Consolidated Financial Statements and Supplementary Information

Housing Partnership Equity Trust, LLC and Subsidiary
Year Ended December 31, 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidated Financial Statements and Supplementary Information

Year Ended December 31, 2017

Contents

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Report of Independent Auditors

The Members
Housing Partnership Equity Trust, LLC and Subsidiary

We have audited the accompanying consolidated financial statements of Housing Partnership Equity Trust LLC and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations, changes in members' equity (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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Housing Partnership Equity Trust LLC and Subsidiary at December 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

The audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

April 13, 2018

A member firm of Ernst & Young Global Limited

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidated Balance Sheet

December 31, 2017

Assets	
Cash	$ 2,146,244
Reserves – REIT:	
Dividend reserve	624,964
Operating reserve	1,798,148
Total reserves – REIT	2,423,112
Reserves – TRS:	
Income tax reserve	1,620
Reserves – project entities:	
Capital expenditure reserves	2,043,752
Operating reserves	5,279,433
Total reserves – project entities	7,323,185
Total reserves	9,747,917
Investment in project entities	46,541,855
Prepaid expenses	25,195
Total assets	$ 58,461,211
Liabilities and members' equity (deficit)	
HPN loan payable	$ 2,272,727
Dividends payable	580,592
Termination fees payable	600,000
Reserves due to project entities	7,323,185
Accrued expenses	424,597
Total liabilities	11,201,101
Housing Partnership Equity Trust, LLC and subsidiary's equity (deficit)	(1,882,326)
Noncontrolling interest's equity	49,142,436
Total members' equity	47,260,110
Total liabilities and members' equity	$ 58,461,211

See notes to consolidated financial statements

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidated Statement of Operations

Year Ended December 31, 2017

Revenue:	
Acquisition fee	$ 153,000
Other revenue	7,907
Total revenue	160,907
Expenses:	
Operating expenses	1,770,775
Interest expense	92,172
General and administrative expense	1,668,047
Acquisition, development and other pursuit costs, net of recoveries	96,064
Total expenses	3,627,058
Other income (loss):	
Equity in loss of project entities	(2,040,178)
Total other income (loss)	(2,040,178)
Loss before taxes	(5,506,329)
Income tax benefit	16,141
Net loss	$ (5,490,188)

See notes to consolidated financial statements

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidated Statement of Members' Equity (Deficit)

	Housing Partnership Equity Trust, LLC and Subsidiary	**Non-Controlling Interest**	**Total**
Balance, December 31, 2016	$ 2,894,241	$ 45,641,822	$ 48,536,063
Contributions	285,000	6,563,828	6,848,828
Distributions	(303,676)	(2,331,496)	(2,635,172)
Offering cost	–	579	579
Net loss	(4,757,891)	(732,297)	(5,490,188)
Balance, December 31, 2017	$ (1,882,326)	$ 49,142,436	$ 47,260,110

See notes to consolidated financial statements.

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidated Statement of Cash Flows

Year Ended December 31, 2017

Operating activities	
Net loss	$ (5,490,188)
Adjustments to reconcile net loss to net cash used in operating activities:	
Equity in losses of project entities	2,040,178
Return on investment	318,820
Changes in assets and liabilities:	
Prepaid expenses	(6,555)
Operating reserves – REIT	(1,080,661)
Reserves – TRS	698,380
Termination Fees payable	600,000
Accrued expenses	(167,757)
Net cash used in operating activities	(3,087,783)
Investing activities	
Contributions to project entities	(4,650,590)
Return of capital	4,229,717
Net change in reserves deposits – project entities	(1,421,318)
Net change in reserves due to project entities	1,421,318
Net cash used in investing activities	(420,873)
Financing activities	
Capital subscriptions received	6,848,828
Distributions paid	(2,635,927)
Dividend reserves – REIT	(46,579)
Offering cost and placement fee paid	579
Net cash provided by financing activities	4,166,901
Net increase in cash	658,245
Cash, beginning of year	1,487,999
Cash, end of year	$ 2,146,244
Supplemental cash flow disclosures	
Cash paid for interest	$ 92,172
Cash paid for income taxes	$ 252,859
Supplemental schedule of non-cash investing and financing activities	
Distributions declared but unpaid	$ 580,592

See notes to consolidated financial statements.

1. Organization

Housing Partnership Equity Trust, LLC (HPET or the Company) is a Delaware limited liability company which was formed on January 11, 2012. The Company is organized for the purposes of: (i) providing relief to the poor and distressed or to the underprivileged; (ii) promoting social welfare by lessening neighborhood tensions, eliminating prejudice and discrimination, or combating community deterioration; and (iii) lessening the burdens of government. HPET will continue through December 21, 2022. HPET is management by its Board of Directors.

HPET has a 23.78% interest in Housing Partnership Equity Trust REIT I, LLC (REIT or the Subsidiary).

The REIT was formed as a Delaware limited liability company on January 22, 2013 and was organized for the object and purpose of: (i) providing relief of the poor and distressed or of the underprivileged; (ii) promoting social welfare by lessening neighborhood tensions, eliminating prejudice and discrimination, or combating community deterioration; and (iii) lessening the burdens of government. The REIT is specifically authorized to own membership interests in the Subsidiaries that acquire ownership interest in the Projects directly (the Project Entities). The REIT will continue into perpetuity. The REIT is managed by its Board of Directors, who are elected by the Class B unit holders.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. There were no cash equivalents as of December 31, 2017.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, (US GAAP).

2. Summary of Significant Accounting Policies (continued)

Principles of Consolidation

Included in the Company's financial statements are the accounts of the Company and the REIT. All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with US 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Risk

The Company maintains its cash balances in several accounts with two banks. At times, these balances may exceed the federal insurance limits; however, the Company has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risks exists with respect to these cash balances at December 31, 2017.

Concentrations of market, interest rate and credit risk may exist with respect to the Company's investment and its other assets and liabilities. Market risk is a potential loss the Company may incur as a result of changes in the fair value of its investments. The Company may also be subject to risk associated with concentrations of investments in geographic regions and industries. Interest rate risk includes the risk associated with changes in prevailing interest rates. Credit risk includes the possibility that a loss may occur from the failure of counterparties or issuers to make payments according to the terms of a contract.

The Company's investments are also subject to valuation and liquidity risk, financing risk, development financing risk and diversification risk.

The real estate market is cyclical in nature. Investment values are affected by, among other things, the availability of capital, vacancy rates, rental rates, interest rates, and inflation rates. Determining real estate values involves many assumptions which may be subjective. As a result, amounts ultimately realized from the real estate investments may vary significantly from the estimates presented and the differences could be material to the financial statements.

2. Summary of Significant Accounting Policies (continued)

Restricted Cash

Pursuant to the terms of various operating agreements, the REIT is required to escrow funds on behalf of the Project Entities for the funding of operating deficits and capital expenditures, which are reported as Reserves – Project Entities on the consolidated balance sheet. The REIT is also required to fund reserves for the funding of operating deficits and distributions to preferred members, which are reported as Reserves – REIT on the consolidated balance sheet.

Investment in Project Entities

The REIT determined that all of the REIT's Investments in the Project Entities are Variable Interest Entities (VIEs) under US GAAP primarily based on the fact that the entities are structured with non-substantive voting rights. However, the REIT has determined not to consolidate the VIEs, as the REIT is not the primary beneficiary and instead shares equal voting rights, therefore not meeting the power criterion. Both the carrying amount and the maximum exposure to loss is the REIT's current investment in the Project Entities. The REIT may be subject to additional losses to the extent of any financial support that the REIT voluntarily provides to the Project Entities in the future.

The REIT records its initial investment at cost, recognizes its share of each Project Entities' income or loss, increases its investment for capital contributions, and reduces its investment balance by any distributions received.

Cash distributions that the REIT receives in excess of the carrying amount of its investment are recorded as Other Income (if certain criteria are met), and the equity method of accounting is suspended. The REIT would record future equity method earnings only after its share of cumulative earnings during the suspended period exceeds the income recognized for the excess cash distributions.

The REIT's investments in Project Entities are periodically reviewed for impairment. The REIT records an impairment charge when events or circumstances change indicating that a decline in fair value below carrying value has occurred and such decline is other than temporary. No impairment loss was recognized during the year ended December 31, 2017.

2. Summary of Significant Accounting Policies (continued)

Acquisition Fees

Acquisition fees are earned by the REIT for selecting, evaluating, structuring, negotiating and closing the investments in Project Entities. The fee is recognized as revenue, provided that various criteria relating to the terms of the transaction and any subsequent involvement in the Project Entities by the REIT are met. Revenue relating to transactions that do not meet the established criteria is deferred and recognized when the criteria are met.

Income Taxes

HPET is taxed as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. HPET's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, HPET is not required to take any tax positions in order to qualify as a pass-through entity. HPET is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes, and HPET has no other tax positions which must be considered for disclosure. Income tax returns filed by HPET are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2014 remain open for HPET.

The REIT has made an election to qualify, and is operating so as to qualify, as a real estate investment trust under Sections 856-860 of the Internal Revenue Code (the Code) for federal income tax purposes. As a result, the Company generally is not subject to federal or state income taxation at the corporate level to the extent it distributes at least 90% of its REIT taxable income to its shareholders annually, and satisfies certain other requirements.

For the year ended December 31, 2017, the REIT has met all the REIT requirements, and accordingly, has not made a provision for federal income taxes in the accompanying financial statements. The REIT's tax returns are subject to examination by federal, state and local taxing authorities. Because many types of transactions are susceptible to varying interpretation under federal, state and local income tax laws and regulations, the amounts reported in the accompanying financial statements may be subject to change at a later date upon final determination by the respective taxing authorities. Income tax returns filed by the REIT are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2014 remain open.

2. Summary of Significant Accounting Policies (continued)

The REIT recognizes a tax benefit only if is “more likely than not” that a particular tax position will be sustained upon examination or audit, including resolution of any related appeals or litigation processes, based on the technical merits of the position. To the extent that the “more likely than not” standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement. There are no uncertain tax positions recorded as of December 31, 2017. We have considered the provisions of the Tax Cuts and Jobs Act (the TCJA), which was signed into law on December 22, 2017 and which generally takes effect for taxable years beginning on or after January 1, 2018, and do not expect the TCJA to have a material impact on the REIT’s ability to continue to qualify as a REIT, or on HPET’s financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance (except revenue in the scope of other accounting standards, including standards related to leasing). The standard clarifies the required factors that an entity must consider when recognizing revenue and requires additional disclosures concerning contracts with customers, judgments concerning revenue recognition, and assets recognized for the costs to obtain or fulfill a contract. The standard also provides guidance regarding the measurement of gains and losses relative to the sale of certain nonfinancial assets, including real estate. ASU 2014-09 is effective for the Company beginning January 1, 2019. The Company is evaluating the impact ASU 2014-09 will have on its financial position and is still assessing the approach it will take once implemented. The Company is currently evaluating the specific implementation requirements for allocating the consideration within its contracts in accordance with ASU 2014-09 as well as other transactions subject to ASU 2014-09. The Company does not expect the new standard to have a material impact on the measurement and recognition of revenue.

2. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, Leases, amending the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The guidance will be effective in the first quarter of 2020 and allows for early adoption. The new standard requires a modified retrospective transition approach for all leases existing at the date of initial application, with an option to use certain transition relief. ASU 2016-02 provides for transition relief, which includes not electing to (i) reassess whether any expired or existing contract is a lease or contains a lease, (ii) reassess the lease classification for any expired or existing leases and (iii) expense any capitalized initial direct costs for any existing leases. The Company does not expect the new standard to have a material impact on the financial statements; however, is currently assessing the impact of the new standard.

In August 2016, the FASB issued ASU 2016-15, *"Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments"* (ASU 2016-15). ASU 2016-15 intends to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. For non-public companies, ASU 2016-15 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted, provided that all amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently assessing the impact of the adoption of ASU 2016-15.

In November 2016, the FASB issued ASU 2016-18, *"Statement of Cash Flows (Topic 230): Restricted Cash,* a consensus of the FASB's Emerging Issues Task Force" (ASU 2016-18). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. For non-public companies, ASU 2016-18 is effective for annual periods beginning after December 15, 2018, and for interim periods within annual period beginning after December 15, 2019. Early adoption is permitted. ASU 2016-18 should be applied using a retrospective transition method to each period presented. The Company is currently assessing the impact of the adoption of ASU 2016-18.

3. Investments in Project Entities

The REIT's investments consist of equity investments in the following Project Entities:

Investment	Location	Acquisition Date	Ownership Percentage	Economic Interest	Capital Contributed
2000 Illinois Aurora, LLC (2000 Illinois Apartments) (a 128-unit multifamily apartment building)	Aurora,IL	4/25/2013	95.00%	85.00%	$ 6,985,406
Eden Woodside Court, LP (Woodside Court Apartments) (a 129-unit multifamily apartment building)	Fairfield,CA	7/12/2013	84.13%	84.14%	3,430,871
Eden Woodside Court, LP (Woodside Court Apartments) (a 129-unit multifamily apartment building)			0.01%*		408
Woodmere Trace, LLC (Woodmere Trace Apartments) (a 300-unit multifamily apartment building)	Norfolk,VA	9/10/2013	95.00%	85.00%	19,679,954
HHDC – Mallard Point, LLC (Mallard Point Apartments) (a 173-unit multifamily apartment building)	Channahon,IL	9/9/2014	86.50%	85.00%	5,277,829
AHC Woodleaf, LLC (Birches Apartments) (a 228-unit multifamily apartment building)	Silver Spring,MD	12/19/2014	86.50%	85.00%	7,428,989
Homes for Hagerstown, LLC (Bradford Apartments) (a 418-unit multifamily apartment building)	Hagerstown,MD	1/29/2015	86.50%	85.00%	7,898,428
HHDC – Mallard Point II, LLC **	Channahon,IL	9/8/2015	86.50%	85.00%	–
AHC Dunfield EO, LLC (Dunfield Townhomes) (a 312-unit multifamily apartment building)	Nottingham,MD	12/10/2015	86.50%	85.00%	9,391,151
Southport Yolo, LP (Savannah at Southport Townhomes) (a 228-unit multifamily apartment building)	West Sacramento,CA	12/11/2015	85.80%	85.00%	7,304,729
Southport Yolo, LP (Savannah at Southport Townhomes) (a 228-unit multifamily apartment building)			0.01%***		853
Dove Landing LLC (Dove Landing Portfolio) (318-unit multifamily apartment buildings)	Virginia Beach,VA	1/14/2016	86.50%	85.00%	7,429,475

3. Investments in Project Entities (continued)

Investment	Location	Acquisition Date	Ownership Percentage	Economic Interest	Capital Contributed
Golden Sun Preservation LLC (Goldenstar and Sun Place) (139-unit multifamily apartment buildings)	Maplewood and Roseville, MN	6/7/2016	86.50%	85.00%	$ 3,005,176
Meadow Ridge LV LLC (Meadow Ridge Apartments) (232-unit multifamily apartment buildings)	Las Vegas, NV	8/10/2016	86.50%	85.00%	6,726,612
Courtyard at Encanto LLC (Courtyard at Encanto) (160-unit multifamily apartment buildings)	Phoenix, AZ	10/17/2017	86.50%	85.00%	2,645,435
Pacific Villas LP (Pacific Villas) (86-unit multifamily apartment buildings)	Stockton, CA	12/12/2017	86.50%	85.00%	2,005,155
Total capital contributed					$ 89,210,471

* Held through the REIT's 100% investment in Eden Woodside Courts HPET GP, LLC
** Land acquired September 8, 2015 held for future development
*** Held through the REIT's 100% investment in Savannah HPET GP, LLC

Distributions and allocation of earnings and losses are accounted for using the economic interest of the investment, in accordance with the respective limited liability company agreements.

A summary of the REIT's Investment in Project Entities is as follows:

Investment in Project Entities at December 31, 2016	$ 48,479,980
Capital contributions paid	4,650,590
Distributions from net cash flow	(4,548,537)
Equity in loss of Project Entities	(2,040,178)
Investment in Project Entities at December 31, 2017	$ 46,541,855

3. Investments in Project Entities (continued)

Summary financial information of the Project Entities as of December 31, 2017 is as follows:

Combined Balance Sheet for the year ended December 31, 2017:

Assets	
Cash	$ 2,367,046
Receivables	549,311
Prepaid expenses	1,036,075
Restricted Deposit	13,588,217
Property and equipment, net	256,965,132
Due from affiliates	36,408
Other assets	15,090
Total assets	$ 274,557,279
Liabilities and Partners' capital /Members' equity	
Accounts payable and accrued expenses	660,940
Related party payable	163,329
Other liabilities	1,022,598
Tenant security deposits	1,244,055
Mortgages and notes payable	216,171,928
Total liabilities	219,262,850
Partners' capital/Members' equity	
Partners' capital/Members' equity–HPET	46,570,818
Other Partners' capital/Members' equity	8,752,574
Syndication costs	(28,963)
Total Partners' capital/Members' equity	55,294,429
Total liabilities and Partners' capital/Members' equity	$ 274,557,279

3. Investments in Project Entities (continued)

Combined Statement of Operations for the period ended December 31, 2017:

Revenue:	
Rental income, net	$ 28,663,759
Other operating income	2,769,988
Total revenue	31,433,747
Operating expenses:	
Salaries and employee benefits	3,233,103
Repairs and maintenance	3,754,917
Utilities	2,235,822
Property management fee	1,066,694
Taxes and insurance	3,474,082
Miscellaneous operating expenses	2,300,571
Total operating expenses	16,065,189
Total operating income	15,368,558
Other income (expense):	
Interest income	809
Interest expense	(8,922,439)
Depreciation and amortization	(6,898,500)
Asset management fee	(162,542)
Other financing fees	(15,000)
Miscellaneous other income (expenses)	498,188
Loss on disposal of fixed assets	(16,891)
Closing and acquisition costs	(196,154)
Other related party fees and expenses	(22,151)
Total other expense	(15,734,680)
Net loss	$ (366,122)
Company's share of net loss, including losses of $1.8 million related to prior years	$ (2,040,178)

4. Loan Payable

On October 20, 2014, HPN agreed to make available to the REIT a $2,272,727 loan, on a revolving basis, with a maturity date of October 20, 2015. The loan accrues interest at a rate of 4.0% per annum. The loan was amended and the maturity date extended to March 31, 2018, and the Company is currently negotiating an extension of the loan. Commencing January 20, 2016, a non-utilization fee of .50% per annum shall accrue on the amount by which the average daily principal amount outstanding is less than the Maximum Loan Amount, as defined. As of December 31, 2017, $2,272,727 remains payable.

During the year ended December 31, 2017, interest expense incurred was $92,172. Accrued interest at December 31, 2017 was $0.

5. Related-Party Transactions

Acquisition Fees

In connection with its efforts in selecting, evaluating, structuring, negotiating and closing the investment in Project Entities, the REIT earns a fee in an amount specified in the underwriting model of the respective Project Entity. For the year ended December 31, 2017 acquisition fees of $153,000 were earned. No amounts remain receivable as of December 31, 2017.

Contracted Services Fee

In 2015, the REIT entered into a Contracted Services Agreement with HPN to procure certain services, including office and information technology, communications, and member outreach services for $180,841 annually, and to provide for the payment of an annual Sponsor Fee of $250,000. The Sponsor Fee is paid quarterly though December 31, 2019. The contract was renewable annually with the consent of both parties. The CSA was amended in April 2017 to include additional services for capital raise strategy and planning for a total fee of $420,000 for services through 2018. On December 29, 2017, HPN and the REIT terminated the Agreement, and agreed that the REIT would pay a termination fee of $600,000, payable in quarterly installments of $37,500 beginning in 2018 through 2021.

The REIT then entered into a Services and Space Sharing Agreement with HPN, effective December 29, 2017, for the period January 1 through December 31, 2018, for meeting support, finder's fee, office sharing and information technology services provided by HPN for a total annual fee of $315,841. This Agreement is renewable annually with the consent of the parties.

5. Related-Party Transactions (continued)

During the year ended December 31, 2017, the REIT incurred $540,839, under the CSA agreement which is included in general and administrative expense in the accompanying consolidated statement of operations. As of December 31, 2017, no contracted services and sponsor fees remain payable. Termination Fees of $600,000 are included as a liability on the accompanying consolidated balance sheet.

Reserves Due to Project Entities

During the year ended December 31, 2017, the REIT held reserves on behalf of the Project Entities. These reserves are to fund capital expenditures and supplement operations of Project Entities and are not available for use by the REIT. The REIT recorded a payable to the Project Entities for the balance of the reserves. At December 31, 2017, $7,323,185 of the reserves remain payable to the Project Entities.

Investment in Project Entities

The REIT's investments in project entities are managed and co-owned by holders of common units of HPET, LLC and Subsidiary.

6. Professional Employer Organization Agreement

Effective June 1, 2015, the REIT entered into a Professional Employer Organization (PEO) agreement with Insperity PEO Services, L.P. to provide for payroll services, health benefit plans, HR services and a 401(k) Plan. The agreement remains in effect until terminated by either party. During the year ended December 31, 2017, the total service fee (which include the procurement of benefits) incurred under this contract was $136,821, which is included in operating expenses on the accompanying consolidated statement of operations. As of December 31, 2017, $3,761 remains payable and is included in accrued expenses on the accompanying consolidated balance sheet.

7. The HPET's Members' Equity

Contributions

Pursuant to the Amended and Restated Limited Liability Company Agreement of HPET (the Amended and Restated Agreement) effective December 21, 2012, the members agreed to make total Mandatory Capital Contributions of $17,800,000, which are due upon call by HPET. As of December 31, 2017, $18,369,999 has been received. As of December 31, 2017 no capital contribution remains receivable.

The below table summarizes the HPET members' capital contributions:

Member	HPET Units	Percentage Interest of Respective HPET Units	Capital Subscriptions as of December 31, 2017
John D. and Catherine T. MacArthur Foundation	1000 Preferred Units	66.7%	$ 10,000,000
The Ford Foundation	500 Preferred Units	33.3%	4,999,999
Total Preferred Units		100.0%	14,999,999
Housing Partnership Ventures, Inc.	40 Common Units	12.5%	400,000
Various Non-profit Housing Developers	280 Common Units	87.5%	2,970,000
Total Common Units		100.0%	3,370,000
Total Capital Subscriptions			$ 18,369,999

7. The HPET's Members' Equity (continued)

Upon the occurrence of a Put Event, which may occur on the tenth (10^{th}) anniversary of the Effective date, the failure of the Company or its Subsidiary to comply with PRI Requirements, or the event of a Management Change, as defined in the Amended and Restated Operating Agreement, the Initial Preferred Unit holder has the right to require HPET to purchase all of the Preferred Units held by the Initial Preferred Unit Holder (the Put Right). The Initial Preferred Unit holder shall provide written notice to the Board expressing its desire to exercise the Put Right, whereupon the Board and the Initial Preferred Unit holder shall proceed to ascertain the purchase price for the Preferred Units, in accordance with Section 12.11 of the Amended and Restated Operating Agreement.

Distributions

Preferred Unitholders are entitled to a 1% per annum cumulative cash dividend, compounded quarterly, on the aggregate amount of Capital Contributions made by each Preferred Unitholder. These dividends are payable from operating income generated by HPET. During the year ended December 31, 2017, preferred dividends of $114,602 were paid from operating income. At December 31, 2017 accumulated preferred dividends total $113,457. During the year ended December 31, 2017, common dividends of $189,076 were paid from the distributions received from the REIT.

Distributions of operating income will be made in accordance with the following:

i. First, (1) one percent (1.0%) to the Preferred Unitholders, pro rata and pari passu in accordance with the Percentage Interests of all Preferred Unitholders, and (2) ninety-nine percent (99%) to the Common Unitholders, pro rata and pari passu in accordance with the Percentage Interests of all Common Unitholders until the Unpaid Return of each Common Unitholder is reduced to zero.

ii. Thereafter, (1) twenty percent (20%) to the Sponsor, and (2) eighty percent (80%) to the Members (or Holders), pro rata and pari passu in accordance with the Percentage Interests of all Members.

8. The REIT's Members' Equity

Contributions (Subscriptions)

Pursuant to the Amended and Restated Limited Liability Company Agreement of the REIT (the Amended and Restated Agreement) effective January 6, 2014, HPET made a capital commitment of $17,800,000. On December 21, 2017, HPET purchased one Class B Common Unit for $250,000. As of December 31, 2017 contributions of $17,800,000 have been funded by HPET and $250,000 remains payable.

Pursuant to the Second Amended and Restated Limited Liability Company Agreement of the REIT (the Second Amended and Restated Agreement) effective December 18, 2014, The Prudential Insurance Company of America (Prudential) increased its share of Class A Preferred Units from 100 to 170, increasing their Mandatory Capital Contributions by $7,000,000. In connection with the Second Amended and Restated Agreement, Prudential was granted warrants to purchase 10% of any new Class B Common units to be issued and outstanding at a purchase price of $0.01 per Class B Unit (the Warrants). The Warrants were exercised on March 29, 2016 with a Distribution Effective Date of December 15, 2015. As a result, Prudential owns 11 Class B units. As of December 31, 2017 $17,000,000 has been funded by Prudential and there is no remaining commitment outstanding. Prudential's Class A Preferred Units have no voting rights and its Class B Common Units are entitled to one vote per unit. Cumulative dividends on the Class A Preferred Units accrue at an annual rate of 4.50% on the unrecovered capital contributions, compounded quarterly. On October 1, 2016, The Prudential Insurance Company of America transferred its 170 Class A Preferred Units and 11 Class B Common Units to Prudential Impact Investments Private Equity LLC, a wholly owned subsidiary.

On June 24, 2015, the REIT amended and restated its limited liability company agreement (the Third Amended and Restated Limited Liability Company Agreement) to admit Citibank, N.A. (Citi) and Morgan Stanley Bank, N.A. (Morgan Stanley) each as a Member. Citi's capital commitment is $20,000,000, in exchange for 200 Class D Preferred Units. As of December 31, 2017 $20,000,000 has been funded by Citi and $0 of commitments remain outstanding. Morgan Stanley's capital commitment is $20,000,000, in exchange for 200 Class D Preferred Units. As of December 31, 2017, $20,000,000 has been funded by Morgan Stanley and $0 of commitments remain outstanding. Cumulative dividends on the Class D Preferred Units accrue at an annual rate of 4.5% on the unrecovered capital contributions, compounded quarterly.

8. The REIT's Members' Equity (continued)

On April 21, 2016, the REIT amended its limited liability company agreement (the Amendment to the Third Amended and Restated Limited Liability Company Agreement) to admit Charles Schwab Bank (Schwab) as a Member. Schwab's capital commitment is $10,000,000, in exchange for 100 Class D Preferred Units. As of December 31, 2017, $10,000,000 of commitments remain outstanding from Schwab. Cumulative dividends on the Class D Preferred Units accrue at an annual rate of 4.5% on the unrecovered capital contributions, compounded quarterly.

Pursuant to a confidential private placement memorandum dated January 2014, 125 Class C Preferred Units were offered to a limited number of sophisticated, prospective investors. These units do not have an ownership interest or voting rights and are non-convertible. Holders of these units are entitled to receive cumulative distributions semi-annually at a per annum rate of 12.5%.

The liquidation value of each unit is $500. As of December 31, 2017, no Class C Preferred Unit capital subscriptions remain receivable.

The below table summarizes the REIT's Members' Capital Contributions:

	REIT Units	Capital Subscriptions As of December 31 2017
Prudential Impact Investments Private Equity LLC	170 Class A Units	$ 17,000,000
Prudential Impact Investments Private Equity LLC	11 Class B Units	–
Housing Partnership Equity Trust, LLC	100 Class B Units	17,800,000
Citibank, N.A.	200 Class D Units	20,000,000
Morgan Stanley Bank, N.A.	200 Class D Units	20,000,000
Charles Schwab Bank	Uncalled capital	–
Individual investors	125 Class C Units	62,500
Total		$ 74,862,500

9. Reserves

The REIT maintains the following reserves for the benefit of its operations:

Dividend Reserve

The REIT holds in reserve an amount sufficient to pay next quarter's expected preferred dividends due to Class A and D Preferred Unit Holders. As of December 31, 2017, the balance is $624,964.

Operating Reserve

The REIT holds in reserve an amount no less than three months and no more than six months of the annual operating budget. As of December 31, 2017, the balance is $1,798,148.

Income Tax Reserve

The TRS held an income tax reserve in 2016 for the sale of its interest in Damen Court. As of December 31, 2017, the balance is $1,620.

The REIT maintains the following reserves on behalf of the Project Entities:

Capital Expenditure Reserves

The Project Entities are required to establish reserves to fund the planned rehabilitation of the Project Entities. As of December 31, 2017, the aggregate balance is $2,043,752.

Operating Reserves

The Project Entities are required to establish reserves to fund any operating deficits of the Project Entities. As of December 31, 2017, the aggregate balance is $5,279,433.

10. Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activities of the group through April 13, 2018 (the date the financial statements were issued) and concluded that the following subsequent events have occurred.

On January 19, 2018, the REIT paid dividends of $580,592 to its Class A and Class D Preferred Unit Holders of record as of the close of business December 31, 2017.

On February 13, 2018, the Company called $10 million of committed capital from Charles Schwab Bank in exchange for 100 Class D Preferred Units. The capital was received on February 26,

On March 20, 2018, the REIT acquired, through a joint venture, a property in San Leandro, California. The REIT has a 75.5% equity in the joint venture, Quail Run Alameda County LP, The property, Quail Run, is a 104-unit multifamily apartment building and had an acquisition price of $24,000,000, and was acquired from an unrelated third party. The REIT contributed $7,471,497 at the time of acquisition.

Supplementary Information

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidating Statements of Members' Equity

Year Ended December 31, 2017

HPET, LLC	**The Ford Foundation**	**John D. and Catherine T. MacArthur Foundation**	**Non-profit Housing Developers**	**Housing Partnership Ventures, Inc.**	**Total**
Balance, January 1, 2017	$ 4,841,485	$ 9,682,464	$ 2,335,167	$ 342,072	$ 17,201,188
Contributions	–	–	285,000	–	285,000
Distributions	(38,201)	(76,401)	(164,026)	(25,048)	(303,676)
Net loss	–	–	(64,627)	(9,232)	(73,859)
Balance, December 31, 2017	$ 4,803,284	$ 9,606,063	$ 2,391,514	$ 307,792	$ 17,108,653
Members' percentage of membership losses	–	–	87.50%	12.50%	100.00%

See independent auditor's report.

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidating Statements of Members' Equity (continued)

Year Ended December 31, 2017

HPET REIT I, LLC	Common Unit Holder	Preferred Unit Holders	Accumulated Deficit	Eliminations	Total
Balance, January 1, 2017	$ 17,800,000	$ 50,498,672	$ (20,138,193)	$ (16,825,604)	$ 31,334,875
Preferred unit subscriptions	–	6,563,828	–	–	6,563,828
Common unit subscriptions	250,000	–	–	(250,000)	–
Common unit subscriptions receivable	(250,000)	–	–	250,000	–
Preferred unit distribution	–	–	(2,308,697)	–	(2,308,697)
Common unit distribution	–	–	(224,946)	202,147	(22,799)
Offering costs	–	–	579	–	579
Net loss	–	–	(5,416,329)	–	(5,416,329)
Balance, December 31, 2017	$ 17,800,000	$ 57,062,500	$ (28,087,586)	$ (16,623,457)	$ 30,151,457
Members' percentage of membership losses	100.00%	–	–	–	100.00%
Consolidated balance, December 31, 2017					$ 47,260,110

See independent auditor's report.

Housing Partnership Equity Trust, LLC and Subsidiary

Consolidating Statement of Controlling and Non-Controlling Interest of Members' Equity (Deficit)

Year Ended December 31, 2017

	Members' Percentage of Membership Interest	January 1, 2017 Equity	Contributions	Distributions	Offering Cost	Share of HPET, LLC Net Loss	Share of REIT I, LLC Net Loss	December 31, 2017 Total
Controlling interest	23.78%	$ 2,894,241	$ 285,000	$ (303,676)	$ –	$ (73,859)	$ (4,684,032)	$ (1,882,326)
Non-controlling interest	76.22%	45,641,822	6,563,828	(2,331,496)	579	–	(732,297)	49,142,436
Total	100.00%	$ 48,536,063	$ 6,848,828	$ (2,635,172)	$ 579	$ (73,859)	$ (5,416,329)	$ 47,260,110

See independent auditor's report.

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