fixed fee based on each individual project budget. Total development and construction management fees incurred and capitalized in the Company's multi-family residential rental development subsidiaries for the year ended December 31, 2016 amounted to approximately $ 2,042,000. At December 31, 2016, approximately $ 5,860,000 was included as a component of rental property in the accompanying consolidated balance sheet.

Additionally, the Company entered into a developer compensation agreement with a noncontrolling member of its resort subsidiary. The Company has incurred and capitalized $ 120,000 in management fees for the year ended December 31, 2016. At December 31, 2016, $ 240,000 was included as a component of assets held for development.

# Notes to Consolidated Financial Statements

## Note 11. Related Party Transactions (Continued)

**Consulting and Management Fees**

The Company is a party to two consulting and management agreements with parties that are related by virtue of common ownership. For the year ended December 31, 2016, the Company incurred approximately $ 2,497,000 of consulting and management fees. At December 31, 2016, approximately $ 529,000 was paid in advance and is included as a component of prepaids and other in the accompanying consolidated balance sheet.

## Note 12. Commitments and Contingencies

**Environmental Remediation**

ONX1 has an ongoing potential environmental remediation matter related to a stormwater pond located on its property which was utilized for waste management of petroleum, various oils and chemicals by a former occupant of the property. There is no known litigation or enforcement related to the matter and management believes that if remediation was required, the prior occupant would be responsible. Remediation costs are unknown at this time, but could be significant.

OMX, LLC has an ongoing potential environmental remediation matter related to certain groundwater contamination on its property which was utilized by the prior occupant. Remediation efforts were performed by the prior occupant, however the matter has not been closed out by the Michigan Department of Environmental Quality. The Company believes it will not incur any amounts related to this matter.

**Litigation**

Management does not believe there is any litigation threatened against the Company other than routine matters arising in the ordinary normal course of business, some of which are expected to be covered by liability insurance, and none of which are expected to have a material adverse effect on the consolidated financial statements of the Company.

**Delinquent Property Taxes**

The Company was delinquent in the payment of property taxes in Genesee County, Michigan related to the industrial property owned by OMX, LLC. In February 2017, the Company received a one year postponement of a tax foreclosure judgment. Delinquent taxes carry interest and penalties aggregating 18 % per annum. As of December 31, 2016, the Company owed approximately $ 444,000 in delinquent property taxes and related interest and fees for this property, which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet.

**Guarantee**

In May 2014, Index became a guarantor in favor of Swedish Trust AB (the ”Bond Trustee”) for a bond offering by IIAB (the ”Guarantee”). The bond offering is for a maximum original face value amount of 500 million Swedish Krona (approximately 55 million U.S. Dollars at December 31, 2016). The bonds have a final redemption date of May 22, 2018.

Index unconditionally guarantees the full and punctual payment when due of the obligations evidenced by the bonds, including all amounts payable by IIAB to the Bond Trustee under the terms and conditions of the bond offering. The Guarantee is an irrevocable and unconditional guarantee of payment and is not a guaranty of collection. Index does not have recourse with any other party in connection with the Guarantee. The Company does not believe it is probable that it will be called upon to perform on the Guarantee, and accordingly has not recorded a liability for the Guarantee as of December 31, 2016.

# Notes to Consolidated Financial Statements

## Note 13. Leasing Arrangements

**Leasing Arrangements**

The Company leases commercial and industrial rental properties to tenants under noncancelable operating leases that expire on various dates through 2024. The lease agreements typically provide for base rent plus reimbursement of certain operating costs, as well as percentage rents based on tenant's revenue. Residential rental leases are typically short-term. As of December 31, 2016, occupancy rates by property were as follows:

| Property | |
|---|---|
| ONX1 | 19 % |
| ONX3 | 44 % |
| Jupiter Harbour | 100 % |
| Little Torch | 98 % |
| Mangrove Bay | 88 % |
| Sonoma Pointe | 89 % |
| High Ridge Housing | 72 % |
| Marathon Ocean Housing | 36 % |
| Monterey Pointe Housing | 29 % |

The approximate future minimum rents related to commercial and industrial properties, exclusive of reimbursements for operating costs and percentage rents, under noncancelable operating leases for the years subsequent to December 31, 2016 are as follows:

| Year | Amount |
|---|---|
| 2017 | $ 1,508,000 |
| 2018 | 1,361,000 |
| 2019 | 1,032,000 |
| 2020 | 785,000 |
| 2021 | 477,000 |
| Thereafter | 576,000 |
| | $ 5,739,000 |

## Note 14 Member Operating Agreement

Pursuant to the Amended and Restated Operating Agreement of the Company (the "Agreement"), dated December 31, 2013, ownership interest is comprised of one class of membership units. Members have limited personal liability for the obligations and debts of the Company. The Company shall have perpetual existence unless terminated in accordance with the provisions of the Agreement. Generally, income and loss allocations and distributions shall be made to the members pro rata. As of December 31, 2016, the Company is owned 50/50 by two members.

# Notes to Consolidated Financial Statements

## Note 15. Subsequent Events

**Loan Payable**
In March 2017, the Company borrowed $ 15,350,000 from Florida Community Bank in order to refinance the Mangrove Bay loan (Note 9). The loan provides for interest at the LIBOR 30-day rate, as defined, plus 2.85 %, with a minimum rate of 3.63 %. Interest only is due monthly through October 15, 2018 at which point monthly principal and interest payments are due based on a 30-year amortization schedule, with a balloon payment due at maturity in March 2020. The loan is collateralized by real estate owned by Mangrove Bay and guaranteed by the noncontrolling member and a related entity to the Company.

**Evaluation Date**
The Company has evaluated subsequent events through April 27, 2017, which is the date the accompanying consolidated financial statements were available to be issued.

## Jupiter, FL, USA, April 27, 2017

**Bjarne Borg**
Manager


INDEX
RESIDENCE