

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
(A Delaware Limited Liability Company)
Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

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

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2019 and 2018

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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 sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, members' equity (deficit), and cash flows for the years 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 audits. We conducted our audits 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, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were 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

March 31, 2020

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

Consolidated Balance Sheets
As of December 31, 2019 and 2018

	2019	2018
Assets		
Cash	\$ 1,806,162	\$ 1,770,074
Restricted cash:		
Dividend reserve	780,149	-
Operating reserve	1,825,906	-
Total restricted cash	<u>2,606,055</u>	<u>-</u>
Total cash and restricted cash	<u>4,412,217</u>	<u>1,770,074</u>
Reserves - REIT		
Dividend reserve	387	770,894
Operating reserve	940	1,804,279
Total reserves - REIT	<u>1,327</u>	<u>2,575,173</u>
Reserves – Project entities:		
Capital expenditure reserve	1,442,708	2,063,945
Operating reserve	5,434,565	5,461,069
Total reserves – Project entities	<u>6,877,273</u>	<u>7,525,014</u>
Total reserves	<u>6,878,600</u>	<u>10,101,507</u>
Investment in Project entities	46,396,775	50,624,573
Receivable due from Project entity	3,751,257	-
Prepaid expenses	24,208	22,476
Due from HPET LLC	71,371	69,425
Other assets	-	11,700
Total assets	<u>\$ 61,534,428</u>	<u>\$ 62,599,755</u>

See notes to consolidated financial statements.

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

Consolidated Balance Sheets
As of December 31, 2019 and 2018

	2019	2018
Liabilities and members' equity		
Accounts payable and accrued expenses	\$ 493,652	\$ 562,727
Dividends payables	765,602	767,959
Termination fees payable	375,000	487,500
HPN loan payable	386,364	1,136,364
Reserves due to Managing Members/General Partners	548,013	-
Reserves due to Project entities	6,877,273	7,525,014
Total liabilities	9,445,904	10,479,564
Members' equity		
Preferred stock, Class A \$100,000 par value; 170 shares authorized, issued and outstanding at December 31, 2019 and 2018	17,000,000	17,000,000
Preferred stock, Class C \$500 par value; 125 shares authorized, issued and outstanding at December 31, 2019 and 2018	62,500	62,500
Preferred stock, Class D \$100,000 par value; 499.56 shares authorized, issued and outstanding at December 31, 2019, 500 shares authorized, issued and outstanding at December 31, 2018	49,956,214	50,000,000
Common stock, Class B \$178,000 par value; 100 shares authorized, issued and outstanding at December 31, 2019 and 2018	17,800,000	17,800,000
Common stock, Class B \$.01 par value; 11 shares authorized, issued and outstanding at December 31, 2019 and 2018	-	-
Common stock, Class B \$250,000 par value; 2 shares authorized, issued and outstanding at December 31, 2019, 1 share authorized, issued and outstanding at December 31, 2018	500,000	250,000
Common stock, Class E \$250,000 par value; 3 shares authorized, issued and outstanding at December 31, 2019, 0 shares authorized, issued and outstanding at December 31, 2018	750,000	-
Accumulated deficit	(33,980,190)	(32,992,309)
Total members' equity	52,088,524	52,120,191
Total liabilities and members' equity	\$ 61,534,428	\$ 62,599,755

See notes to consolidated financial statements.

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

Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Acquisition fee	\$ -	\$ 240,000
Total revenues	<u>-</u>	<u>240,000</u>
Expenses:		
Operating expense	1,909,731	1,815,344
General and administrative expense	884,360	1,250,583
Total expenses	<u>2,794,091</u>	<u>3,065,927</u>
Other income (expense):		
Equity in income of Project entities	2,890,001	856,118
Gain on sale of investment in Project entity	1,970,059	-
Interest income	38,688	9,895
Interest expense	(24,283)	(57,797)
Loan extension fee	-	(8,523)
Total other income	<u>4,874,465</u>	<u>799,693</u>
Income (loss) before taxes	2,080,374	(2,026,234)
Income tax benefit (expense)	-	-
Net income (loss)	<u>\$ 2,080,374</u>	<u>\$ (2,026,234)</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Members' Equity

	Common Unit Holders	Preferred Unit Holders	Accumulated Deficit	Total Members' Equity
Balance, December 31, 2017	\$ 17,800,000	\$ 57,062,500	\$ (28,087,586)	\$ 46,774,914
Preferred unit subscriptions received	-	10,000,000	-	10,000,000
Common unit subscriptions received	250,000	-	-	250,000
Preferred unit distributions	-	-	(2,845,202)	(2,845,202)
Offering costs	-	-	(33,287)	(33,287)
Net loss	-	-	(2,026,234)	(2,026,234)
Balance, December 31, 2018	\$ 18,050,000	\$ 67,062,500	\$ (32,992,309)	\$ 52,120,191
Common unit subscriptions received	1,000,000	-	-	1,000,000
Preferred unit distributions	-	-	(3,065,048)	(3,065,048)
Preferred unit redemptions	-	(43,786)	-	(43,786)
Offering costs	-	-	(3,207)	(3,207)
Net income	-	-	2,080,374	2,080,374
Balance, December 31, 2019	<u>\$ 19,050,000</u>	<u>\$ 67,018,714</u>	<u>\$ (33,980,190)</u>	<u>\$ 52,088,524</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating activities:		
Net income (loss)	\$ 2,080,374	\$(2,026,234)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of investment in Project entity	(1,970,059)	-
Equity in income of Project entities	(2,890,001)	(856,118)
Interest income received (paid)	(4,654)	-
Return on investment	3,135,298	1,107,539
Changes in assets and liabilities:		
Operating reserves - REIT	-	(6,131)
Reserves - TRS	1,320	300
Prepaid expenses and other assets	9,968	(15,546)
Due from HPET LLC	(1,946)	(31,800)
Accounts payable and accrued expenses	(69,075)	158,330
Termination fees payable	(112,500)	(112,500)
Net cash provided by (used) in operating activities	178,725	(1,782,160)
Investing activities:		
Transfer to restricted cash	2,578,502	-
Contribution to Project entities	(73,113)	(8,061,813)
Return of capital	2,822,427	3,727,674
Net change in distributions reserve	(548,013)	-
Net change in reserves due to Managing Members/General Partners	548,013	-
Net change in reserve deposits – Project entities	647,741	(201,829)
Net change in reserves due to Project entities	(647,741)	201,829
Net cash provided by (used in) investing activities	5,327,816	(4,334,139)
Financing activities:		
Preferred unit subscriptions received	-	10,000,000
Preferred unit distributions	(3,067,405)	(2,657,835)
Preferred unit redemptions	(43,786)	-
Common unit subscriptions received	1,000,000	250,000
Paydown of HPN loan	(750,000)	(1,136,363)
Funding of dividend reserves - REIT	-	(145,930)
Offering costs	(3,207)	(33,287)
Net cash provided by (used in) financing activities	(2,864,398)	6,276,585
Net increase in cash and restricted cash	2,642,143	160,286
Cash and restricted cash, beginning of period	1,770,074	1,609,788
Cash and restricted cash, end of period	\$ 4,412,217	\$ 1,770,074
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 24,283	\$ 47,633
Cash paid for income taxes	-	-
Supplemental schedule of non-cash investing and financing activities:		
Distributions declared but unpaid	\$ 765,602	\$ 767,959
Receivable from sale of investment in Project entity	\$ 3,751,257	-

See notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Housing Partnership Equity Trust REIT I, LLC (REIT) and Subsidiaries (HPET REIT or 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 real estate investment trust (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 until dissolved in accordance with its limited liability company agreement, including upon the dissolution of Housing Partnership Equity Trust, LLC (HPET LLC). HPET REIT is managed by its Board of Directors, who are elected by the Class B unit holders.

Eden Woodside Court HPET GP, LLC (Woodside HPET GP) is a wholly owned subsidiary of the REIT. The Woodside HPET GP is a pass-through entity that 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 that 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.

Quail Run HPET GP, LLC (Quail Run HPET GP) is a wholly owned subsidiary of the REIT. The Quail Run HPET GP is a pass-through entity that holds a 0.01% investment in and is a co-general partner of Quail Run Alameda County 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. TRS was formed to absorb income that would be non-customary for the REIT. TRS had no activity for the years ending December 31, 2019 and 2018.

Housing Partnership Equity Trust, LLC (HPET LLC) is a member of HPET REIT and holds 90.35% of the Class B Units. Both HPET LLC and HPET REIT (collectively HPET) were established by the Housing Partnership Network (HPN) along with other nonprofit investors and HPN is an investor in HPET LLC today. HPN provides certain services to the REIT pursuant to contracts with the REIT. In 2019, these services consisted of office sharing and information technology services.

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

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, 2019 and 2018.

Basis of Presentation

The consolidated 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).

Principles of Consolidation

Included in the Company's consolidated financial statements are the accounts of its wholly owned subsidiaries, HPET GP, Savannah HPET GP, Quail Run 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 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 in one bank. 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, 2019 and 2018.

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

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

2. Summary of Significant Accounting Policies (continued)

HPET 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 that 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 reserve 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 accompanying consolidated balance sheets. The Company is also required to fund reserves for Company operating deficits and distributions to Preferred Unit Holders, which are reported as Restricted cash and Reserves – REIT on the accompanying consolidated balance sheets. The Restricted cash is in a time deposit earning 1.69% in interest annually and requiring a 31-day notice before funds become available. The Company also has reserves for income taxes, which are reported as Reserves – TRS on the accompanying consolidated balance sheets.

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 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 it 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 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.

The Company records its initial investment at cost, recognizes its share of each Project entity's 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.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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2. Summary of Significant Accounting Policies (continued)

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. No impairment loss was recognized during the years ended December 31, 2019 and 2018.

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

HPET 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 took effect for taxable years beginning on or after January 1, 2018, and which did not have a material impact on our ability to continue to qualify as REIT.

For the years ended December 31, 2019 and 2018, HPET REIT has met all the REIT requirements, and accordingly, has not made a provision for federal income taxes in the accompanying consolidated financial statements. HPET 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 consolidated 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. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2016 remain open.

Eden Woodside Courts HPET GP, LLC, Savannah HPET GP, LLC and Quail Run HPET GP (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 HPET 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 consolidated financial statements do not reflect a provision for income taxes.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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2. Summary of Significant Accounting Policies (continued)

TRS is subject to corporate federal and state income taxes. For the years ended December 31, 2019 and 2018, TRS made a provision for federal and state income taxes in the amount of \$0. No income tax returns for TRS are currently being examined by the Internal Revenue Service, and tax years since inception, 2016, remain open.

HPET REIT recognizes a tax benefit only if it 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, 2019 and 2018. 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 took effect for taxable years beginning on or after January 1, 2018, and which did not have a material impact on HPET REIT’s financial statements.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 was effective for the Company beginning January 1, 2019 and it did not have a material effect on the Company’s consolidated financial statements.

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 2021 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.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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2. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *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 early adopted ASU 2016-15 retrospectively effective January 1, 2018.

In November 2016, the FASB issued ASU 2016-18, *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 was effective in the first quarter of 2019 and the Company adopted ASU 2016-18 retrospectively effective January 1, 2018.

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

3. Investments in Project entities

HPET REIT's investments consist of equity investments in the following Project entities:

Investment	Location	Acquisition Date	Ownership Percentage	Economic Interest	Capital Contributed
Eden Woodside Court, LP (Woodside Court Apartments) (a 129-unit multifamily rental property)	Fairfield, CA	7/12/2013	84.13%	99.99%	\$ 3,430,871
Eden Woodside Court, LP (Woodside Court Apartments) (a 129-unit multifamily rental property)			0.01%*	.01%	408
Woodmere Trace, LLC (Woodmere Trace Apartments) (a 300-unit multifamily rental property)	Norfolk, VA	9/10/2013	95.00%	100.00%	19,679,954
HHDC – Mallard Point, LLC (Mallard Point Apartments) (a 173-unit multifamily rental property)	Channahon, IL	9/9/2014	86.50%	100.00%	5,277,829
AHC Woodleaf, LLC (Birches Apartments) (a 228-unit multifamily rental property)	Silver Spring, MD	12/19/2014	86.50%	100.00%	7,428,989
Homes for Hagerstown, LLC (Bradford Apartments) (a 418-unit multifamily rental property)	Hagerstown, MD	1/29/2015	86.50%	85.00%	8,488,744
HHDC – Mallard Point II, LLC**	Channahon, IL	9/8/2015	86.50%	85.00%	–
AHC Dunfield EO, LLC (Dunfield Townhomes) (a 312-unit multifamily rental property)	Nottingham, MD	12/10/2015	86.50%	100.00%	9,391,151
Southport Yolo, LP (Savannah at Southport Townhomes) (a 228-unit multifamily rental property)	West Sacramento, CA	12/11/2015	85.80%	99.99%	7,304,729
Southport Yolo, LP (Savannah at Southport Townhomes) (a 228-unit multifamily rental property)			0.01%***	.01%	853
Dove Landing LLC (Dove Landing Portfolio) (a 318-unit multifamily rental property)	Virginia Beach, VA	1/14/2016	86.50%	100.00%	7,429,475
Golden Sun Preservation LLC (Goldenstar and Sun Place) (a 139-unit multifamily rental property)	Maplewood and Roseville, MN	6/7/2016	86.50%	100.00%	3,005,176
MeadowRidge LV LLC (MeadowRidge Apartments) (a 232-unit multifamily rental property)	Las Vegas, NV	8/10/2016	86.50%	100.00%	6,726,612

* Held through HPET REIT's 100% investment in Eden Woodside Court HPET GP, LLC

** Land acquired September 8, 2015, held for future development

*** Held through HPET REIT's 100% investment in Savannah HPET GP, LLC

****Held through HPET REIT's 100% investment in Quail Run HPET GP, LLC

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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3. Investments in Project entities (continued)

Investment	Location	Acquisition Date	Ownership Percentage	Economic Interest	Capital Contributed
Courtyard at Encanto LLC (Courtyard at Encanto) (a 160-unit multifamily rental property)	Phoenix, AZ	10/17/2017	86.50%	100.00%	2,645,435
Pacific Villas LP (Pacific Villas) (a 86-unit multifamily rental property)	Stockton, CA	12/12/2017	86.50%	100.00%	2,078,268
Quail Run Alameda County LP (Quail Run) (a 104-unit multifamily rental property)	San Leandro, CA	03/20/2018	75.49%	99.99%	7,470,507
Quail Run Alameda County LP (Quail Run) (a 104-unit multifamily rental property)			0.01%****	.01%	990
Total capital contributed					\$ 90,359,991

* Held through HPET REIT's 100% investment in Eden Woodside Court HPET GP, LLC

** Land acquired September 8, 2015, held for future development

*** Held through HPET REIT's 100% investment in Savannah HPET GP, LLC

****Held through HPET REIT's 100% investment in Quail Run HPET GP, LLC

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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3. Investments in Project entities (continued)

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.

Effective January 1, 2019, 13 of the 15 Project entities amended the limited liability company/limited partnership agreements to revise the distribution waterfall. The Company will receive 100% of the distributions through December 31, 2021, subject to two (2) one-year extensions. Annually, within 120 days of the fiscal year end, if distributions to the Company exceed the Projected Net Cash Flow, seventy-five (75%) of the difference will be returned to the Managing Member/General Partner. As of December 31, 2019 and 2018, the Company recorded a Reserves Due to Managing Members/General Partners of \$548,013 and \$0, respectively, included as a liability in the accompanying consolidated balance sheets.

On December 17, 2019, 2000 Illinois Aurora, LLC, one of the Company's Project entities, sold 2000 Illinois, a 128-unit multifamily rental property located in Aurora, Illinois, to an unrelated third party for a sale price of \$9,550,000. For the years ending December 31, 2019 and 2018, the Company recorded a gain on sale of Project entity for \$1,970,059 and \$0, respectively, which is included on the accompanying consolidated statements of operations. As of December 31, 2019 and 2018, the Company recorded a receivable for its share of the net sales proceeds of \$3,751,257 and \$0, respectively, which is included in the accompanying consolidated balance sheets.

A summary of HPET REIT's investment in Project entities is as follows:

Investment in Project entities at December 31, 2017	\$ 46,541,855
Capital contributions paid	8,061,813
Distributions from net cash flow	(4,835,213)
Equity in income of Project entities	856,118
Investment in Project entities at December 31, 2018	<u>\$ 50,624,573</u>
Capital contributions paid	73,113
Distributions from net cash flow	(5,957,727)
Distributions reserve	548,013
Net proceeds from sale of Project entity	(3,751,257)
Gain on sale of investment in Project entity	1,970,059
Equity in income of Project entities	2,890,001
Investment in Project entities at December 31, 2019	<u><u>\$ 46,396,775</u></u>

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

3. Investments in Project entities (continued)

Summary financial information of the Project entities as of December 31, 2019 and 2018, is as follows:

The combined balance sheets for the year ended December 31 are as follows:

	2019	2018
Assets		
Cash	\$ 3,219,929	\$ 2,826,849
Receivables	527,840	436,192
Prepaid expenses	1,852,834	1,000,121
Restricted deposits	10,403,617	13,093,403
Property and equipment, net	265,750,232	277,514,067
Due from affiliates	4,260	4,260
Other assets	12,062	11,704
Total assets	<u>281,770,774</u>	<u>294,886,596</u>
Liabilities and Partners' capital/Members' equity		
Accounts payable and accrued expenses	819,098	828,753
Related-party payable	367,219	193,344
Other liabilities	728,027	701,079
Tenant security deposits	1,527,084	1,445,525
Mortgages and notes payable	222,638,443	230,389,448
Total liabilities	<u>226,079,871</u>	<u>233,558,149</u>
Partners' capital/Members' equity		
Partners' capital/member's equity – HPET REIT	46,425,738	50,729,975
Other partners' capital/member's equity	9,294,128	10,627,435
Syndication costs	(28,963)	(28,963)
Total partners' capital/Members' equity	<u>55,690,903</u>	<u>61,328,447</u>
Total liabilities and partners' capital/members' equity	<u>\$ 281,770,774</u>	<u>\$ 294,886,596</u>

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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3. Investments in Project entities (continued)

The combined statements of operations for the period ended December 31 are as follows:

	2019	2018
Revenue:		
Rental income, net	\$ 35,893,861	\$ 33,729,796
Other operating income	3,905,560	2,927,187
Total revenue	<u>39,799,421</u>	<u>36,656,983</u>
Operating expenses:		
Salaries and employee benefits	4,313,261	3,973,170
Repairs and maintenance	4,281,290	4,058,124
Utilities	2,502,032	2,832,031
Property management fee	1,441,051	1,310,588
Taxes and insurance	3,698,449	3,466,223
Administrative expenses	2,384,075	2,129,793
Total operating expenses	<u>18,620,158</u>	<u>17,769,929</u>
Other income (expenses):		
Interest income	27,733	2,296
Interest expense	(9,960,172)	(9,861,234)
Depreciation and amortization	(8,153,366)	(7,761,689)
Asset management fee	(150,392)	(225,354)
Other financing fees	(17,271)	(15,000)
Miscellaneous other income	-	11,778
Loss on disposal of fixed assets	(253,610)	(37,711)
Capital expenses	(194,955)	(161,876)
Closing and acquisition costs	-	(467)
Other related party fees and expenses	(1,000)	(26,496)
Total other expenses	<u>(18,703,033)</u>	<u>(18,075,753)</u>
Net income	<u>\$ 2,476,230</u>	<u>\$ 811,301</u>
Company's share of net income	<u>\$ 2,890,001</u>	<u>\$ 856,118</u>

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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4. Loan Payable

On October 20, 2014, HPN, a related party, agreed to make available to HPET 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. Effective March 1, 2018, the loan was amended and the maturity date extended to June 1, 2021 and the interest rate was lowered to 3.50%. The Company paid a loan extension fee of \$8,523. On May 4, 2018, in accordance with the Seventh Amendment to Loan Documents, the Company paid the principal down by \$1,136,364. Commencing January 20, 2016 through May 4, 2018, a non-utilization fee of .50% per annum accrued on the amount by which the average daily principal amount outstanding is less than the Maximum Loan Amount, as defined.

On March 19, 2019, the Company signed an Eighth Amendment to Loan Documents to amend the maturity date and include a loan paydown of \$250,000, made on April 8, 2019, and due on the date of HPN's purchase of voting common units of HPET LLC for a purchase price equal to \$250,000 and HPET LLC's purchase of voting common unit(s) in HPET REIT for a purchase price equal to \$250,000. An additional principal payment of \$500,000 was made on June 19, 2019 and another \$386,364 will be due on June 1, 2020 (Maturity Date). As of December 31, 2019 and 2018, \$386,364 and \$1,136,364, respectively, remain payable, and are included as a liability in the accompanying consolidated balance sheets.

During the years ended December 31, 2019 and 2018, interest expense incurred was \$24,283 and \$57,797, respectively. Accrued interest at December 31, 2019 and 2018 was \$0 and \$10,164, respectively, and are included as a liability on the accompanying consolidated balance sheets.

5. Related Party Transactions

Acquisition Fees

In connection with its efforts in selecting, evaluating, structuring, negotiating and closing the investment in Project entities, HPET REIT earns a fee in an amount specified in the underwriting model of the respective Project entity. For the years ended December 31, 2019 and 2018, acquisition fees of \$0 and \$240,000, respectively, were earned. No amounts remain receivable as of December 31, 2019 and 2018.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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5. Related Party Transactions (continued)

Contract Fees

In 2015, HPET REIT entered into a Contracted Services Agreement (CSA) 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 through 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 HPET REIT terminated the CSA, pursuant to a Termination Agreement and agreed that HPET REIT would pay a termination fee of \$600,000, payable in quarterly installments of \$37,500 beginning in 2018 through 2021. Effective January 1, 2019, the Company amended the terms of the Termination Agreement to reduce the annual termination fee payments to \$75,000 for 2019, 2020 and 2021. Total deferred fees of \$225,000 will be paid in 2022.

HPET REIT then entered into a Services and Space Sharing Agreement with HPN, effective December 29, 2017, for the period January 1 through December 31, 2019, for meeting support, finder's services, office sharing, and information technology services provided by HPN for a total annual fee of \$315,841. Meeting support services and finder's services terminated in December 31, 2018. Space sharing renewed effective January 1, 2019 for an annual fee of \$80,841. This agreement is renewable annually with the consent of the parties.

During the years ended December 31, 2019 and 2018, HPET REIT incurred \$80,841 and \$315,841, respectively, under the Services and Space Sharing Agreements, which are included in general and administrative expense in the accompanying consolidated statements of operations. As of December 31, 2019 and 2018, \$0 and \$12,987, respectively, in services and space sharing fees remain payable. As of December 31, 2019 and 2018, Termination Fees of \$375,000 and \$487,500, respectively, are included as a liability on the accompanying consolidated balance sheets.

Receivable Due from Project entity

At December 31, 2019 and 2018, the Company recorded a receivable of \$3,751,257 and \$0, respectively, due from 2000 Illinois Aurora, LLC related to the sale of 2000 Illinois.

Reserves Due to Project entities

During the years ended December 31, 2019 and 2018, HPET 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 HPET REIT. HPET REIT recorded a payable to the Project entities for the balance of the reserves. At December 31, 2019 and 2018, \$6,877,273 and \$7,525,014, respectively, of the reserves remain payable to the Project entities.

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

5. Related Party Transactions (continued)

Investment in Project entities

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

Due from HPET LLC

HPET REIT paid certain general and administrative expenses on behalf of HPET LLC. At December 31, 2019 and 2018, \$71,371 and \$69,425, respectively, are included on the accompanying consolidated balance sheets.

6. Professional Employer Organization agreement

Effective June 1, 2015, HPET 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 years ended December 31, 2019 and 2018, the total service fee (which include the procurement of benefits) incurred under this contract were \$160,120 and \$136,889, respectively, which is included in operating expenses on the accompanying consolidated statements of operations. As of December 31, 2019 and 2018, \$8,153 and \$4,192, respectively, remain payable and is included in accrued expenses on the accompanying consolidated balance sheets.

7. Members' Equity

Contributions (Subscriptions)

Pursuant to the Amended and Restated Limited Liability Company Agreement of HPET REIT (the Amended and Restated Agreement) effective January 6, 2014, HPET made a capital commitment of \$17,800,000. On December 21, 2017, HPET LLC purchased one Class B Common Unit for \$250,000. In conjunction with HPET REIT's principal pay down of the Loan Payable to HPN, HPN agreed to purchase additional voting common units in HPET, to be used by HPET LLC to purchase Class B unit(s) in HPET REIT, subject to certain conditions. On April 8, 2019, HPET LLC purchased one Class B Common Unit for \$250,000. As of December 31, 2019 and 2018, \$18,300,000 and \$18,050,000, respectively, have been funded by HPET LLC and there is no remaining commitment outstanding.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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7. Members' Equity (continued)

Pursuant to the Second Amended and Restated Limited Liability Company Agreement of the HPET 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, 2018, \$17,000,000 have 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, Prudential 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, HPET 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, 2018, \$20,000,000 have been funded by Citi and there is no remaining commitment outstanding. Morgan Stanley's capital commitment is \$20,000,000, in exchange for 200 Class D Preferred Units. As of December 31, 2018, \$20,000,000 have been funded by Morgan Stanley and there is no remaining commitment outstanding. Cumulative dividends on the Class D Preferred Units accrue at an annual rate of 4.5% on the unrecovered capital contributions, compounded quarterly. On April 21, 2016, HPET 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, 2018, \$10,000,000 have been funded by Schwab and there is no remaining commitment outstanding. 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 voting rights and are non-convertible. Holders of these units are entitled to receive cumulative distributions semiannually at a per annum rate of 12.5%. The liquidation value of each unit is \$500. As of December 31, 2018, \$62,500 have been funded and there is no remaining commitment outstanding.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries

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7. Members' Equity (continued)

Pursuant to a confidential private placement memorandum dated November 2017, on January 31, 2019, the Company received \$750,000 in exchange for three Class E Common Units. The Members that own Class E Units shall be entitled to participate in distributions made to Common Unit Holders pursuant to section 5.2 and section 11.2 of the LLC Agreement. The Class E Unit Holders shall have no voting, consent or approval rights on any matter related to HPET REIT other than with regard to certain mergers or sales, HPET REIT elections and changes in the HPET REIT limited liability company agreement. The Class E Unit Holders shall be entitled to one vote per Class E Common Unit, voting together as a single class on all matters submitted to the Class E Unit Holders, if any. HPET REIT shall offer annual redemptions to Class E Common Unit Holders beginning in year eight after the initial issuance of each such Unit, subject to the terms in the Redemption Policy. As of December 31, 2019 and 2018, contributions of \$750,000 and \$0, respectively, have been funded and there is no remaining commitment outstanding.

The table below summarizes the Members' Capital Contributions at December 31, 2019 and 2018:

Member	HPET REIT Units	2019	2018
Prudential Impact Investments Private Equity LLC	170 Class A Units	\$ 17,000,000	\$ 17,000,000
Prudential Impact Investments Private Equity LLC	11 Class B Units	–	–
Housing Partnership Equity Trust, LLC	102 Class B Units	18,300,000	18,050,000
Citibank, N.A.	200 Class D Units	20,000,000	20,000,000
Morgan Stanley Bank, N.A.	199.56 Class D Units	19,956,214	20,000,000
Charles Schwab Bank	100 Class D Units	10,000,000	10,000,000
Individual investors	125 Class C Units	62,500	62,500
Individual investors	3 Class E Units	<u>750,000</u>	<u>–</u>
Total		<u>\$ 86,068,714</u>	<u>\$ 85,112,500</u>

The Class A Preferred Unit Holder has the right to require HPET 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. The Initial Class D Preferred Unit Holders have the right to require HPET 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.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries

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7. Members' Equity (continued)

Effective June 24, 2015, HPET REIT and HPET LLC (collectively HPET) entered into a standby unit purchase agreement with the John D. and Catherine T. MacArthur Foundation (the Foundation) to provide HPET REIT with a liquidity facility, as called, to redeem a portion of HPET REIT's Class D Units, pursuant to section 5.2(a)(ii) of the Third Amended and Restated Limited Liability Company 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.

Periodic Redemptions

Pursuant to the Side Letters with the Class D Unit Holders, on or prior to September 22, 2020, HPET REIT shall offer to purchase a portion of the outstanding Class D Units in an amount equal to \$6.25 million. The redemption may be funded by operating cash flow, proceeds from new capital raises or proceeds from the liquidity facility. As of December 31, 2019, no redemption notices were received by the Company.

Pursuant to Section 1 of that certain Amended and Restated Side Letter (Side Letter), 20% of the capital received by the Company in the January 2019 Equity Offering must be used to redeem Class A Units or Class D Units of the Company, as applicable, on a pro rata basis based on the Mandatory Capital Contributions of the holders of Class A Units and Class D Units, at a price equal to the Class A Put Price or the Class D Put Price, as applicable (Redemption Right). On May 9, 2019, Morgan Stanley elected to redeem pursuant to the Redemption Right. On July 1, 2019, the Company redeemed .44 Class D Units for \$43,786 including dividends of \$990 for the period from January 1, 2019 through June 30, 2019 for a total of \$44,776.

Pursuant to the Amended and Restated 2015 Side Letter with Prudential, Prudential shall also have the right to receive such redemption offers, on or prior to September 22, 2020, with respect to its Class A Units, in an amount up to \$2.125 million, but only to the extent such redemption is funded through the use of operating cash flow and proceeds from new capital raises, if any.

During the period from September 22, 2020 through June 24, 2025, HPET REIT will make the following Redemption Offers:

	2020	2021	2022	2023	2024	2025
Class A	\$2,125,000	\$ 425,000	\$ 425,000	\$ 425,000	\$13,600,000	\$ -
Class D	6,250,000	1,250,000	1,250,000	1,250,000	1,250,000	38,706,214
Total	\$8,375,000	\$1,675,000	\$1,675,000	\$1,675,000	\$14,850,000	\$38,706,214

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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7. Members' Equity (continued)

Distributions

Effective June 25, 2015, in accordance with the Third Amended and Restated Agreement, distributable cash, defined as all net operating income and net investment proceeds, together with any additional amounts required to fund the distributions set in (i) and (ii) below, 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 HPET 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 doubt, the two consecutive quarters in which a distribution was not made); then

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

During the years ended December 31, 2019 and 2018, preferred unit distributions of \$3,067,405 and \$2,657,835, respectively, were paid. During the years ended December 31, 2019 and 2018, no common unit distributions were paid. As of December 31, 2019 and 2018, \$765,602 and \$767,959 of distributions remain payable and are included in liabilities on the consolidated balance sheets.

8. Reserves

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

Dividend Reserve

HPET REIT holds in restricted cash and reserves an amount sufficient to pay next quarter's expected preferred dividends due to Class A and D Preferred Unit Holders. As of December 31, 2019 and 2018, the balance is \$780,536 and \$770,894, respectively.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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8. Reserves (continued)

Operating Reserve

HPET REIT holds in restricted cash and reserves an amount no less than three months and no more than six months of the annual operating budget. As of December 31, 2019 and 2018, the balance is \$1,826,846 and \$1,804,279, respectively.

Income Tax Reserve

TRS held an income tax reserve in 2016 for the sale of its interest in Damen Court. As of December 31, 2019 and 2018, the balance is \$0 and \$1,320, respectively.

HPET 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, 2019 and 2018, the aggregate balance is \$1,442,708 and \$2,063,945, respectively.

Operating Reserves

The Project entities are required to establish reserves to fund any operating deficits of the Project entities. As of December 31, 2019 and 2018, the aggregate balance is \$5,434,565 and \$5,461,069, respectively.

9. 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 March 31, 2020 (the date the financial statements were issued) and concluded that subsequent events have occurred:

On January 15, 2020, the Company paid dividends of \$765,602 to its Class A and Class D Preferred Unit Holders of record as of the close of business September 30, 2019.

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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9. Subsequent Events (continued)

On January 21, 2020, the Company received \$3,203,789 from the net sale proceeds of 2000 Illinois. On January 23, 2020, part of the net sales proceeds of \$509,398 were transferred from the Project entity's Capital Expenditure and Operating Reserves. On March 5, 2020, the Company received the remaining net sales proceeds of \$38,070.

The emergence and course of the Covid19 pandemic may have an adverse impact on the 2020 financial operations of the Project entities in which we invest and in the distributions we receive from investments in Project entities. The scope of that impact depends on a range of factors including government and business actions that reduce or increase work hours and income for our largely hourly wage employee residents, the length of the pandemic and any government or business restrictions, the scope of unemployment and rental assistance that is made available from government and philanthropic sources for residents who experience a reduction in income, and any increases in operating costs for the Project entities that arise from property management operations during the pandemic. The Project entities are and will be assessing and deploying a range of tools and strategies to address the impact, from reducing elective expenditures to, if necessary, utilizing operating reserves and/or seeking mortgage forbearance. HPET REIT's own administrative and business operations can function successfully using remote working strategies during the pandemic.

Supplementary Information

Housing Partnership Equity Trust REIT I, LLC and Subsidiaries
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Combining Balance Sheets of the Project entities
December 31, 2019

	2000 Hines Aurora LLC	Eden Woodside Court, LP	Woodmere Trails LLC	HHDC - Malbar Point, LLC	AHC Woodleaf LLC	Homes for Hagerstown, LLC	HHDC - Malbar Point II, LLC	AHC Danfield EOLLC	Southport Vale LP	Dove Landing, LLC	Golden Sun Preservation LLC	Meadow Ridge LV LLC	Courtyard at Encanto, LLC	Pacific Villas, LP	Quail Run Atwood County LP	Total
Cash	-	\$96,307	\$170,854	\$336,316	\$296,244	\$258,103	\$117	\$606,033	\$218,560	\$613,378	\$70,041	\$174,441	\$170,830	\$77,670	\$131,035	\$3,219,929
Receivables	-	4,652	22,782	3,913	52,474	45,410	-	152,003	47,602	24,180	21,263	59,521	79,535	809	13,696	527,840
Prepaid expenses	-	11,298	-	81,613	196,691	329,969	-	1,167,411	10,330	-	-	39,946	19,071	1,795	4,710	1,852,834
Restricted deposits	-	331,167	1,143,464	1,056,510	961,812	1,393,304	-	329,185	780,948	848,965	816,521	643,432	520,336	350,437	1,225,536	10,403,617
Property and equipment, net	-	10,445,011	17,796,957	17,236,940	29,626,790	23,932,046	511,190	47,444,231	26,171,241	21,405,533	9,364,430	21,757,077	8,862,864	7,092,042	24,143,880	265,750,252
Due from affiliates	-	-	-	-	-	-	-	4,260	-	-	-	-	-	-	-	4,260
Other assets	-	-	35	789	8,788	-	-	1,110	-	-	1,340	-	-	-	-	12,062
Total assets	-	\$10,888,435	\$19,094,092	\$18,716,081	\$31,142,799	\$25,958,832	\$511,307	\$49,704,233	\$27,228,681	\$22,892,056	\$10,273,595	\$22,666,417	\$9,652,636	\$7,522,753	\$25,518,857	\$281,770,774
Accounts payable and accrued expenses	-	\$48,157	\$30,453	\$23,084	\$39,971	\$47,304	\$10,322	\$79,617	\$146,950	\$78,072	\$21,266	\$29,702	\$48,971	\$24,673	\$190,556	\$819,098
Related party payable	-	2,744	2,500	10,395	-	12,447	-	4,235	3,420	118,497	2,500	7,434	199,544	3,503	367,219	-
Other liabilities	-	2,118	129,879	400,208	11,624	69,329	-	47,061	14,005	-	10,514	15,830	20,890	560	6,009	728,027
Tenant security deposits	-	65,021	101,902	117,667	168,906	220,371	-	150,525	135,599	121,186	122,300	90,517	51,438	75,124	106,528	1,527,084
Mortgages and notes payable	-	8,008,930	16,609,493	14,761,324	26,815,988	20,641,573	-	44,675,451	23,227,427	14,989,943	8,095,293	16,412,003	6,948,051	5,127,384	16,325,883	222,638,443
Total liabilities	-	8,126,970	16,874,227	15,312,678	27,036,489	20,991,024	10,322	44,952,654	23,528,216	15,192,621	8,367,870	16,550,552	7,076,784	5,427,285	16,632,179	226,079,871
Partners' capital/members' equity																
Partners' capital/members' equity - HPET	-	2,317,788	1,886,885	2,816,277	3,490,741	4,967,808	-	3,583,646	2,968,991	6,676,472	1,834,802	5,363,165	2,241,257	1,696,317	6,581,589	46,425,738
Other partners' capital/members' equity	-	457,140	332,980	587,126	615,569	-	900,985	1,167,933	746,974	1,022,963	70,923	752,700	334,595	399,151	2,305,089	9,294,128
Syndication costs	-	(13,463)	-	-	-	-	-	(15,500)	-	-	-	-	-	-	(28,963)	-
Total partners' capital/members' equity	-	2,761,465	2,219,865	3,403,403	4,106,310	4,967,808	900,985	4,751,579	3,700,465	7,699,435	1,905,725	6,115,865	2,575,852	2,095,468	8,886,678	55,690,903
Total liabilities and partners' capital/members' equity	-	\$10,888,435	\$19,094,092	\$18,716,081	\$31,142,799	\$25,958,832	\$511,307	\$49,704,233	\$27,228,681	\$22,892,056	\$10,273,595	\$22,666,417	\$9,652,636	\$7,522,753	\$25,518,857	\$281,770,774

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

Combining Balance Sheets of the Project entities
December 31, 2018

	2000 Illinois Aurora LLC	Eden Woodside Court, LP	Woodmere Trace LLC	HHDC - Mallard Point, LLC	AHC Woodleaf LLC	Homes for Hagerstown, LLC	HHDC - Mallard Point II, 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	Quail Run Alameda County LP	Total
Cash	\$ 181,375	\$ 88,103	\$ 47,309	\$ 307,706	\$ 241,849	\$ 327,109	\$ 121	\$ 303,383	\$ 317,993	\$ 153,650	\$ 113,279	\$ 142,962	\$ 206,774	\$ 45,189	\$ 350,047	\$ 2,826,849
Receivables	9,880	1,766	7,277	1,051	61,239	34,501	-	115,118	7,072	64,550	21,681	68,565	20,256	8,908	14,328	436,192
Prepaid expenses	13,685	11,856	-	83,317	192,651	301,304	-	316,849	10,909	9,749	4,285	29,346	18,798	2,852	4,520	1,000,121
Restricted deposits	697,895	317,303	1,100,292	1,155,605	953,581	1,543,150	-	1,168,659	736,383	1,259,701	837,200	793,549	581,280	641,066	1,307,739	13,093,403
Property and equipment, net	6,298,832	10,711,541	18,019,532	17,560,834	30,542,181	24,442,769	511,190	48,998,794	27,129,356	21,529,487	9,605,808	22,081,969	9,112,384	6,433,632	24,535,758	277,514,067
Due from affiliates	-	-	-	-	-	-	-	4,260	-	-	-	-	-	-	-	4,260
Other assets	-	-	1,166	390	8,808	-	-	-	-	-	1,340	-	-	-	-	11,704
Total assets	\$ 7,201,667	\$ 11,130,569	\$ 19,175,576	\$ 19,108,903	\$ 32,000,309	\$ 26,648,833	\$ 511,311	\$ 50,907,063	\$ 28,201,713	\$ 23,017,137	\$ 10,583,593	\$ 23,116,391	\$ 9,939,492	\$ 7,131,647	\$ 26,212,392	\$ 294,886,596
Accounts payable and accrued expenses	\$ 48,852	\$ 41,427	\$ 30,357	\$ 30,627	\$ 58,535	\$ 158,293	\$ 10,077	\$ 72,738	\$ 81,942	\$ 35,585	\$ 65,486	\$ 38,959	\$ 61,608	\$ 6,377	\$ 87,890	\$ 828,753
Related party payable	16,500	3,896	8,899	-	11,924	-	-	-	1,000	6,859	117,630	5,524	-	16,052	5,060	193,344
Other liabilities	187,724	342	6,190	375,054	12,172	56,867	-	5,003	3,974	-	17,500	12,884	21,223	1,249	897	701,079
Tenant security deposits	42,600	63,275	89,728	106,374	163,820	185,549	-	155,750	123,838	109,004	94,822	70,904	54,396	79,380	106,085	1,445,525
Mortgages and notes payable	4,690,544	8,141,994	16,903,139	15,009,097	27,278,950	20,994,592	-	45,830,552	23,201,798	15,216,387	8,214,502	16,697,727	6,935,918	4,977,744	16,296,504	230,389,448
Total liabilities	4,986,220	8,250,934	17,038,313	15,521,152	27,525,401	21,395,301	10,077	46,064,043	23,412,552	15,367,835	8,509,940	16,825,998	7,073,145	5,080,802	16,496,436	233,558,149
Partners' capital/Members' equity																
Partners' capital/members' equity - HPET	1,883,130	2,430,629	1,816,674	3,049,588	3,803,672	4,465,502	-	4,116,567	4,086,287	6,501,907	1,762,605	5,346,834	2,436,395	1,743,218	7,286,967	50,729,975
Other partners' capital/members' equity	332,317	462,469	320,589	538,163	671,236	788,030	501,234	726,453	718,374	1,147,395	311,048	943,559	429,952	307,627	2,428,989	10,627,435
Syndication costs	-	(13,463)	-	-	-	-	-	-	(15,500)	-	-	-	-	-	-	(28,963)
Total partners' capital/members' equity	2,215,447	2,879,635	2,137,263	3,587,751	4,474,908	5,253,532	501,234	4,843,020	4,789,161	7,649,302	2,073,653	6,290,393	2,866,347	2,050,845	9,715,956	61,328,447
Total liabilities and partners' capital/members' equity	\$ 7,201,667	\$ 11,130,569	\$ 19,175,576	\$ 19,108,903	\$ 32,000,309	\$ 26,648,833	\$ 511,311	\$ 50,907,063	\$ 28,201,713	\$ 23,017,137	\$ 10,583,593	\$ 23,116,391	\$ 9,939,492	\$ 7,131,647	\$ 26,212,392	\$ 294,886,596

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

Combining Statements of Operations of the Project entities
Year ended December 31, 2019

	2000 Illinois Aurora LLC	Eden Woodside Court, LP	Woodmere Trace LLC	HHDC - Mulford Point, LLC	AHC Woodleaf LLC	Homes for Hagerstown, LLC	HHDC - Mulford Point II, LLC	AHC Dunfield EOLLC	Southport York LP	Dave Landing LLC	Golden Sun Preservation LLC	Meadow Ridge LV LLC	Courtyard at Escante, LLC	Pacific Villas, LP	Qualicum Ahimsa County LP	Total
Revenue:																
Rental income, net	\$1,301,768	\$1,695,703	\$3,197,837	\$2,480,765	\$3,686,784	\$4,252,107	\$0	\$5,130,964	\$3,003,785	\$3,203,631	\$1,473,908	\$2,455,464	\$1,134,749	\$798,617	\$2,087,779	\$35,893,861
Other operating income	38,025	25,693	560,739	195,277	239,070	217,136	10,129	998,035	72,411	754,463	74,535	310,835	337,359	46,771	24,752	3,905,560
Total revenue	1,339,825	1,721,396	3,758,576	2,676,342	3,925,854	4,469,243	10,129	6,128,999	3,076,196	3,958,094	1,548,443	2,766,299	1,462,108	845,388	2,112,531	39,799,421
Operating expenses:																
Salaries and employee benefits	146,773	193,697	432,001	331,215	293,206	673,119	-	466,823	299,728	378,090	214,124	329,608	174,021	126,263	254,593	4,313,261
Repairs and maintenance	132,023	231,062	532,670	224,267	259,709	645,080	-	304,576	428,128	518,773	216,137	165,251	115,380	160,909	347,225	4,281,290
Utilities	135,015	144,539	282,484	134,838	109,695	338,268	-	103,080	226,572	383,061	121,764	173,801	209,378	29,344	110,223	2,502,032
Property management fee	48,777	83,590	151,658	103,729	142,210	154,516	-	174,452	97,623	154,484	58,765	109,869	58,545	40,200	62,635	1,441,051
Taxes and insurance	221,488	37,961	284,659	444,317	495,078	597,806	10,267	713,494	121,341	219,611	118,645	201,161	93,824	87,635	51,162	3,698,449
Administrative expenses	167,401	110,209	309,209	92,858	210,348	247,341	111	209,980	177,154	401,616	108,854	109,612	85,552	44,395	105,395	2,384,075
Total operating expenses	851,477	801,078	1,992,681	1,331,224	1,510,286	2,656,170	10,578	1,972,405	1,350,496	2,098,635	838,289	1,089,402	737,700	488,946	931,231	18,620,198
Total operating income	488,346	920,318	1,765,895	1,345,118	2,415,608	1,813,073	(449)	4,156,594	1,725,700	1,859,459	710,154	1,676,897	724,408	356,442	1,181,300	21,179,263
Other income (expense):																
Interest income	1,704	546	3,291	2,104	2,835	3,871	-	-	1,402	2,775	2,583	1,806	1,389	38	3,389	27,733
Interest expense	(219,680)	(465,984)	(793,108)	(658,815)	(1,146,453)	(834,363)	-	(1,901,450)	(973,139)	(711,483)	(318,422)	(637,883)	(314,061)	(263,835)	(721,487)	(9,960,172)
Depreciation and amortization	(198,460)	(273,100)	(424,089)	(424,089)	(1,008,669)	(534,042)	-	(1,762,524)	(992,987)	(451,121)	(297,094)	(541,394)	(324,660)	(159,266)	(441,787)	(8,153,366)
Asset management fee	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(22,060)	-	(8,332)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(150,392)
Other financing fees	-	(15,000)	-	-	-	-	-	-	-	-	(2,271)	-	-	-	-	(17,271)
Loss on disposal of fixed assets	-	(6,551)	-	-	-	-	-	-	(16,890)	-	-	-	-	-	(230,169)	(253,610)
Capital expenses	(33,664)	-	-	-	-	-	-	-	-	-	(160,392)	-	(859)	-	-	(194,595)
Other related party fees and payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000)	(1,000)
Total other income (expense)	(460,109)	(770,089)	(1,223,906)	(1,200,793)	(2,162,287)	(1,596,325)	-	(3,672,706)	(1,991,614)	(1,169,829)	(785,596)	(1,187,471)	(648,231)	(433,063)	(1,401,054)	(18,703,033)
Net income (loss)	\$28,237	\$150,229	\$541,989	\$144,365	\$253,321	\$216,748	(\$249)	\$483,888	(\$265,914)	\$729,630	(\$75,442)	\$489,426	\$76,177	(\$76,421)	(\$219,754)	\$2,476,230

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

Combining Statements of Operations of the Project entities
Year ended December 31, 2018

	2000 Illinois Aurora LLC	Eden Woodside Court, LP	Woodmere Trace LLC	HHDC - Mallard Point, LLC	AHC Woodleaf LLC	Homes for Hagerstown, LLC	HHDC - Mallard Point II, 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	Quail Run Alameda County LP	Total
Revenue																
Rental income, net	\$ 1,251,274	\$ 1,626,168	\$ 3,120,992	\$ 2,368,482	\$ 3,577,788	\$ 4,049,968	\$ -	\$ 4,503,391	\$ 2,754,354	\$ 2,983,353	\$ 1,392,780	\$ 2,274,045	\$ 1,420,131	\$ 806,691	\$ 1,600,379	\$ 33,729,796
Other operating income	24,986	33,397	635,969	196,851	167,566	236,360	9,983	293,228	114,738	742,263	67,690	332,088	7,546	53,311	11,211	2,927,187
Total revenue	1,276,260	1,659,565	3,756,961	2,565,333	3,745,354	4,286,328	9,983	4,796,619	2,869,092	3,725,616	1,460,470	2,606,133	1,427,677	860,002	1,611,590	36,656,983
Operating expenses																
Salaries and employee benefits	171,187	132,651	430,947	282,326	310,608	661,383	-	459,277	262,410	387,274	95,763	325,677	194,069	93,211	166,387	3,973,170
Repairs and maintenance	126,247	198,293	599,793	298,445	259,077	690,525	-	294,560	278,914	487,062	317,621	179,523	109,007	42,117	176,940	4,058,124
Utilities	161,446	139,108	280,602	131,774	222,764	354,375	-	247,316	216,431	390,821	126,738	169,617	205,523	96,181	89,335	2,832,031
Property management fee	51,442	80,953	142,448	90,492	143,339	147,904	-	158,732	89,517	141,167	55,501	104,106	56,976	-	48,011	1,310,588
Taxes and insurance	190,478	39,928	269,987	441,087	451,269	557,699	10,398	501,569	98,651	296,017	194,738	192,046	88,931	96,634	36,791	3,466,223
Administrative expenses	97,929	186,721	305,810	101,184	134,608	250,950	111	122,636	156,620	378,869	88,937	104,297	85,532	68,773	46,816	2,129,793
Total operating expenses	798,729	777,654	2,029,587	1,345,308	1,521,665	2,662,836	10,509	1,784,090	1,102,543	2,081,210	879,298	1,075,266	740,038	396,916	564,280	17,769,929
Total operating income	477,531	881,911	1,727,374	1,220,025	2,223,689	1,623,492	(526)	3,012,529	1,766,549	1,644,406	581,172	1,530,867	687,639	463,086	1,047,310	18,887,054
Other income (expense)																
Interest income	31	11	92	852	527	124	-	-	50	-	552	35	-	-	22	2,296
Interest expense	(237,486)	(474,295)	(809,829)	(669,640)	(1,141,059)	(846,865)	-	(1,901,854)	(973,139)	(720,454)	(342,694)	(646,434)	(316,773)	(213,969)	(566,743)	(9,861,234)
Depreciation and amortization	(192,052)	(272,104)	(416,161)	(527,134)	(1,015,207)	(653,493)	-	(1,690,784)	(992,173)	(422,631)	(272,681)	(524,864)	(304,818)	(150,551)	(327,036)	(7,761,689)
Asset management fee	(13,357)	(1,000)	(35,612)	(22,620)	(28,020)	(21,110)	-	(24,996)	(1,000)	-	(13,368)	(22,152)	(21,067)	(16,052)	(5,000)	(225,354)
Other financing fees	-	(15,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,000)
Other miscellaneous expense	(197)	-	-	-	-	-	-	914	-	11,061	-	-	-	-	-	11,778
Loss on disposal of fixed assets	-	(24,366)	-	-	-	-	-	-	(1,228)	-	-	-	-	-	(12,117)	(37,711)
Capital expenses	-	-	-	-	-	-	-	-	-	-	(72,563)	-	-	(89,313)	-	(161,876)
Other related party fees and payables	-	-	-	-	-	-	-	-	-	(26,496)	-	-	-	-	-	(26,496)
Closing and acquisition costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(467)	(467)
Total other income (expense)	(443,061)	(786,754)	(1,261,510)	(1,218,542)	(2,183,759)	(1,521,344)	-	(3,616,720)	(1,967,490)	(1,158,520)	(700,754)	(1,193,415)	(642,658)	(469,885)	(911,341)	(18,075,753)
Net income (loss)	\$ 34,470	\$ 95,157	\$ 465,864	\$ 1,483	\$ 39,930	\$ 102,148	\$ (526)	\$ (604,191)	\$ (200,941)	\$ 485,886	\$ (119,582)	\$ 337,452	\$ 44,981	\$ (6,799)	\$ 135,969	\$ 811,301