

# ALTURAS

REAL ESTATE FUND

**Consolidated Financial Statements | December 31, 2017**

[www.alturas.com](http://www.alturas.com)

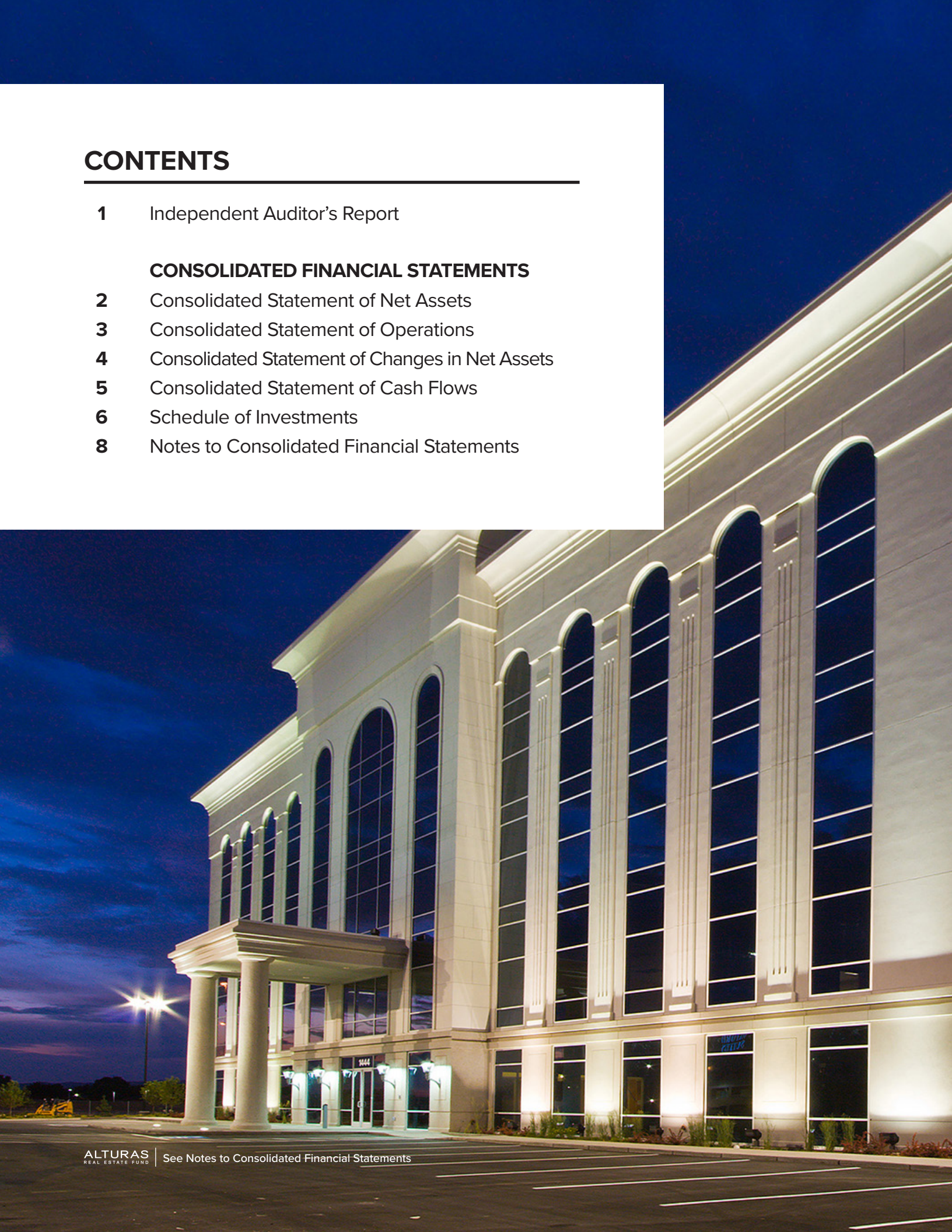
# CONTENTS

---

- 1 Independent Auditor's Report

## **CONSOLIDATED FINANCIAL STATEMENTS**

- 2 Consolidated Statement of Net Assets
- 3 Consolidated Statement of Operations
- 4 Consolidated Statement of Changes in Net Assets
- 5 Consolidated Statement of Cash Flows
- 6 Schedule of Investments
- 8 Notes to Consolidated Financial Statements







CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

To the Members  
Alturas Real Estate Fund LLC  
Boise Idaho

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Alturas Real Estate Fund LLC (the "Company"), which comprise the consolidated statement of net assets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2017 and the period from May 29, 2015 (Inception) to December 31, 2016, and the schedule of investments as of December 31, 2017 and 2016 and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alturas Real Estate Fund LLC as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the year ended December 31, 2017 and the period May 29, 2015 (inception) to December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Denver, Colorado  
August 9, 2018

What inspires you, inspires us. Let's talk. | [eidebailly.com](http://eidebailly.com)

# CONSOLIDATED STATEMENT OF NET ASSETS

December 31, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
Real Estate Investments - At Fair Value:		
Real Estate and Improvements (cost of \$54,288,791 and \$31,899,993)	\$ 57,998,302	\$ 33,503,050
Unconsolidated Real Estate Joint Ventures (cost of \$209,558 and \$151,158)	209,558	151,158
Loans Receivable (cost of \$2,742,440 and \$2,038,897)	2,742,440	2,038,897
Cash and Cash Equivalents	4,320,898	1,164,517
Restricted Deposits and Funded Reserves	460,476	113,212
Accrued Investment Income	212,222	152,003
Prepaid Expenses and Other Assets	451,266	257,946
Total Assets	<b>\$ 66,395,162</b>	<b>\$ 37,380,783</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Mortgage Loans and Notes Payable (less unamortized debt issuance costs of \$418,830 and \$286,957)	\$ 38,185,206	\$ 23,911,400
Members Subscription Payable	3,275,000	2,635,000
Accrued Real Estate Expenses and Taxes	995,021	353,729
Accrued Incentive Fees	116,164	55,457
Accrued Expenses - Related Party	102,051	52,109
Member Distributions Payable	453,660	221,563
Other Liabilities	450,645	457,100
Total Liabilities	<b>43,577,747</b>	<b>27,686,358</b>
Commitments and Contingencies (Note 8)		
<b>NET ASSETS</b>		
Alturas Real Estate Fund LLC Net Assets	21,404,271	9,232,400
Noncontrolling Interests	1,413,144	462,025
Net Assets	<b>\$ 22,817,415</b>	<b>\$ 9,694,425</b>

# CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31, 2017 and the period from May 29, 2015 (Inception) to December 31, 2016

<b>INVESTMENT INCOME:</b>	<b>2017</b>	<b>2016</b>
Revenue from Real Estate	\$ 5,468,614	\$ 1,909,923
Interest Income on Loans Receivable	526,384	671,634
Total Revenues	<b>5,994,998</b>	<b>2,581,557</b>
<b>EXPENSES:</b>		
Real Estate Expenses and Taxes	1,487,962	453,766
Interest Expense	1,450,819	592,199
Administrative Expenses	303,155	362,224
Investment Management Fees	220,634	115,168
Total Expenses	<b>3,462,570</b>	<b>1,523,357</b>
Net Investment Income	<b>2,532,428</b>	<b>1,058,200</b>
Net Realized and Unrealized Gain:		
Realized Gain from Sale of Real Estate Investments	205,662	765,433
Unrealized Gain on Fair Value of Real Estate Investments	2,106,454	1,603,057
Net Realized and Unrealized Gain	<b>2,312,116</b>	<b>2,368,490</b>
Increase in Net Assets Resulting from Operations	4,844,544	3,426,690
Less: Portion Attributable to Noncontrolling Interests	(294,193)	(153,522)
Increase in Net Assets Resulting from Operations Attributable to Alturas Real Estate Fund LLC Account	<b>\$ 4,550,351</b>	<b>\$ 3,273,168</b>
Amounts Attributable to Alturas Real Estate Fund LLC Account		
Net Investment Income	\$ 2,337,207	\$ 991,309
Net Realized and Unrealized Gain	2,213,144	2,281,859
Increase in Net Assets Resulting from Operations Attributable to Alturas Real Estate Fund LLC Account	<b>\$ 4,550,351</b>	<b>\$ 3,273,168</b>

# CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 2017 and the period from May 29, 2015 (Inception) to December 31, 2016

	Sponsor/ Managing Member	Members	Noncontrolling Interest	Total
Net Assets - May 29, 2015*	\$ --	\$ --	\$ --	\$ --
From Operations:				
Net Investment Income	70,725	920,584	66,891	1,058,200
Net Realized and Unrealized Gain	147,765	2,134,094	86,631	2,368,490
Increase in Net Assets Resulting from Operations	<b>218,490</b>	<b>3,054,678</b>	<b>153,522</b>	<b>3,426,690</b>
From Capital Transactions:				
Contributions	407,551	7,207,749	348,783	7,964,083
Distributions	(478,221)	(1,177,847)	(40,280)	(1,696,348)
Increase in Net Assets Resulting from Capital Transactions	<b>(70,670)</b>	<b>6,029,902</b>	<b>308,503</b>	<b>6,267,735</b>
Incentive Allocation to Managing Member	765,733	(765,733)	--	--
Increase in Net Assets	913,553	8,318,847	462,025	9,694,425
Net Assets - December 31, 2016	<b>913,553</b>	<b>8,318,847</b>	<b>462,025</b>	<b>9,694,425</b>
From Operations:				
Net Investment Income	61,305	2,275,902	195,221	2,532,428
Net Realized and Unrealized Gain	51,226	2,161,918	98,972	2,312,116
Increase in Net Assets Resulting from Operations	<b>112,531</b>	<b>4,437,820</b>	<b>294,193</b>	<b>4,844,544</b>
From Capital Transactions:				
Contributions	--	9,762,562	843,309	10,605,871
Distributions	(485,359)	(1,655,683)	(186,383)	(2,327,425)
Increase in Net Assets Resulting from Capital Transactions	<b>(485,359)</b>	<b>8,106,879</b>	<b>656,926</b>	<b>8,278,446</b>
Incentive Allocation to Managing Member	1,095,430	(1,095,430)	--	--
Increase in Net Assets	722,602	11,449,269	951,119	13,122,990
Net Assets - December 31, 2017	<b>\$ 1,636,155</b>	<b>\$ 19,768,116</b>	<b>\$ 1,413,144</b>	<b>\$ 22,817,415</b>

\*See Note 1 - Nature of Business, date of operation was determined as the date to be used.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2017 and the period from May 29, 2015 (Inception) to December 31, 2016

	2017	2016
Cash Flows From Operating Activities:		
Net Increase in Net Assets Resulting from Operations	\$ 4,844,544	\$ 3,426,690
Adjustments to Reconcile Net Assets Resulting from Operations to		
Net Cash Flows from Operating Activities:		
Gain on Sale of Real Estate Investments	(205,662)	(765,433)
Unrealized Gain on Fair Value of Real Estate Investments	(2,106,454)	(1,603,057)
Interest Expense Attributable to Amortization of Debt Issuance Costs	77,763	19,454
Change in Assets and Liabilities:		
Accrued Investment Income	(60,219)	(152,003)
Prepaid Expenses and Other Assets	(193,320)	(257,946)
Accrued Real Estate Expenses and Taxes	641,292	353,729
Accrued Incentive Fees	60,707	55,457
Accrued Expenses - Related Party	49,942	52,109
Other Liabilities	(6,455)	457,100
Net Cash Flow Provided by Operating Activities	<b>3,102,138</b>	<b>1,586,100</b>
Cash Flows From Investing Activities:		
Capital Expenditures on Real Estate Investments	(9,287,430)	(9,389,560)
Investment in Real Estate Joint Ventures	(58,400)	(151,158)
Changes in Restricted Deposits and Funded Reserves	(347,264)	(113,212)
Proceeds from Real Estate Investments Sold	1,050,000	2,020,000
Funding of Loans Receivable	(5,169,769)	(7,603,413)
Principal Payments on Loans Receivable	4,466,226	5,564,516
Net Cash Flow (used for) Investing Activities	<b>(9,346,637)</b>	<b>(9,672,827)</b>
Cash Flows From Financing Activities:		
Proceeds from Mortgage Loans and Notes Payable	1,545,178	1,447,553
Proceeds from Members Subscription Payable	3,275,000	2,635,000
Contributions from Members	7,970,871	7,964,083
Principal Payments on Mortgage Loans and Notes Payable	(1,085,205)	(1,014,196)
Payment of Debt Issuance Costs	(209,636)	(306,411)
Distributions to Members	(2,095,328)	(1,474,785)
Net Cash Flow Provided by Financing Activities	<b>9,400,880</b>	<b>9,251,244</b>
Net Change in Cash and Cash Equivalents	3,156,381	1,164,517
Cash and Cash Equivalents, At Inception	1,164,517	--
Cash and Cash Equivalents, End of Year	<b>\$ 4,320,898</b>	<b>\$ 1,164,517</b>
Supplemental Disclosure of Cash Flow Information		
Cash Payments for Interest	<b>\$ 1,408,196</b>	<b>\$ 539,679</b>
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Mortgage Loans and Notes Payable Refinanced	<b>\$ 8,610,000</b>	<b>\$ --</b>
Real Estate Investments Acquired Through Mortgage Loans and Notes Payable	<b>\$ 13,945,706</b>	<b>\$ 23,765,000</b>
Member Distributions Recorded as a Payable	<b>\$ 453,660</b>	<b>\$ 221,563</b>
Member Contributions Through Subscriptions Payable	<b>\$ 2,635,000</b>	<b>\$ --</b>

# SCHEDULE OF INVESTMENTS

December 31, 2017

Investment	Ownership	City, State	Square Feet Unless Otherwise Indicated (Unaudited)	December 31, 2017	
				Cost	Fair Value
<b>Retail</b>					
Mission Village	CJV - 95.50%	Wenatchee, Washington	32,271	\$ 4,409,016	\$ 4,409,016
Eagle Marketplace	WO	Eagle, Idaho	60,204	5,368,237	7,412,473
Idaho DB One	CJV - 95.00%	Caldwell, Idaho	874	1,398,797	1,686,900
12005 Meridian	CJV - 87.94%	Puyallup, Washington	7,377	3,049,595	3,049,595
<b>Retail Total</b>		27.17% as of 12/31/17		<b>14,225,645</b>	<b>16,557,984</b>
<b>Industrial</b>					
Westpark	CJV - 80.00%	Boise, Idaho	117,510	6,414,001	6,675,733
595 Washington	CJV - 88.52%	Twin Falls, Idaho	11,195	723,579	795,454
1550 Tech Lane	WO	Meridian, Idaho	105,000	6,052,409	6,052,409
<b>Industrial Total</b>		22.19% as of 12/31/17		<b>13,189,989</b>	<b>13,523,596</b>
<b>Office</b>					
Treasure Valley Crossing	CJV - 95.63%	Nampa, Idaho	21,000	3,791,205	4,293,987
1444 Entertainment	CJV - 95.02%	Boise, Idaho	78,175	12,657,539	13,198,322
110 Main	EJV	Boise, Idaho	6,230	209,558	209,558
Siete I	CJV - 81.00%	Phoenix, Arizona	57,933	8,252,314	8,252,314
Adelmann Building	CJV - 90.44%	Boise, Idaho	14,704	2,172,099	2,172,099
<b>Total Office</b>		46.14% as of 12/31/17		<b>27,082,715</b>	<b>28,126,280</b>
<b>Total Real Estate Owned and Joint Ventures</b>				<b>54,498,349</b>	<b>58,207,860</b>
<b>Loans Receivable</b>					
Loans	Loan		N/A	2,742,440	2,742,440
Total Loans Receivable		4.50% as of 12/31/17		<b>2,742,440</b>	<b>2,742,440</b>
Total Real Estate Investments				<b>\$57,240,789</b>	<b>\$60,950,300</b>

WO - Wholly Owned Investment

CJV - Consolidated Joint Venture

EJV - Joint Venture Investment accounted for under the equity method



# SCHEDULE OF INVESTMENTS

December 31, 2016

Investment	Ownership	City, State	Square Feet Unless Otherwise Indicated (Unaudited)	December 31, 2016	
				Cost	Fair Value
<b>Retail</b>					
1124 Caldwell Blvd.	CJV - 70.00%	Nampa, Idaho	2,646	\$ 585,764	\$ 641,197
Mission Village	CJV - 95.50%	Wenatchee, Washington	32,271	4,299,201	4,299,201
Eagle Marketplace	WO	Eagle, Idaho	58,624	5,091,047	5,972,929
<b>Retail Total</b>		30.58% as of 12/31/16		<b>9,976,012</b>	<b>10,913,327</b>
<b>Industrial</b>					
Westpark	CJV - 80.00%	Boise, Idaho	117,510	6,414,002	6,675,734
595 Washington	WO	Twin Falls, Idaho	11,195	719,276	719,276
<b>Industrial Total</b>		20.72% as of 12/31/16		<b>7,133,278</b>	<b>7,395,010</b>
<b>Office</b>					
Treasure Valley Crossing	CJV - 95.63%	Nampa, Idaho	21,000	3,771,119	4,175,129
1444 Entertainment	WO	Boise, Idaho	78,175	11,019,584	11,019,584
110 Main	EJV	Boise, Idaho	6,230	151,158	151,158
<b>Total Office</b>		42.99% as of 12/31/16		<b>14,941,861</b>	<b>15,345,871</b>
<b>Total Real Estate Owned and Joint Ventures</b>				<b>32,051,151</b>	<b>33,654,208</b>
<b>Loans Receivable</b>					
Loans	Loan		N/A	2,038,897	2,038,897
<b>Total Loans Receivable</b>		5.71% as of 12/31/16		<b>2,038,897</b>	<b>2,038,897</b>
Total Real Estate Investments				<b>\$34,090,048</b>	<b>\$ 35,693,105</b>

WO - Wholly Owned Investment

CJV - Consolidated Joint Venture

EJV - Joint Venture Investment accounted for under the equity method

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

December 31, 2017 and 2016

## NOTE 1 - NATURE OF BUSINESS

Alturas Real Estate Fund, (the “Fund” or the “Company”), was formed pursuant to an Operating Agreement (“Agreement”) April 6, 2015. Inception of operations began on May 29, 2015, when the first investor contribution was received. The Company was formed for the purpose of acquiring, developing, managing and selling investment properties.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The consolidated financial statements represent the consolidation of the Company and all its Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include accounts and transactions for the following entities: Alturas 1124 Caldwell Blvd, LLC; Alturas Eagle Marketplace, LLC; Alturas Legends, LLC; Alturas Westpark, LLC; Alturas Treasure Valley Crossing, LLC; Alturas Mission Village, LLC; Alturas 1444 Entertainment, LLC; Alturas 595 Washington, LLC, Idaho DB One, LLC; Alturas 12005 Meridian, LLC; Alturas Siete I, LLC; Alturas Adelman, LLC; and Alturas 1550 Tech Lane, LLC.

### Variable Interest Entities

Variable Interest Entities (“VIEs”) are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is generally the entity with (i) the power to direct the activities that most significantly impact the VIE’s economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

The Company does not have the power to direct the activities that most significantly impact 110 Main, LLC’s economic performance. This VIE is reported under the equity method in the accompanying consolidated financial statements, see Note 5.

### Noncontrolling Interests

Accounting Standards Codification (“ASC”) 810-10 requires that noncontrolling interests in the Company’s consolidated subsidiaries be reclassified to net assets and that the net increase or decrease in net asset value from operations be adjusted to include amounts attributable to noncontrolling interests.

Additionally, losses attributable to the noncontrolling interest in a subsidiary may exceed their interests in the subsidiary’s equity. Therefore, the noncontrolling interest shall continue to be allocated their share of losses even if that allocation results in a deficit noncontrolling interest balance.

### Use of Estimates

The preparation of the consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

The real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates, and interest and inflation rates. As a result, determining real estate and investment values involves many assumptions. Amounts ultimately realized from each investment may vary significantly from the fair values presented.

### Investments in Real Estate and Improvements

Investments in properties are carried at book balance, which is fair value. Properties owned are initially recorded at the purchase price plus closing costs. Development costs and major renovations are capitalized as a component of cost, and routine maintenance and repairs are charged to expense as incurred.

### Investments in Joint Venture

Investments in joint ventures are carried at fair value and are presented in the consolidated financial statements using the equity method of accounting since control of the investment is shared with the respective venture member. Under the equity method, the investment is initially recorded at the original investment amount, plus additional amounts invested, and are subsequently adjusted for the Company’s share of undistributed earnings or losses (including unrealized appreciation and depreciation) from the underlying entity.

### **Investments in Loans Receivable**

Investments in loans receivable are carried at the book balance, which is fair value. Loan acquisition and origination costs are capitalized as a component of cost.

### **Investment Valuation**

Real estate values are based upon purchase price for recent acquisitions, estimated sales proceeds, or Company's opinion of value. Such values have been identified for investment and portfolio management purposes only; the Company reserves its right to pursue full remedies for the recovery of its investments and other rights. The fair value of real estate investments does reflect estimated transaction sale costs, which may be incurred upon disposition of the real estate investments.

As described above, the estimated fair value of real estate related assets is determined through various valuation approaches, see Note 3. These estimated fair values may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Although the estimated fair values represent subjective estimates, management believes these estimated fair values are reasonable approximations of market prices and the aggregate estimated value of investments in real estate is fairly presented at December 31, 2017 and 2016.

Purchases and sales of real estate related assets are recorded when the Partnership has a legal obligation to pay for the real estate asset purchased or demand payment for the asset sold. Realized gains and losses on real estate assets are recognized on a specific identification basis.

### **Concentrations of Credit Risk**

The Company invests its cash primarily in deposits with commercial banks. At times, cash balances at a limited number of banks and financial institutions may exceed federally insured amounts. The Company believes it mitigates credit risk by depositing cash in multiple, major financial institutions.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less.

### **Restricted Deposits and Funded Reserves**

Amounts classified as restricted represents cash held in escrow for tax, insurance, and other escrow balances, as well as tenant security deposits.

### **Debt Issuance Costs**

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method. Debt issuance costs are included within mortgage loans and notes payable on the accompanying consolidated statement of net assets. Amortization of debt issuance costs is included in interest expense in the accompanying consolidated statement of operations.

### **Revenue Recognition**

The Company leases units to qualified tenants. All leases with tenants are classified as operating leases. Minimum rents are recognized when earned over the lease term. Prepaid rental payments are recognized as a liability and are allocated to income when earned. Retail leases can also provide for contingent rental payments based on certain variable factors, however the contingent payments are not materially altered by such factors.

Tenant reimbursements for common area maintenance and other recoverable costs are recognized in the period assessed. Lease termination fees are recognized when the related leases are cancelled early and the Company has no continuing obligation to provide services to such former tenants.

Interest income is accrued as earned in accordance with the contractual terms of the corresponding loan agreements.

### **Income Taxes**

The Company is taxed as a partnership under the Internal Revenue Code. In lieu of federal income taxes, the members of the LLC are taxed on their proportionate share of the LLC's taxable income. Therefore, no provision or liability for federal income taxes related to the Company has been included in these consolidated financial statements.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2017, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

### Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on the increase in net assets or net assets.

### NOTE 3 - FAIR VALUE MEASUREMENTS

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

**Level 1** — Valuations based on quoted prices in active markets for identical assets or liabilities that the Account has the ability to access. Valuation adjustment and block discounts are not applied to Level 1 instruments.

**Level 2** — Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

**Level 3** — Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2017 and 2016:

	2017			
	(Level 1)	(Level 2)	(Level 3)	Total
Real estate and improvements	\$ --	\$ --	\$ 57,998,302	\$ 57,998,302
Real estate joint ventures	--	--	209,558	209,558
Loans receivable	--	--	2,742,440	2,742,440
	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 60,950,300</b>	<b>\$ 60,950,300</b>

	2016			
	(Level 1)	(Level 2)	(Level 3)	Total
Real estate and improvements	\$ --	\$ --	\$ 33,503,050	\$ 33,503,050
Real estate joint ventures	--	--	151,158	151,158
Loans receivable	--	--	2,038,897	2,038,897
	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 35,693,105</b>	<b>\$ 35,693,105</b>

The table below set forth a summary of changes in the fair value of the Company's Level 3 assets for the year ended December 31, 2017 and the period May 29, 2015 (inception) through December 31, 2016:

	Real Estate Properties	Unconsolidated Real Estate Joint Ventures	Loans Receivable	Total Level 3 Investments
Beginning Balance, January 1, 2017	\$ 33,503,050	\$ 151,158	\$ 2,038,897	\$ 35,693,105
Real Estate Acquisitions	18,204,231	58,400	--	18,262,631
Real Estate Improvements	5,028,905	--	--	5,028,905
Proceeds from Sale of Real Estate Investments	(1,050,000)	--	--	(1,050,000)
Principal Payments Received	--	--	(4,466,226)	(4,466,226)
Funding of Loans	--	--	5,169,769	5,169,769
Total Realized Gain on Sale of Real Estate Investments	205,662	--	--	205,662
Total Unrealized Gain on Real Estate Investment	2,106,454	--	--	2,106,454
<b>Ending Balance, December 31, 2017</b>	<b>\$ 57,998,302</b>	<b>\$ 209,558</b>	<b>\$ 2,742,440</b>	<b>\$ 60,950,300</b>

	Real Estate Properties	Unconsolidated Real Estate Joint Ventures	Loans Receivable	Total Level 3 Investments
Beginning Balance, May 29, 2015*	\$ --	\$ --	\$ --	\$ --
Real Estate Acquisitions	30,990,578	151,158	--	31,141,736
Real Estate Improvements	2,163,982	--	--	2,163,982
Proceeds from Sale of Real Estate Investments	(2,020,000)	--	--	(2,020,000)
Principal Payments Received	--	--	(5,564,516)	(5,564,516)
Funding of Loans	--	--	7,603,413	7,603,413
Total Realized Gain on Sale of Real Estate Investments	765,433	--	--	765,433
Total Unrealized Gain on Real Estate Investment	1,603,057	--	--	1,603,057
<b>Ending Balance, December 31, 2016</b>	<b>\$ 33,503,050</b>	<b>\$ 151,158</b>	<b>\$ 2,038,897</b>	<b>\$ 35,693,105</b>

\* See Note 1 – Nature of Business, date of operation was determined as the date to be used.

The following is a description of the valuation techniques used for items measured at fair value:

Real Estate Properties - The values of real estate properties have been prepared giving consideration to the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. Yield rates and growth assumptions utilized in this approach are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities, which typically provide a range of value. The income approach was used to value all of the Company's real estate investments for the years ended December 31, 2017 and 2016. The terminal cap rate and the discount rate are significant inputs to these valuations. These rates are based on the location, type and nature of each property, and current and anticipated market conditions.



Since fair value measurements take into consideration the estimated effect of physical depreciation, historical cost depreciation and amortization on real estate related assets has been excluded from net investment income.

The values of real estate properties undergoing development have been prepared giving consideration to costs incurred to date and to key development risk factors, including entitlement risk, construction risk, leasing/sales risk, operation expense risk, credit risk, capital market risk, pricing risk, event risk and valuation risk. The fair value of properties undergoing development includes the timely recognition of estimated entrepreneurial profit after such consideration.

Unconsolidated Real Estate Joint Venture - Stated at the fair value of the Company's ownership interests of the underlying entities. The Company's ownership interests are valued based on the fair value of the underlying real estate, any related mortgage loans payable, and other factors, such as ownership percentage, ownership rights, buy/sell agreements, distribution provisions and capital call obligations. The underlying assets and liabilities are valued using the same methods as the Company uses for those assets and liabilities it holds directly. Upon the disposition of all real estate investments by an investee entity, the Company will continue to state its equity in the remaining net assets of the investee entity during the wind down period, if any that occurs prior to the dissolution of the investee entity. The Company's real estate joint venture is classified within level 3 of the valuation hierarchy.

Loans Receivable – Fair value is determined on the basis of estimated market interest rates for loans of comparable quality and maturity. As the Company's loans are short term in nature (less than 12 months) fair value approximated cost.

The following table represents the Company's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs used at December 31, 2017:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Real Estate and Improvements	\$ 34,062,871	Single Period Capitalization Method	Capitalization Rate	7.00% to 8.25%	7.9%

The following table represents the Company's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs used at December 31, 2016:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Real Estate and Improvements	\$ 17,464,989	Single Period Capitalization Method	Capitalization Rate	7.00% to 8.25%	7.9%

The significant unobservable inputs used in the fair value measurement of the Company's investments in real estate properties are the selection of the capitalization rate.

Significant increases (decreases) in any of the above inputs in isolation would result in a significantly lower (higher) fair value, respectively.

At December 31, 2017 and 2016, \$23,935,431 and \$16,038,061, respectively, of investments in real estate, \$209,558 and \$151,158, respectively of unconsolidated real estate joint venture were valued using acquisition prices. Additionally, \$2,742,440 and \$2,038,897, respectively, of financial and capital investments were valued using the principal plus interest accrued on the loans receivable balance. Accordingly, there were no unobservable inputs for those investments.

#### NOTE 4 - INVESTMENTS IN REAL ESTATE AND IMPROVEMENTS

The following details significant investment activity for the year ended December 31, 2017 and the period from May 29, 2015 (inception) through December 31, 2016:

On September 11, 2015, the Fund formed Alturas Eagle Marketplace, LLC to purchase a 60,204 square foot retail building in Eagle, Idaho. Alturas Eagle Marketplace, LLC is wholly owned by the Fund. The purchase price was approximately \$4,150,000, including transaction costs, which was funded with \$3,000,000 of debt and \$1,150,000 of equity contributions from the Fund. Additional improvements were made to the property totaling approximately \$950,000. Due to new leases, an additional \$1,150,000 was borrowed to cover these costs. In October 2017, the roof was replaced over a portion of the building for a cost of approximately \$151,000.

On October 23, 2015, the Fund formed Alturas 1124 Caldwell Blvd, LLC to purchase a 2,646 square foot retail building in Nampa, Idaho. The Fund owns 70.00% of Alturas 1124 Caldwell Blvd, LLC. The purchase price was \$400,000. The building was significantly renovated for a restaurant tenant. The cost of that renovation through December 31, 2016 was approximately \$193,560 which was funded with \$450,000 of debt and \$112,383 of equity contributions from the Partnership: \$78,668 from the Fund and \$33,714 from unaffiliated third-parties. The property was sold on June 30, 2017 for \$1,050,000.

On February 1, 2016, the Fund formed Alturas Westpark, LLC to purchase 117,510 square feet of industrial space in Boise, Idaho. The Fund owns 80.00% of Alturas Westpark, LLC. The purchase price was approximately \$6,479,020 including transaction costs, which was funded with \$5,397,000 of debt and \$1,082,020 of equity contributions from the Partnership: \$865,616 from the Fund and \$216,404 from unaffiliated third-parties.

On September 22, 2016, the Fund formed Alturas Mission Village, LLC to purchase a 32,271 square foot retail building in Wenatchee, Washington. The Fund owns 95.50% of Alturas Mission Village, LLC. The purchase price was approximately \$4,392,800 including transaction costs, which was funded with \$3,200,000 of debt and \$1,200,000 of equity contributions from the Partnership: \$1,146,000 from the Fund and \$54,000 from unaffiliated third-parties. Additional improvements were made to the property in 2017, totaling approximately \$86,561.

On September 26, 2016, the Fund formed Alturas Treasure Valley Crossing, LLC to purchase a 21,000 square foot retail building in Nampa, Idaho. The Fund owns 95.63% of Alturas Treasure Valley Crossing. The purchase price was approximately \$3,815,000 including transaction costs, which was funded with \$2,700,000 of debt and \$1,115,000 of equity contributions from the Partnership: \$1,065,000 from the Fund and \$50,000 from unaffiliated third-parties.

On December 16, 2016, the Fund formed Alturas 1444 Entertainment, LLC to acquire a 78,175 square foot office building in Boise, Idaho. The Fund owns 95.02% of Alturas 1444 Entertainment. The purchase price was approximately \$11,000,000 including transaction costs, which was funded with \$8,000,000 of debt and \$3,000,000 of equity contributions from the partnership: \$2,850,000 from the Fund and \$150,000 from unaffiliated third-parties. In 2017, permanent financing was obtained for this property, with new debt of \$8,900,000 replacing the initial financing. Additional improvements to the building in 2017 totaled approximately \$1,425,900, including \$1,331,000 in tenant improvements.

On December 23, 2016, the Fund formed Alturas 595 Washington, LLC to acquire a 11,195 square foot industrial building in Twin Falls, Idaho. The Fund owns 88.52% of Alturas 595 Washington, LLC. The purchase price was approximately \$724,173 including transaction costs, which was funded with \$550,000 of debt and \$174,173 of equity contributions from the partnership: \$154,173 from the Fund and \$20,000 from unaffiliated third-parties.

On April 21, 2017, the Fund formed Idaho DB One, LLC to acquire a parcel of land for a retail development in Caldwell, ID. The Fund owns 95.00% of Idaho DB One, LLC. The purchase price for the land was \$568,388 including transactions costs. The land was improved as a development project for Dutch Bros. Coffee, with an approximate total cost of \$1,400,000. The project was funded by \$1,039,000 of debt and \$346,183 of equity contributions from the Partnership: \$328,874 from the Fund and \$17,309 from unaffiliated third-parties.

On April 28, 2017, the Fund formed Alturas 12005 Meridian, LLC to acquire a development project in Puyallup, Washington. The Fund owns 87.94% of Alturas 12005 Meridian, LLC. The purchase price was approximately \$1,500,000, with an additional \$205,000 in tenant lease buyouts. The former building was demolished, and construction of a new building is in progress with total expected costs of around \$4,800,000. As of December 31, 2017, the project is funded by \$1,519,706 of debt and \$1,350,260 of equity contributions from the Partnership: \$1,204,260 from the Fund and \$146,000 from unaffiliated third-parties.

On June 2, 2017, the Fund formed Alturas Siete I, LLC to acquire a 57,933 square foot office building in Phoenix, Arizona. The Fund owns 81.00% of Alturas Siete I, LLC. The purchase price was approximately \$8,175,000 including transaction costs with estimated initial building improvements if \$205,000, which was funded with \$5,925,000 of debt and \$2,205,814 of equity contributions from the partnership: \$1,755,814 from the Fund and \$450,000 from unaffiliated third-parties.

On July 5, 2017, the Fund formed Alturas Adelman, LLC to purchase a 14,704 square foot retail building in Boise, Idaho. The Fund owns 90.44% of Alturas Adelman, LLC. The purchase price was approximately \$2,189,459 including transaction costs, which was funded with \$1,562,000 of debt and \$627,459 of equity contributions from the Partnership: \$567,459 from the Fund and \$60,000 from unaffiliated third-parties.

On August 3, 2017, the Fund formed Alturas 1550 Tech Lane, LLC to purchase a 105,000 square foot industrial building in Boise, Idaho. Alturas 1550 Tech Lane is a wholly owned by the Fund. The purchase price was approximately \$5,983,500 including transaction costs, which was funded with \$3,900,000 of debt and \$2,083,500 of equity contributions. At the end of 2017, additional improvements totaled approximately \$30,000 and an additional \$1,000,000 is estimated for future improvements.

On August 24, 2017, the Fund purchased 12005 Deep Canyon, an 8,069 square foot home in Star, Idaho. 12005 Deep Canyon was wholly owned by the Fund. The purchase price was \$605,000, which was funded fully by equity. The Fund loaned the entity an additional \$95,000. The entity holding 12005 Deep Canyon was sold on September 30, 2017, for \$700,000. The Fund carried a 30% interest bearing loan. The principal balance of \$700,000 was paid and \$34,317 of interest was still outstanding as of December 31, 2017. The remaining interest is to be paid at the earlier of the sale of the property or December 31, 2018.

#### NOTE 5 - INVESTMENTS IN UNCONSOLIDATED REAL ESTATE JOINT VENTURE

On October 8, 2015, the Fund acquired a 40% ownership interest in 110 Main LLC, which owns a 6,230 square foot office building in Boise, Idaho. The purchase price was \$275,000. The building was a historic home that has been renovated for office use. The cost of that renovation through December 31, 2017, was approximately \$1,090,000, which has been funded with \$600,000 of debt and \$490,000 of equity contributions from the Partnership: \$204,000 from the Fund and \$286,000 from an unaffiliated third-party.

The following is a summary of the fair value basis assets and liabilities underlying the Fund's unconsolidated joint venture investment (110 Main LLC) at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 8,523	\$ 78,006
Land and buildings	1,091,472	850,407
Mortgage loans	<u>(596,539)</u>	<u>(552,104)</u>
Net Assets	<u>\$ 503,456</u>	<u>\$ 376,309</u>
<b>AREF's share of real estate joint venture net assets</b>	<b><u>\$ 209,558</u></b>	<b><u>\$ 151,158</u></b>

There were no revenues or expenses during the year ended December 31, 2017 and the period May 29, 2015 (inception) through December 31, 2016.

Distributions from the entity will be received from operations until a liquidity event. The fair value of the entity has been estimated using the net asset value of the Fund's ownership interest in partners' capital.

At December 31, 2017, the Company has a variable interest in 110 Main, LLC, as a result of the Fund's guarantee of a portion of 110 Main, LLC's long-term debt. The Fund's maximum exposure to loss as of December 31, 2017 with respect to its relationship with 110 Main, LLC, is approximately \$596,000, the amount of the debt guarantee provided.

#### NOTE 6 - MEMBERS SUBSCRIPTION PAYABLE

Member subscriptions payable consists of funds received by unaffiliated investors, which may be deployed to purchase real estate investments. If deployed, the payables convert to a short term note and accrue interest at 8% per annum. The short-term note will convert to equity contributions on the first day following the quarter end in which the funds were used. As of December 31, 2017, the Fund recorded a subscription liability of \$3,275,000 and a short-term note liability of \$0. As of December 31, 2016, the Fund recorded a subscription liability of \$0 and a short-term note liability of \$2,635,000. All short-term notes at year end are converted to equity on the first day of the next year.

**NOTE 7 - MORTGAGE LOANS AND NOTES PAYABLE**

Mortgage loans and notes payable consists of the following as of December 31, 2017 and 2016 (at carrying value):

	<u>2017</u>	<u>2016</u>
4.50% Mortgage Note Payable (Alturas 1124 Caldwell), due in variable monthly installments including interest, with all remaining principal due December 2026, or lender can demand full repayment at any time, guaranteed by related parties and secured by the related real estate	\$ --	\$ 449,502
4.14% Mortgage Note Payable (Alturas Eagle Marketplace), due in monthly installments of \$20,169 including interest, to October 2025, guaranteed by related parties and secured by the related real estate	4,106,734	4,154,000
4.26% Mortgage Note Payable (Alturas Westpark), due in monthly installments of \$26,852 including interest, to February 2026, guaranteed by related parties and secured by the related real estate	5,227,477	5,321,581
3.87% Mortgage Note Payable (Alturas Treasure Valley), due in monthly installments of \$16,177 including interest, to October 2026, partially guaranteed by related parties and secured by the related real estate	2,593,205	2,685,036
4.33% Mortgage Note Payable (Alturas Mission Village), due in monthly installments of interest only payments through May 2018, followed by monthly installments of \$11,932 including interest, to October 2019, guaranteed by related parties and the Company and secured by the related real estate	3,200,000	3,200,000
4.45% Mortgage Note Payable (Alturas 1444 Entertainment), due in monthly installments of \$49,949 including interest, to September 2025, guaranteed by the Company and secured by the related real estate	8,901,878	7,700,000
4.77% Mortgage Note Payable (Alturas 595 Washington), due in monthly installments of \$3,503 including interest, to January 2027, guaranteed by related party and the Company and secured by the related real estate	539,494	550,000
4.47% Mortgage Note Payable (Alturas Siete I), due in monthly installments of interest only payments through June 2019, followed by monthly installments of \$29,915 including interest, to June 2027 secured by the related real estate	5,925,000	--
4.57% Mortgage Note Payable (Alturas 1550 Tech Lane), due in monthly installments of \$22,000 including interest, to August 2022, guaranteed by related party and the Company and secured by the related real estate	3,875,423	--
4.26% Mortgage Note Payable (Alturas Adelman), due in monthly installments of \$7,693 including interest, to August 2027, guaranteed by related party and the Company and secured by the related real estate	1,553,362	--
4.58% Mortgage Note Payable (Idaho DB One), due in monthly installments of \$5,859 including interest, to November 2027, guaranteed by related party and the Company and secured by the related real estate	1,037,077	--
5.50% Construction Loan Payable (Alturas 12005 Meridian), due in monthly installments of interest only payments to May 2018, financing guaranteed by related party and the Company and secured by the related real estate	1,519,706	--
8.00% Member Note Payable, with all principal and accrued interest due on July 31, 2019, unsecured	124,680	138,238
	<b>\$38,604,036</b>	<b>\$ 24,198,357</b>
Less debt issuance costs	(418,830)	(286,957)
	<b>\$ 38,185,206</b>	<b>\$ 23,911,400</b>

Future principal payments of mortgage loans and notes payable are as follows:

<b>Year Ending December 31,</b>	
2018	\$ 2,139,480
2019	4,010,825
2020	764,484
2021	801,084
2022	4,238,723
Thereafter	26,649,440
<b>Total</b>	<b>\$ 38,604,036</b>

The Fund has various financial covenants relating to mortgage loans and notes payable.

### **NOTE 8 - MINIMUM FUTURE LEASE REVENUES**

As December 31, 2017, minimum future rental payments to be received under non-cancelable operating leases having a term of more than one year are as follows:

<b>Year Ending December 31,</b>	
2018	\$ 5,884,026
2019	5,693,991
2020	5,400,880
2021	4,432,544
2022	3,712,999
Thereafter	8,197,898
<b>Total</b>	<b>\$ 33,322,338</b>

### **NOTE 9 - DISTRIBUTIONS AND ALLOCATIONS OF PROFITS AND LOSSES**

All distributions and allocations of profits and losses are made pursuant to the operating agreement of the Company and are generally allocated and distributed as follows:

First, 8% per annum preferred return on each member's unreturned capital contributions. Preferred return is calculated pro rata in proportion to the member's capital contribution and the period of time that the member's capital contribution is outstanding.

Second, 70% to the members, pro rata in proportion to their ownership interest and 30% to the managing member. The managing member earned \$419,907 in allocations of profits for the year ended December 31, 2017 and \$365,574 for the period May 29, 2015 (inception) through December 31, 2016.

### **NOTE 10 - RELATED PARTY TRANSACTIONS**

An affiliated entity of the Fund borrows funds under short-term promissory notes. As of December 31, 2017 and 2016, the affiliated entity owed the Fund \$2,742,440 and \$2,038,897, respectively, in outstanding borrowings and \$177,903 and \$152,003, respectively, in accrued interest which is included in the accompanying consolidated statement of net assets under the caption "loans receivable and accrued investment income". For the year ended December 31, 2017 and the period May 29, 2015 (inception) through December 31, 2016, the Fund has loaned \$4,469,770 and \$7,603,413, respectively, in short term promissory notes and has collected \$3,766,226 and \$5,564,516, respectively.

An affiliated entity receives fund management, property management and development fees from the Fund. For the year ended December 31, 2017 and the period May 29, 2015 (inception) through December 31, 2016, the Fund paid fund management fees totaling \$220,634 and \$115,168, respectively, property management fees totaling \$121,625 and \$82,461, respectively, and capitalized fees including lease commissions and development fees totaling \$32,487 and \$44,393, respectively. As of December 31, 2017 and 2016, the Fund owed \$97,648 and \$46,138, respectively, in management fees, which are recorded in the accompanying consolidated statement of net assets under the caption "accrued expenses – related party".



From time to time, an affiliated entity paid fund expenses on behalf of the Fund to be reimbursed at a later date. For the year ended December 31, 2017 and the period May 29, 2015 (inception) through December 31, 2016, the Fund reimbursed \$42,784 and \$27,504, respectively, for fund expenses paid by an affiliated entity. As of December 31, 2017, and December 31, 2016, the Fund owed \$4,403 and \$4,224, respectively, in reimbursement to the affiliated entity.

A joint venture partner, the Broadbent Group, purchased the entity holding 12005 Deep Canyon from the Fund on September 30, 2017. The Fund carried a note of \$700,000, which was repaid as of December 31, 2017. The interest accrued of \$34,317 was still outstanding as of December 31, 2017.

As disclosed in Note 7, certain owners of the Managing Member of the Fund have personally guaranteed mortgage loans. The overall exposure to certain owners of the Managing Member of the Fund is \$22,744,856.

## NOTE 11 - FINANCIAL HIGHLIGHTS

	For the year ended December 31, 2017	For the period from May 29, 2016 (inception) to December 31, 2016
<b>PER UNIT OPERATING PERFORMANCE (*):</b>		
Net Asset Value, Beginning of Period	\$ 1,244	\$ 1,000
<b>INCOME FROM INVESTMENT OPERATIONS:</b>		
Net investment income, before management fees	200	264
Net realized and unrealized gain on investments	126	244
Total from investment operations, before management fees	326	508
Management fees	19	25
Total from investment operations	307	483
Distributions	(182)	(239)
Net Asset Value, End of Period	\$ 1,369	\$ 1,244
Total Return, before management fees, net of incentive allocation to manager (a):	32.92%	35.99%
Total Return, after management fees, net of incentive allocation to manager (a):	31.30%	34.38%
<b>RATIOS / SUPPLEMENTAL DATA:</b>		
Ratios to average net assets (b)		
Total Expenses	23.60%	31.96%
Incentive allocation	7.68%	8.19%
Total expenses and incentive allocation	31.28%	40.15%
Net investment income (does not include net realized and unrealized gains)	17.26%	22.20%

(\*) All amounts are shown net of amounts allocated to noncontrolling interests and incentive allocation to manager member

(a) Total Return, before/after management fees is calculated by geometrically linking quarterly returns which are calculated using the formula below:

Investment Income before/after Management Fees + Net Realized and Unrealized Gains/Losses<sup>1</sup> - Actual and Estimated Incentive Allocation to Manager

Beg. Net Asset Value + Time Weighted Contributions - Time Weighted Distributions

(b) Average net assets are based on end of month net assets

**NOTE 12 - SUBSEQUENT EVENTS**

In February of 2018, the Fund acquired a 75,300 square foot shopping center in Idaho Falls, Idaho. The property, known as Parkway Plaza, is centrally located in a stable retail corridor along one of the primary thoroughfares in the area. The property was foreclosed-upon real estate and the Fund purchased the asset from the prior lender, leading to a below market purchase price of \$4,000,000. Shortly prior to the Fund's acquisition of the property, Planet Fitness, a national fitness chain, leased 41,711 vacant square feet in the shopping center, adding significant upgrades to the exterior of shopping center. The asset is currently 77.34% leased, and the Fund is actively working to lease the remaining square footage. In addition to leasing the existing vacancy, there are also two potential pad sites available to be developed which will provide additional upside.

In March of 2018, the Fund acquired a 90,000 square foot office property in Phoenix, Arizona. This was the second asset acquisition for the Fund in the Phoenix market. This asset was acquired in partnership with the same local partner as Siete Square I. The property is located immediately north of downtown in an affluent area near the Phoenix Country Club. The purchase price was \$9,750,000, with planned capital improvements of approximately \$270,000. The property was 71.03% occupied at acquisition, providing substantial upside through leasing.

As of June 2018, the construction loan for Alturas 12005 Meridian has been converted into a permanent note commencing July 1, 2018. The proceeds from the permanent note were \$3,225,000, due in monthly payments of \$19,231 with an irregular final payment of \$2,891,416 due in May 2023. The note interest will be calculated on a variable rate, with an initial rate of 5.125% per annum. There is also an additional tenant improvement note commencing July 1, 2018 totaling \$193,641, due in monthly payments of \$1,184 with an irregular final payment of \$174,304 due in May 2023. The TI loan interest will be calculated on a variable rate, with an initial rate of 5.375% per annum. The financing is guaranteed by related parties, the Company, and secured by real estate.

The Fund has evaluated subsequent events through August 9, 2018, the date, which the financial statements were available to be issued.