Consolidated Financial Statements and Supplementary Information

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
(A Delaware Limited Liability Company)
Year Ended December 31, 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

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(A Delaware Limited Liability Company)

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 REIT I, LLC and Subsidiaries

We have audited the accompanying consolidated financial statements of Housing Partnership Equity Trust REIT I LLC and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations, changes in members' equity, 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 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.

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 REIT I LLC and Subsidiaries 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

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
(A Delaware Limited Liability Company)

Consolidated Balance Sheet

December 31, 2017

Assets	
Cash	$ 1,609,788
Reserves – REIT:	
Dividend reserves	624,964
Operating reserves	1,798,148
Total reserves – REIT	2,423,112
Reserves – TRS:	
Income tax reserve	1,620
Reserves – project entities:	
Capital expenditure reserve	2,043,752
Operating reserve	5,279,433
Total reserves – project entities	7,323,185
Total reserves	9,747,917
Investment in project entities	46,541,855
Prepaid expenses	18,630
Other assets	37,625
Total assets	$ 57,955,815

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
(A Delaware Limited Liability Company)

Consolidated Balance Sheet (continued)

December 31, 2017

Liabilities and members' equity	
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	404,397
Total liabilities	11,180,901
Members' equity	
Preferred stock, Class A $100,000 par value; 170 shares authorized, issued, and outstanding at December 31, 2017	17,000,000
Preferred stock, Class C $500 par value; 125 shares authorized, issued and outstanding at December 31, 2017	62,500
Preferred stock, Class D $100,000 par value; 500 shares authorized at December 31, 2017; 400 shares issued and outstanding at December 31, 2017	40,000,000
Common stock, Class B $178,000 par value; 100 shares authorized, issued, and outstanding at December 31, 2017	17,800,000
Common stock, Class B $.01 par value; 11 shares authorized, issued, and outstanding at December 31, 2017	–
Common stock, Class B $250,000 par value; 1 share authorized and issued at December 31, 2017; 0 shares outstanding at December 31, 2017	–
Accumulated deficit	(28,087,586)
Total members' equity	46,774,914
Total liabilities and members' equity	$ 57,955,815

See notes to consolidated financial statements.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
(A Delaware Limited Liability Company)

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	1,636,203
Acquisition, development and other pursuit costs, net of recoveries	54,049
Total expenses	3,553,199
Other income (loss):	
Equity in loss of project entities	(2,040,178)
Total other income (loss)	(2,040,178)
Loss before taxes	(5,432,470)
Income tax benefit	16,141
Net loss	$ (5,416,329)

See notes to consolidated financial statements.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
(A Delaware Limited Liability Company)

Consolidated Statement of Members' Equity

	Common Unit Holders	Preferred Unit Holders	Accumulated Deficit	Total Members' Equity
Balance, December 31, 2016	$ 17,800,000	$ 50,498,672	$ (20,138,193)	$ 48,160,479
Preferred unit subscriptions received	–	6,563,828	–	6,563,828
Common unit subscription received	250,000	–	–	250,000
Common unit subscription receivable	(250,000)	–	–	(250,000)
Preferred unit distribution	–	–	(2,308,697)	(2,308,697)
Common unit distribution	–	–	(224,946)	(224,946)
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)	$ 46,774,914

See notes to consolidated financial statements.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
(A Delaware Limited Liability Company)

Consolidated Statement of Cash Flows

Year Ended December 31, 2017

Cash flow from operating activities	
Net loss	$ (5,416,329)
Adjustments to reconcile net loss to net cash used in operating activities:	
Equity in losses (income) of project entities	2,040,178
Return on investment	318,820
Changes in assets and liabilities:	
Prepaid expenses and other assets	(37,615)
Operating reserves – REIT	(1,080,661)
Reserves – TRS	698,380
Termination Fees payable	600,000
Accrued expenses	(173,449)
Net cash used in operating activities	(3,050,676)
Cash flow from 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)
Cash flow from financing activities	
Capital subscriptions received	6,563,828
Distributions paid	(2,635,927)
Offering costs and placement fees	579
Dividend reserves – REIT	(46,579)
Net cash provided by financing activities	3,881,901
Net increase (decrease) in cash	410,352
Cash, beginning of the period	1,199,436
Cash, end of the period	$ 1,609,788
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 REIT I, LLC and Subsidiaries (the REIT or the Company) 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 interests in the Projects directly (Project Entities). The Company will continue into perpetuity. The REIT is managed by its Board of Directors, who are elected by the Class B unit holders.

Eden Woodside Courts HPET GP, LLC (HPET GP) is a wholly owned subsidiary of the REIT. The HPET GP is a pass-through entity which holds a 0.01% investment in and is a Co-General Partner of Eden Woodside Court, L.P. All contributions, distributions, and equity in income from the Project Entity is passed through to the REIT.

Savannah HPET GP, LLC (Savannah HPET GP) is a wholly owned subsidiary of the REIT. The Savannah HPET GP is a pass-through entity which holds a 0.01% investment in and is a Co-General Partner of Southport Yolo, L.P. All contributions, distributions, and equity in income from the Project Entity is passed through to the REIT.

HPET TRS, LLC (TRS) is a wholly owned subsidiary of the REIT. The TRS was formed to absorb income that would be non-customary for the REIT. All contributions, distributions, and equity in income from the Project Entity is passed through to the TRS and in turn passed through to the REIT.

Housing Partnership Equity Trust, LLC (HPET) is a member of the REIT and holds 90.2% of the Class B Units. Both HPET and the REIT are sponsored by the Housing Partnership Network (HPN or Sponsor). The Sponsor provides certain services through a Contracted Services Agreement (CSA). These services include providing office space and assistance with capital raise communications, marketing, meeting planning and public policy work.

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.

Principles of Consolidation

Included in the Company's financial statements are the accounts of its wholly owned subsidiaries, HPET GP, Savannah HPET GP and the TRS. All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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 risk exists with respect to these cash balances at December 31, 2017.

2. Summary of Significant Accounting Policies (continued)

Concentrations of market, interest rate and credit risk may exist with respect to the REIT's investments and its other assets and liabilities. Market risk is a potential loss the REIT may incur as a result of changes in the fair value of its investments. The REIT 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 REIT'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.

Restricted Cash

Pursuant to the terms of various operating agreements, the Company 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 Company is required to fund reserves for Company operating deficits and distributions to preferred members, which are reported as Reserves – REIT on the consolidated balance sheet. The Company also has reserves for income taxes, which is reported as Reserves – TRS on the consolidated balance sheet.

Investment in Project Entities

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

2. Summary of Significant Accounting Policies (continued)

The Company 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 Company receives in excess of the carrying amount of its investment are recorded as Income (if certain criteria are met), and the equity method of accounting is suspended. The Company 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 Company's investments in Project Entities are periodically reviewed for impairment. The Company 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. As of December 31, 2017, no impairment on Project Entities have been reported.

Acquisition Fees

Acquisition fees are earned 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 Company are met. Revenue relating to transactions that do not meet the established criteria is deferred and recognized when the criteria are met.

Income Taxes

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. 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 our ability to continue to qualify as REIT.

2. Summary of Significant Accounting Policies (continued)

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 Company are subject to examination by the Internal Revenue Service for a period of three years. The 2014–2016 tax years remain subject to examination.

Eden Woodside Courts HPET GP, LLC and Savannah HPET GP, LLC (collectively HPET GPs) are organized as single member limited liability companies, which are disregarded entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by the REIT on its income tax return. Accordingly, the HPET GPs are not required to file an income tax return with the Internal Revenue Service but do file with state taxing authorities. These financial statements do not reflect a provision for income taxes.

The TRS is subject to corporate federal and state income taxes. For the year ended December 31, 2017, the TRS made a provision for federal and state income taxes in the amount of $0. No income tax returns for the TRS are currently being examined by the Internal Revenue Service, and tax years since inception, 2015, remain open.

We can recognize 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.

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%	–

3. Investments in Project Entities (continued)

Investment	Location	Acquisition Date	Ownership Percentage	Economic Interest	Capital Contributed
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
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.

3. Investments in Project Entities (continued)

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

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 and remains payable and is included in accrued expenses on the accompanying consolidated balance sheet.

7. 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, Housing Partnership Equity Trust, LLC and Subsidiaries (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 receivable.

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 have been funded by Citi and no 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 have been funded by Morgan Stanley and no 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.

7. 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 table below summarizes the Members' Capital Contributions at December 31, 2017:

Member	REIT Units	
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

The Class A Preferred Unit Holder has the right to require the REIT to purchase all of the Class A Units held by the initial Class A Holder (Prudential). The date of notice shall be within 150 days of the 10th anniversary of December 18, 2014. The Put Right shall be exercised within 120 days of notice to exercise. The purchase price for such Class A Units shall equal the Initial Class A Unit Holder's Unrecovered Capital Contributions plus any amounts accrued and unpaid pursuant to Section 5.2(a)(ii) of the Third Amended and Restated Operating Agreement.

7. Members' Equity (continued)

The Initial Class D Preferred Unit Holders have the right to require the REIT to purchase all of the Class D Units held by the initial Class D Holders, beginning on the 10th anniversary of June 24, 2015. The Put Right shall be exercised within 90 days of notice to exercise. The purchase price for such Class D Units shall equal to the Initial Class D Unit Holders' Unrecovered Capital Contributions plus any amounts accrued and unpaid pursuant to Section 5.2(a)(ii) of the Third Amended and Restated Operating Agreement.

Effective June 24, 2015, the Company and HPET entered a standby unit purchase agreement with the John D. and Catherine T. MacArthur Foundation (the Foundation) to provide the Company with a liquidity facility, as called, to redeem a portion of the REIT's Class D Units, pursuant to Section 5.2(a)(ii) of the Third Amended and Restated Operating Agreement. The Foundation has agreed to purchase up to the dollar amount of Eligible Units, as defined in the agreement, at a price of $100,000 per Eligible Unit.

Distributions

Effective June 25, 2015, in accordance with the Third Amended and Restated Agreement, distributable cash, defined as all net operating income and net capital proceeds, will be made in accordance with the following:

(i). First, to the Class C Unit Holders; then

(ii). Second, one hundred percent (100%) to the Class A Unit Holders pro rata in accordance with their Class A Percentage Interests, and Class D Unit Holders, pro rata in accordance with their Class D Percentage Interests, on a pari passu basis, until there shall have been distributed under this section 5.2(a)(ii) an amount equal to four and one-half percent (4.5%) per annum of such Class A Unit Holder's and Class D Unit Holder's Unrecovered Capital Contributions, as applicable, compounded quarterly; provided, that the number "four and a one-half percent (4.5%)" above shall instead be "eight and one-half percent (8.5%)" with respect to distributions to the Initial Class A Unit Holder and the Initial Class D Unit Holders for each quarter in which a distribution is not made following the first time the REIT fails to make a distribution pursuant to Section 5.2(a)(ii) to the Initial Class A Unit Holder and the Initial Class D Unit Holders for two consecutive quarters (including, without limitation, for the avoidance of debt, the two consecutive quarters in which a distribution was not made); then

7. Members' Equity (continued)

(iii). Third, all remaining Distributable Cash (or such lesser amount as the Company may determine in its sole discretion) to the Class B Unit Holders pro rata in accordance with their Class B Percentage Interests.

During the year ended December 31, 2017, preferred unit distributions of $2,298,510 and common unit distributions of $337,419 were paid. As of December 31, 2017, $580,592 of distributions remain payable and are included in liabilities on the consolidated balance sheet.

8. 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:

8. Reserves (continued)

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.

9. 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 12, 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 from project entities.

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,

9. Recent Accounting Pronouncements (continued)

(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, which requires statements of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period total amounts shown on the statement of cash flows. The new standard requires a retrospective approach. The guidance will be effective the first quarter of 2019 and allows for early adoption. The Company does not expect the new standard to have a material impact on the financial statements; however, will continue to assess the impact of the new standard.

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 subsequent events have occurred:

On January 19, 2018, the Company 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.

10. Subsequent Events (continued)

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, 2018.

On March 20, 2018, the Company acquired, through a joint venture, a property in San Leandro, California. The Company has a 75.5% equity interest 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 Company contributed $7,471,497 at the time of acquisition.

Supplementary Information

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries

(A Delaware Limited Liability Company)

Combining Balance Sheet of the Project Entities

	2000 Illinois Aurora, LLC	Eden Woodside Court, L.P.	Woodmere Trace LLC	HHDC – Mallard Point, LLC	HHDC – Mallard Point II, LLC	AHC Woodleaf LLC	Homes for Hagerstown, LLC	AHC Dunfield EO LLC	Southport Yolo LP	Dove Landing, LLC	Golden Sun Preservation, LLC	Meadow Ridge LV, LLC	Courtyard at Encanto LLC	Pacific Villas LP	Total
Cash	$ 100,121	$ 99,041	$ 88,916	$ 291,351	$ 32	$ 286,246	$ 273,001	$ 418,472	$ 196,807	$ 145,586	$ 92,035	$ 198,113	$ 78,558	$ 98,767	$ 2,367,046
Receivables	21,126	14,974	12,779	11,740	–	76,774	23,373	210,651	52,396	27,257	10,484	68,415	18,965	377	549,311
Prepaid expenses	14,536	17,622	–	82,248	–	269,422	274,929	298,585	9,727	–	–	27,869	19,673	21,464	1,036,075
Restricted deposits	716,907	310,493	1,084,948	1,307,713	–	870,192	1,862,147	1,363,823	701,636	2,144,736	841,327	973,074	827,124	584,097	13,588,217
Property and equipment, net	6,473,020	10,965,971	18,351,700	17,887,555	511,190	31,431,785	23,910,095	50,329,344	28,119,273	21,168,992	9,843,097	22,348,748	9,124,362	6,500,000	256,965,132
Due from affiliates	6,000	–	–	–	–	–	–	4,260	–	–	26,148	–	–	–	36,408
Other assets	–	–	–	390	–	7,200	–	–	–	–	–	–	7,500	–	15,090
Total assets	$ 7,331,710	$ 11,408,101	$ 19,538,343	$ 19,580,997	$ 511,222	$ 32,941,619	$ 26,343,545	$ 52,625,135	$ 29,079,839	$ 23,486,571	$ 10,813,091	$ 23,616,219	$ 10,076,182	$ 7,204,705	$ 274,557,279
Accounts payable and accrued expenses	$ 41,626	$ 55,647	$ 22,585	$ 25,212	$ 9,462	$ 64,707	$ 75,842	$ 160,414	$ 65,164	$ 30,141	$ 31,629	$ 35,432	$ 43,079	$ –	$ 660,940
Related-party payable	19,574	3,968	8,658	6,518	–	1,735	–	–	1,787	5,966	109,750	5,373	–	–	163,329
Other liabilities	179,200	7,689	8,961	345,579	–	5,904	32,183	13,501	20,917	379,987	12,560	7,841	8,276	–	1,022,598
Tenant security deposits	37,860	63,324	80,377	110,764	–	144,538	163,555	167,951	126,681	100,562	77,463	55,264	34,220	81,496	1,244,055
Mortgages and notes payable	4,760,287	8,266,747	17,180,063	15,247,556	–	27,685,888	21,273,180	46,293,668	23,176,169	15,396,331	8,249,268	16,745,334	6,920,693	4,976,744	216,171,928
Total liabilities	5,038,547	8,397,375	17,300,644	15,735,629	9,462	27,902,772	21,544,760	46,635,534	23,390,718	15,912,987	8,480,670	16,849,244	7,006,268	5,058,240	219,262,850
Partners' capital/member's equity:															
Partners' capital/members' equity – HPET	1,949,189	2,540,666	1,902,044	3,268,563	–	4,283,020	4,078,967	5,091,161	4,851,253	6,437,546	1,982,558	5,751,929	2,609,427	1,824,495	46,570,818
Other partners capital/members' equity	343,974	483,523	335,655	576,805	501,760	755,827	719,818	898,440	853,368	1,136,038	349,863	1,015,046	460,487	321,970	8,752,574
Syndication costs	–	(13,463)	–	–	–	–	–	–	(15,500)	–	–	–	–	–	(28,963)
Total partners' capital/members' equity	2,293,163	3,010,726	2,237,699	3,845,368	501,760	5,038,847	4,798,785	5,989,601	5,689,121	7,573,584	2,332,421	6,766,975	3,069,914	2,146,465	55,294,429
Total liabilities and partners' capital/members' equity	$ 7,331,710	$ 11,408,101	$ 19,538,343	$ 19,580,997	$ 511,222	$ 32,941,619	$ 26,343,545	$ 52,625,135	$ 29,079,839	$ 23,486,571	$ 10,813,091	$ 23,616,219	$ 10,076,182	$ 7,204,705	$ 274,557,279

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries

(A Delaware Limited Liability Company)

Combining Statement of Operations of the Project Entities

	2000 Illinois Aurora, LLC	Eden Woodside Court, L.P.	Woodmere Trace LLC	HHDC – Mallard Point, LLC	HHDC – Mallard Point II, LLC	AHC Woodleaf LLC	Homes for Hagerstown, LLC	AHC Dunfield EO LLC	Southport Yolo LP	Dove Landing, LLC	Golden Sun Preservation, LLC	Meadow Ridge LV, LLC	Courtyard at Encanto LLC	Pacific Villas LP	Total
Revenue:															
Rental income, net	$ 1,222,839	$ 1,548,421	$ 2,874,995	$ 2,376,274	$ –	$ 3,485,339	$ 3,955,806	$ 4,357,194	$ 2,614,988	$ 2,577,731	$ 1,274,102	$ 2,109,430	$ 226,006	$ 40,634	$ 28,663,759
Other operating income	24,505	33,004	749,697	191,754	–	179,682	245,804	309,442	66,782	580,397	42,027	311,936	34,958	–	2,769,988
Total revenue	1,247,344	1,581,425	3,624,692	2,568,028	–	3,665,021	4,201,610	4,666,636	2,681,770	3,158,128	1,316,129	2,421,366	260,964	40,634	31,433,747
Operating expenses:															
Salaries and employee benefits	154,421	77,059	361,604	340,015	–	319,678	629,547	236,323	263,861	325,601	184,293	299,166	41,535	–	3,233,103
Repairs and maintenance	109,624	176,408	910,323	196,776	–	261,164	507,035	509,892	285,128	368,925	234,345	166,825	28,472	–	3,754,917
Utilities	147,211	134,759	264,407	128,559	–	133,796	352,432	119,200	197,849	425,613	123,095	170,427	38,474	–	2,235,822
Property management fee	48,609	78,122	128,437	90,492	–	130,429	145,503	88,456	87,069	112,265	50,321	96,552	10,439	–	1,066,694
Taxes and insurance	184,566	83,333	305,415	475,391	9,804	445,784	520,531	644,591	96,525	268,518	231,643	187,664	17,104	3,213	3,474,082
Miscellaneous operating expenses	101,952	162,684	401,679	114,171	107	209,873	202,612	362,153	178,170	368,047	77,021	98,463	23,639	–	2,300,571
Total operating expenses	746,383	712,365	2,371,865	1,345,404	9,911	1,500,724	2,357,660	1,960,615	1,108,602	1,868,969	900,718	1,019,097	159,663	3,213	16,065,189
Total operating income	500,961	869,060	1,252,827	1,222,624	(9,911)	2,164,297	1,843,950	2,706,021	1,573,168	1,289,159	415,411	1,402,269	101,301	37,421	15,368,558
Other income (expense):															
Interest income	16	6	49	464	–	–	39	–	13	–	195	27	–	–	809
Interest expense	(241,279)	(482,170)	(822,357)	(680,073)	–	(1,173,745)	(850,442)	(1,959,614)	(968,868)	(725,878)	(319,545)	(646,905)	(39,246)	(12,317)	(8,922,439)
Depreciation and amortization	(191,308)	(270,305)	(410,124)	(509,149)	–	(1,010,490)	(653,494)	(1,661,072)	(990,193)	(358,092)	(284,778)	(509,048)	(50,447)	–	(6,898,500)
Asset management fee	(13,425)	(1,000)	(32,109)	(22,620)	–	(27,000)	(20,823)	(20,736)	(1,000)	–	(3,247)	(20,582)	–	–	(162,542)
Other financing fees	–	(15,000)	–	–	–	–	–	–	–	–	–	–	–	–	(15,000)
Miscellaneous other income (expense)	–	–	–	–	9,286	(1,836)	(5,000)	527,874	–	(26,316)	(5,820)	–	–	–	498,188
Loss on disposal of fixed assets	–	(6,692)	–	–	–	–	–	–	(10,199)	–	–	–	–	–	(16,891)
Closing and acquisition costs	–	–	–	–	–	–	–	–	–	–	–	–	–	(196,154)	(196,154)
Other related party fees and expenses	–	–	–	–	–	–	–	–	–	(22,151)	–	–	–	–	(22,151)
Total other expense	(445,996)	(775,161)	(1,264,541)	(1,211,378)	9,286	(2,213,071)	(1,529,720)	(3,113,548)	(1,970,247)	(1,132,437)	(613,195)	(1,176,508)	(89,693)	(208,471)	(15,734,680)
Net income (loss)	$ 54,965	$ 93,899	$ (11,714)	$ 11,246	$ (625)	$ (48,774)	$ 314,230	$ (407,527)	$ (397,079)	$ 156,722	$ (197,784)	$ 225,761	$ 11,608	$ (171,050)	$ (366,122)

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