UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2022
with Report of Independent Auditors

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2022

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees and Shareholders
of United Development Funding IV

Opinion

We have audited the accompanying consolidated financial statements of United Development Funding IV (the "Trust"), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Trust as of December 31, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Bodwell Vasek Wells DeSimone LLP

Dallas, Texas
July 19, 2023

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED BALANCE SHEET

December 31, 2022

Assets	
Cash and cash equivalents	$ 50,455,656
Accrued interest receivable	21,514,159
Accrued receivable - related parties	1,330,714
Notes receivable, net	216,934,832
Notes receivable - related parties, net	19,239,850
Investment in company	18,021,987
Other assets	2,085,425
Total assets	$ 329,582,623
Liabilities and Shareholders' Equity	
Liabilities:	
Accrued liabilities	$ 3,210,385
Total liabilities	3,210,385
Commitments and contingencies	
Shareholders' equity:	
Shares of beneficial interest; $0.01 par value; 400,000,000 shares authorized; 30,650,684 shares issued and outstanding	306,507
Additional paid-in-capital	574,082,661
Accumulated deficit	(248,016,930)
Total shareholders' equity	326,372,238
Total liabilities and shareholders' equity	$ 329,582,623

See accompanying notes to consolidated financial statements.

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31, 2022

Interest income:	
Interest income	$ 24,372,906
Interest income - related parties	1,452,127
Total interest income	25,825,033
Provision for loan losses (recoveries)	(1,979,685)
Provision for loan losses - related parties	349,000
Net interest income after provision for loan losses (recoveries)	27,455,718
Noninterest income (loss):	
Investment in company unrealized loss	(2,154,234)
Other income	42,900
Total noninterest loss	(2,111,334)
Expenses:	
Management fees - related party	5,552,589
General and administrative	22,561,735
General and administrative - related parties	1,748,336
Total expenses	29,862,660
Net loss	$ (4,518,276)

See accompanying notes to consolidated financial statements.

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year Ended December 31, 2022

	Shares of Beneficial Interest		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2021	30,662,497	$ 306,625	$ 574,082,661	$(235,462,448)	$ 338,926,838
Net loss	-	-	-	(4,518,276)	(4,518,276)
Distributions	-	-	-	(7,968,566)	(7,968,566)
Share repurchases and retirement	(11,813)	(118)	-	(67,640)	(67,758)
Balance at December 31, 2022	30,650,684	$ 306,507	$ 574,082,661	$(248,016,930)	$ 326,372,238

See accompanying notes to consolidated financial statements.

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2022

Operating Activities	
Net loss	$ (4,518,276)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for loan losses	(1,630,685)
Investment in company unrealized loss	2,154,234
Changes in assets and liabilities:	
Accrued interest receivable	(6,227,275)
Accrued receivable - related parties	(106,011)
Other assets	(258,869)
Accrued liabilities	(5,726,835)
Net cash used in operating activities	(16,313,717)
Investing Activities	
Investments in notes receivable	(17,318,649)
Principal receipts from notes receivable	38,160,119
Investments in notes receivable - related parties	(5,996,122)
Principal receipts from notes receivable - related parties	1,365,885
Net cash provided by investing activities	16,211,233
Financing Activities	
Share repurchases and retirement	(67,758)
Distributions	(7,968,566)
Net cash used in financing activities	(8,036,324)
Net change in cash and cash equivalents	(8,138,808)
Cash and cash equivalents at beginning of year	58,594,464
Cash and cash equivalents at end of year	$ 50,455,656

See accompanying notes to consolidated financial statements.

UNITED DEVELOPMENT FUNDING IV

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

A. Nature of Business

United Development Funding IV (which may be referred to as the "Trust", "we", "our", or "UDF IV") was organized on May 28, 2008 ("Inception") as a Maryland real estate investment trust. The Trust has multiple subsidiaries, which are primarily wholly owned.

The Trust primarily originates, purchases, participates in and holds for investment secured loans made directly by the Trust or indirectly through its affiliates to persons and entities for the acquisition and development of parcels of real property as single-family residential lots or mixed-use master planned residential communities, for the construction of single-family homes and for completed model homes. The Trust may also make direct investments in land for development into single-family lots, home construction and portfolios of finished lots and model homes; provide credit enhancements to real estate developers, home builders, land bankers and other real estate investors; and purchase participations in, or finances for other real estate investors, the purchase of, securitized real estate loan pools and discounted cash flows secured by state, county, municipal or other similar assessments levied on real property. The Trust also may enter into joint ventures with affiliated or unaffiliated real estate developers, home builders, land bankers and other real estate investors to originate or acquire, as the case may be, the same kind of loans or real estate investments the Trust may originate or acquire directly.

UMTH General Services, L.P. ("UMTH GS" or the "Advisor"), a Delaware limited partnership, is the Trust's advisor and is responsible for managing the Trust's affairs on a day-to-day basis. The Advisor also oversees the investing and financing activities of the affiliated programs managed and advised by the Advisor. In addition, the Advisor underwrites transactions within the guidelines adopted by the Trust and advises the Trust regarding investments and finance transactions, management, policies and guidelines. The Advisor also reviews for each investment the transaction structure and terms, underwriting, collateral, performance and risk management and also manages the Trust's capital structure. The Advisor may also, on behalf of the Trust, engage affiliated or unaffiliated companies to assist with the performance of its advisory obligations.

The Trust's sole employee is its Chief Financial Officer. The Trust does not maintain any physical properties. The Trust's operations are conducted at the corporate offices of the Trust's Advisor at 2201 W. Royal Lane, Irving, Texas 75063.

B. Summary of Significant Accounting Policies

A summary of our significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Presentation

These consolidated audited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

B. Summary of Significant Accounting Policies – continued

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2022, there were no such amounts included in cash and cash equivalents.

Notes Receivable and Notes Receivable – Related Parties

Notes receivable and notes receivable – related parties are recorded at the lower of cost or net realizable value. The notes are generally collateralized by one or more of the following: senior or subordinate lien deeds of trust, a pledge of ownership interests in the borrower, pledges of ownership interests in certain borrower related parties, collateral assignments of lot sale contracts, or reimbursements of development costs due to the borrower pursuant to contracts with districts or municipalities. None of such notes are insured or guaranteed by a federally owned or guaranteed mortgage agency. As of December 31, 2022, the notes have terms ranging from 7 to 96 months and bear interest at rates ranging from 3% to 15%. The notes may be repaid prior to maturity; however, we currently intend to hold all notes for the life of the notes. The notes may be extended past current maturity dates if approved by the board of trustees.

Allowance for Loan Losses

The allowance for loan losses is our estimate of incurred losses in our portfolio of notes receivable and notes receivable – related parties. We periodically perform a detailed review of our portfolio of notes and other loans to determine if impairment has occurred and to assess the adequacy of the allowance for loan losses. Our review consists of evaluating economic conditions, the estimated value of the underlying collateral, the guarantor, adverse situations that may affect the borrower's ability to pay or the value of the collateral, and other relevant factors. This review is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

B. Summary of Significant Accounting Policies – continued

Allowance for Loan Losses – continued

We evaluate our portfolio of notes receivable and notes receivable – related parties on a loan-by-loan basis quarterly or as circumstances or events arise that warrant more frequent review. In conjunction with this evaluation, we apply the guidance in FASB ASC 310-10-35, *Receivables – Overall – Subsequent Measurement* ("ASC 310-10-35") in determining whether it is probable that we will be unable to collect all of the contractual principal and interest payments as scheduled in our loan agreements (i.e., whether the loan is impaired). In reviewing our portfolio, we consider cash flow estimates from the disposition of finished lots, paper lots. and land as well as expected cash flow from municipalities or reimbursement districts. These estimates are based on current market metrics, which may include the supply of finished lots, paper lots and land; the supply of homes and the rate and price at which land and homes are sold; historic levels and trends; lot contracts; appraisals; and discussions with third-party market analysts and participants, including homebuilders. We have based our estimates of value on current and historic market trends, on our analysis of market events and conditions, including activity within our portfolio, and on the analysis of third-party services. When available, we utilize cash flow forecasts based on lot purchase contracts which provide base prices, escalation rates, and absorption rates on an individual project or phase basis. For projects deemed to have an extended time horizon for disposition, we may also consider third-party appraisals to provide a valuation in accordance with guidelines set forth in the Uniform Standards of Professional Appraisal Practice. In addition to cash flows from the receipt of reimbursements and the disposition of lots, paper lots and land, cost analysis has been performed based on estimates of development and senior financing expenditures provided by developers and independent professionals on a project-by-project basis. These amounts are considered with our best estimates to establish the net realizable value of the portfolio.

We charge additions to the allowance for loan losses to current period earnings through a provision for loan losses. Amounts determined to be uncollectible are charged directly against, or "charged off," and decrease the allowance for loan losses, while cash amounts recovered on previously charged off accounts are recognized in current period earnings.

Investment in Entities

The Trust utilizes the equity method to account for investments in certain unconsolidated entities when the Partnership has 20-50% ownership or has significant influence. The Trust records equity investments at cost and adjusts for the Trust's proportionate share of net earnings or losses including the Trust's proportionate share of losses in value to be received from the unconsolidated entities.

Legal Fees and Other Costs Directly Related to Contingent Liabilities

The Trust has elected to not include estimated legal fees and other directly related costs as part of its loss contingency accrual in its evaluation of contingent liabilities.

B. Summary of Significant Accounting Policies – continued

Interest Income Recognition

Interest income on notes receivable and notes receivable – related parties is recognized over the life of the participation agreement or note agreement and recorded on the accrual basis. A loan is placed on non-accrual status and income recognition is suspended at the date at which, in the opinion of management, a full recovery of income and principal becomes more likely than not, but is no longer probable, based upon our review of economic conditions, the estimated value of the underlying collateral, the guarantor, when applicable, adverse situations that may affect the borrower's ability to pay or the value of the collateral and other relevant factors. Income recognition is resumed when the loan becomes contractually current, and performance is demonstrated to be resumed. Any payments received on loans classified as non-accrual status are typically applied first to outstanding loan amounts and then to the recovery of lost interest.

Advisor Fees

Pursuant to an agreement between the Trust and its Advisor (the "Advisory Agreement"), the Trust is required to pay the following fees to its Advisor or an affiliate of its Advisor:

- An amount equal to one-twelfth of 1.5% of the equity of the Trust, as defined in the Advisory Agreement (the "Base Management Fee"). The Base Management Fee is payable monthly in arrears and is expensed as incurred. The expense associated with the Base Management Fee is included in management fees – related party expense on the consolidated statement of operations.

- An amount equal to 20% of the amount by which the Trust's core earnings (as defined in the Advisory Agreement) for the preceding 12 months exceeds the product of 8% and the weighted average shares outstanding for the preceding 12 months multiplied by the weighted average share price for the preceding 12 months (as defined in the Advisory Agreement) (the "Incentive Management Fee"), provided that no Incentive Management Fee is payable with respect to any quarter unless the amount of the Trust's core earnings for the 12 preceding quarters is greater than zero. Prior to the completion of a 12-month period during the term of the Advisory Agreement, core earnings will be calculated on the basis of the number of days the Advisory Agreement has been in effect on an annualized basis. The Incentive Management Fee is payable in arrears in quarterly installments. The Trust did not incur expense associated with the Incentive Management Fee during the year ended December 31, 2022, and there are no Incentive Management Fees payable as of December 31, 2022.

- Debt financing fees equal to 0.5% of the amount made available to the Trust pursuant to the origination of any line of credit or other debt financing ("Debt Financing Fees"), provided that the Advisor provided a substantial amount of services as determined by a majority of the Trust's independent trustees. On each anniversary date of the origination of any such line of credit or other debt financing, the Trust will continue to pay an additional fee of 0.25% of the primary loan amount if such line of credit or other debt financing continues to be outstanding on such date, or a prorated portion of such additional fee was paid for the portion of such year that the financing was outstanding. Debt Financing Fees are amortized into interest expense over the life of the related line of credit or other debt financing. The Trust did not incur expense associated with the Debt Financing Fee during the year ended December 31, 2022, and there are no Debt Financing Fees payable as of December 31, 2022.

B. Summary of Significant Accounting Policies – continued

Advisor Fees – continued

- An amount equal to 1% of the par amount of the securities sold by the Trust in connection with the securitization and placement of any secured loans (as defined in the Advisory Agreement) ("Securitized Loan Pool Placement Fees"), if the Advisor or an affiliate of the Advisor provided a substantial amount of services as determined by the Trust's independent trustees. The Trust did not incur expense associated with Securitized Loan Pool Placement Fees during the year ended December 31, 2022, and there are no Securitized Loan Pool Placement Fees payable as of December 31, 2022.

In addition to the fees described above, pursuant to the terms of the Advisory Agreement, the Trust will reimburse the Advisor and its affiliates for expenses they incur on behalf of the Trust (the "Advisor Expense Reimbursement"). The Trust will pay the Advisor Expense Reimbursement on a monthly basis, and costs incurred by the Trust in connection with the Advisor Expense Reimbursement will be expensed by the Trust as incurred. Such expense is included in general and administrative – related parties expense on the consolidated statement of operations. Additionally, see Note E below related to indemnification of the Advisor.

Income Taxes

We made an election under Section 856(c) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), to be taxed as a real estate investment trust ("REIT"), beginning with the taxable year ended December 31, 2010. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. If we later fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate rates and may not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied unless we are entitled to relief under certain statutory provisions. Such an event could materially and adversely affect our net income. However, we intend to continue to operate so as to remain qualified as a REIT for federal income tax purposes.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*, prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. In accordance with FASB ASC 740, we must determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. We believe we have no such uncertain positions.

We file income tax returns in the United States federal jurisdiction. At December 31, 2022, tax returns related to fiscal years ended December 31, 2019 and after remain open to possible examination by the tax authorities. To our knowledge, no tax returns are currently under examination by any tax authorities. We did not incur any penalties or interest during the year ended December 31, 2022.

B. Summary of Significant Accounting Policies – continued

Impact of Recently Issued Accounting Standards

ASU 2016-13 *"Financial Instruments – Credit Losses (Topic 326)"* ("ASU 2016-13") requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. ASU 2016-13 also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. ASU 2016-13 will be effective for us on January 1, 2023. We are evaluating the impact adoption of ASU 2016-13 will have on our consolidated financial statements and disclosures. While we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption could be significantly influenced by the composition, characteristics, and quality of our loan portfolio as well as the prevailing economic conditions and forecasts as of the adoption date.

Fair Value of Financial Instruments

In accordance with the reporting requirements of FASB ASC 825-10, *Financial Instruments-Fair Value*, we calculate the fair value of our assets and liabilities which qualify as financial instruments under this statement and include this additional information in the notes to the financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of accrued interest receivable, accrued receivable – related parties, and accrued liabilities approximates the carrying amounts due to the relatively short maturity of these instruments. The estimated fair value of notes receivable and notes receivable – related parties approximate the carrying amount since they bear interest at market rates.

Guarantees and Indemnifications

From time to time, we enter into guarantees of debtors' or affiliates' borrowings and provide credit enhancements for the benefit of senior lenders in connection with our debtors and investments (collectively referred to as "Guarantees"). In addition, from time to time, we enter into indemnity agreements backing surety bonds related to development projects for which we provide financing ("Indemnity Agreements"). We account for such Guarantees and Indemnity Agreements in accordance with FASB ASC 460-10, *Guarantees.*

Share-Based Compensation

We value all share-based payments at the estimated fair value on the date of grant and we expense these payments over the applicable vesting period in accordance with GAAP. For additional discussion of share-based compensation, see Note C below.

C. Shareholders' Equity

Distributions

We must distribute to our shareholders at least 90% of our taxable income each year in order to meet the requirements for being treated as a REIT under the Internal Revenue Code. In accordance with this requirement, we pay distributions on a quarterly basis to our shareholders. Our distribution rate is determined quarterly by our board of trustees and is dependent on a number of factors, including funds available for payment of distributions, our financial condition, loan funding commitments and annual distribution requirements needed to maintain our status as a REIT under the Internal Revenue Code. In addition to these distributions, in an effort to ensure we distribute at least 90% of our taxable income, our board of trustees may periodically authorize additional, special distributions. All distributions are currently paid in cash.

During the year ended December 31, 2022, our board of trustees authorized quarterly cash distributions of \$0.065 per common share of beneficial interest to be paid on or about the last day of each quarter to shareholders of record on or about the 23rd day of the final month in each quarter, which is equal to an annualized distribution rate of \$0.26 per share See Note J – Subsequent Events for further discussion of distributions declared in 2023.

Share Repurchases and Retirement

During the year ended December 31, 2022, the Trust repurchased and retired 11,813 common shares at an average price of \$5.74. These shares were repurchased opportunistically in the secondary market through an online auction site for non-traded REITs and other illiquid investment securities.

Equity Incentive Plans

On May 29, 2014, the Board, including a majority of the independent trustees, approved the adoption of equity incentive plans for the Advisor (the "Advisor Equity Plan"), its trustees, officers, advisors and consultants (the "Equity Plan") and its nonexecutive trustees (the "Non-Executive Trustee Stock Plan"). These equity incentive plans (collectively, the "Equity Incentive Plans") are overseen by the Board's compensation committee, which consists solely of non-executive trustees.

The Advisor Equity Plan provides for the grant of stock options, restricted common shares, restricted stock units, stock appreciation rights and other equity-based awards to the Advisor. The Advisor may in turn issue such awards to its officers, employees or other consultants in order to promote the success of the Trust. The Equity Plan provides for the grant of stock options, restricted common shares, restricted stock units, dividend equivalent rights and other equity-based awards to the trustees, officers and other employees and independent contractors, including employees or trustees of the Advisor and its affiliates who are providing services to the Trust. The Non-Executive Trustee Stock Plan provides for the issuance of restricted common shares, restricted stock units, or other equity-based awards to the Trust's non-executive trustees in order to provide incentives to such trustees to promote the success of the Trust.

Shares issued pursuant to the Equity Incentive Plans are subject to an aggregate limitation of 2,423,284 shares of beneficial interest, of which 2,408,284 shares remained available at December 31, 2022.

Share-Based Compensation

For the year ended December 31, 2022, no share-based compensation was recorded under the Equity Incentive Plans. See Note J – Subsequent Events for further discussion of share-based compensation granted in 2023.

D. Loans and Allowance for Loan Losses

The table below reflects our aggregate loan portfolio as of December 31, 2022, which comprises notes receivable, net and notes receivable – related parties, net and is recorded at the lower of cost or estimated net realizable value.

	December 31, 2022
Notes receivable, net	$ 216,935,000
Notes receivable – related parties, net	19,240,000
Total	$ 236,175,000

Our loans are classified as follows:

	December 31, 2022
Real Estate:	
Construction, acquisition and land development	$ 255,670,000
Provision for loan losses	(19,495,000)
Total	$ 236,175,000

The following table represents the scheduled maturity dates of the 35 loans outstanding as of December 31, 2022:

	Related Party			Non-related party			Total		
Maturity Date	Amount	Loans	% of Total	Amount	Loans	% of Total	Amount	Loans	% of Total
2023	$10,517,000	3	38%	$122,804,000	23	54%	$133,321,000	26	52%
2024	3,208,000	1	12%	60,188,000	3	26%	63,396,000	4	25%
2025	-	-	-	44,731,000	3	20%	44,731,000	3	18%
2026	-	-	-	347,000	1	*%	347,000	1	*%
2030	13,875,000	1	50%	-	-	-	13,875,000	1	5%
Total	$27,600,000	5	100%	$228,070,000	30	100%	$255,670,000	35	100%

* Less than 1%

As of December 31, 2022, we have placed 13 loans totaling $85.7 million on non-accrual status, of which one loan totaling $13.9 million is a loan to a related party.

As of December 31, 2022, we had suspended income recognition on seven notes receivable with an aggregate unpaid principal balance of approximately $47.8 million for which full collectability is considered more likely than not, but not probable, and six notes receivable with an aggregate unpaid principal balance of approximately $38.0 million, including one note receivable – related party with an aggregate unpaid principal balance of $13.9 million, that were deemed more likely than not, but not probable that we will be unable to collect all amounts due. The average monthly outstanding balance associated with impaired loans for the year ended December 31, 2022 was approximately $95.6 million. During the year ended December 31, 2022, approximately $6.5 million in interest income was recognized and collected on impaired loans.

D. Loans and Allowance for Loan Losses – continued

As part of the ongoing monitoring of the credit quality of the loan portfolio, we periodically, no less than quarterly, perform a detailed review of our portfolio of mortgage notes and other loans. The following is a general description of the credit levels used:

Level 1 – Full collectability of loans in this category is considered probable.

Level 2 – Full collectability of loans in this category is deemed more likely than not, but not probable, based upon our review of economic conditions, the estimated value of the underlying collateral, the guarantor, adverse situations that may affect the borrower's ability to pay or the value of the collateral and other relevant factors. Interest income is suspended on Level 2 loans.

Level 3 – For loans in this category, it is probable that we will be unable to collect all amounts due.

As of December 31, 2022, our loans were classified as follows:

		December 31, 2022
Level 1	$	169,933,000
Level 2		47,789,000
Level 3		37,948,000
Total	$	255,670,000

An analysis of the allowance for loan losses and the recorded investment in financing receivables is included in the following table for the period indicated:

		For the Year Ended December 31, 2022
Allowance for loan losses:		
Balance at beginning of year	$	65,978,000
Provision charged (added) to earnings		(1,590,000)
Loan losses:		
Charge-offs		(44,893,000)
Recoveries		-
Net loan losses		(44,893,000)
Balance at end of year	$	19,495,000
Ending balance, individually evaluated for impairment	$	15,247,000
Ending balance, collectively evaluated for impairment	$	4,248,000
Financing receivables:		
Balance at end of period	$	255,670,000
Ending balance, individually evaluated for impairment	$	85,737,000
Ending balance, collectively evaluated for impairment	$	169,933,000

In accordance with ASC 470, the restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. As of December 31, 2022, we have no loan modifications that are classified as troubled debt restructurings.

E. Commitments and Contingencies

Loan Commitments

As of December 31, 2022, there were approximately $109.2 million of commitments to be funded under the terms of mortgage notes receivable, which included approximately $17.9 million of commitments to related parties. Substantially all advances pursuant to our loan commitments are subject to our prior approval, which may be given or denied in our sole discretion.

Litigation

In the ordinary course of business, the Trust or its borrowers may become subject to litigation or claims.

In March 2020, Megatel Homes, LLC, and two of its affiliates (collectively, "Megatel") filed a federal lawsuit (the "Megatel Action") against the principal of one of the Trust's current borrowers ("UDF IV Borrower Principal"), UDF IV and several UDF IV affiliated entities (collectively, the "UDF Entities"), as well as a former executive of UDF IV and present and former executives of UDF IV's Advisor (such present and former executives, the "UDF Principals"). The sole cause of action pleaded against UDF Entities and the UDF Principals is RICO conspiracy under 18 U.S.C. § 1962(d) regarding eleven real estate development projects, including some that serve as collateral for UDF loans. The UDF Entities and the UDF Principals deny all claims and contentions alleged by Megatel and intend to vigorously defend themselves against these allegations.

Off-Balance Sheet Arrangements

From time to time, we enter into Guarantees and Indemnity Agreements (as discussed further in Note B above). Guarantees and Indemnity Agreements generally have fixed expiration dates or other termination clauses and may require payment of a fee by the debtor. A Guarantee or Indemnity Agreement involves, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. Our exposure to credit loss in the event of non-performance by the other party to the instrument is represented by the contractual notional amount of the Guarantee or Indemnity Agreement. At December 31, 2022, we had no outstanding Guarantees and four outstanding Indemnity Agreements totaling approximately $1.1 million.

Advisor Indemnification

The Trust is obligated under the Advisory Agreement to reimburse the Advisor or its Affiliates for expenses they incur on behalf of the Trust, other than expenses that are specifically the responsibility of the Advisor as set forth in the Advisory Agreement. Subject to the conditions and exceptions set forth in the Advisory Agreement, the Trust is obligated to indemnify and hold harmless the Advisor and its Affiliates, including their respective officers, directors, trustees, partners and employees, from all liability, claims, damages or losses arising in the performance of their duties under the Advisory Agreement, including related expenses, such as reasonable attorneys' fees, to the extent not fully reimbursed by insurance, subject to any limitations imposed by the laws of the State of Maryland and the Declaration of Trust.

F. Economic Dependency

Under various agreements, the Trust has engaged or will engage the Advisor and its affiliates to provide certain services that are essential to the Trust, including asset management services, asset acquisition and disposition decisions, as well as other administrative responsibilities for the Trust. As a result of these relationships, the Trust is dependent upon the Advisor and its affiliates. In the event that these entities are unable to provide the Trust with the respective services, the Trust would be required to find alternative providers of these services.

G. Investment in Company

The Trust has a 50% membership interest in BRHG TX-1, LLC ("BRHG") which has a financial interest in two partnerships whose primary asset is a homebuilder with operations in Austin and San Antonio, Texas. For the year ended December 31, 2022, we recorded an unrealized loss related to our investment in partnership in BRHG TX-1, LLC of approximately $2.2 million. As of December 31, 2022, we have approximately $718,000 included in accrued receivable – related parties from BRHG for loan guarantee fees.

H. Related Party Transactions

Advisor Fees

We incur monthly Base Management Fees payable to our Advisor (as discussed further in Note B above). For the year ended December 31, 2022, approximately $5.6 million is included in management fees – related party expense for Base Management Fees payable to our Advisor. As of December 31, 2022, approximately $53,000 is included in accrued receivable – related parties associated with Base Management Fees paid to our Advisor.

Each month, we incur an Advisor Expense Reimbursement (as discussed further in Note B above). For the year ended December 31, 2022, approximately $1.7 million is included in general and administrative – related parties expense associated with the Advisor Expense Reimbursement.

Notes Receivable – Related Parties

A majority of our trustees (including a majority of our independent trustees) who are not otherwise interested in these transactions have approved the following notes receivable – related parties agreements as being fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

H. Related Party Transactions – continued

VOHL Loan

Effective May 20, 2013, we entered into a $2.9 million loan agreement with BLD VOHL 6A-1, LLC (the “VOHL Loan”). The VOHL Loan was originated to finance and construct 45 sixty-foot-wide lots in a master planned community. Effective December 31, 2016, a subsidiary of various affiliates acquired the ownership interests in BLD VOHL 6A-1, LLC from Buffington Land Development, LLC, pursuant to an Assignment and Assumption of Interests and as a result, became the owner of the underlying property, including approximately 4.6 acres of land planned for commercial properties. As of December 31, 2022, the loan is secured by a first lien deed of trust on the remaining 1.42 acre platted commercial lot recorded in the real property records of Travis County, Texas, as well as a promissory note, assignment of reimbursements from the applicable municipal utility district, and other loan documents. The interest rate on the loan is the lower of 13% per annum, or the highest rate allowed by law. The loan matures and becomes due and payable in full on December 31, 2023. As of December 31, 2022, approximately $109,000 and $100 are included in notes receivable – related parties and accrued receivable – related parties, respectively. For the year ended December 31, 2022, approximately $95,000 is included in interest income – related parties.

Woodland Lakes Loan

Effective December 30, 2016, we entered into a $19.7 million loan agreement with WL Woodland Lakes, LLC, a wholly owned subsidiary of an affiliate (the “Woodland Lakes Loan”). The Woodland Lakes Loan provided for the financing of the land and certain stages of development of a 450-acre project located in the City of Houston, Harris County, Texas. As of December 31, 2022, the loan is secured by a first lien deed of trust on approximately 50 acres and a subordinate lien deed of trust on approximately 308 acres recorded in the real property records of Harris County, Texas, as well as a promissory note, collateral assignment of reimbursements from the applicable municipal utility district covering the project, and other loan documents. The interest rate on the loan is the lower of 13% per annum, or the highest rate allowed by law. The loan matures and becomes due and payable in full on December 31, 2023. The origination of the Woodland Lakes Loan included a commitment for principal advances of approximately $15.8 million and an interest reserve of approximately $3.9 million pursuant to which we annually compound the borrower’s accrued interest into the principal balance of the loan. As of December 31, 2022, approximately $9.8 million and $7,000 are included in notes receivable – related parties and accrued receivable – related parties, respectively. For the year ended December 31, 2022, approximately $1.1 million is included in interest income – related parties.

H. Related Party Transactions – continued

Lakeside Loan

Effective March 15, 2017, we acquired a $6.6 million loan to an unaffiliated borrower secured by a senior lien on approximately 438 acres in Texas City, Galveston County, Texas. Effective December 21, 2022, an affiliate of the Trust with a subordinate lien secured by a portion of the same property acquired the project from the unaffiliated borrower, subject to the senior loan. The original loan was sized for pre-construction project costs. To accommodate development of the project, we increased the senior loan to $15.5 million and extended the maturity date to December 31, 2030. As of December 31, 2022, the interest rate on the loan was 13%; however, the loan was, and continues to be, on non-accrual status, so no interest income was recognized on this loan for the year ended December 31, 2022. During 2022, we increased the provision for loan losses for this loan by approximately $349,000, which is included in provision for loan losses – related parties. As of December 31, 2022, the loan balance was approximately $13.9 million with a reserve for loan loss of approximately $8.4 million. The net balance of approximately $5.5 million is included in notes receivable – related parties, net of reserve for loan losses. The loan matures and becomes due and payable in full on December 31, 2030.

OU Land Loan

Effective July 15, 2020, we entered into a $587,000 loan agreement with OU Land Acquisitions, L.P., a wholly owned subsidiary of an affiliate (the "OU Land Loan"), subsequently increased by the first loan modification agreement to $750,000 effective October 27, 2022. The OU Land Loan provided for financing of approximately 19.5 acres of real property. As of December 31, 2022, the loan is secured by a first lien deed of trust on approximately 19.5 acres recorded in the real property records of Harris County, Texas, as well as a promissory note and other loan documents. The interest rate on the loan is the lower of 13% per annum, or the highest rate allowed by law. The loan matures and becomes due and payable in full on December 31, 2023. The origination of the OU Land Loan included a commitment of principal advances of $500,000 and interest reserve of $250,000 pursuant to which we annually compound the borrower's accrued interest into the principal balance of the loan. As of December 31, 2022, approximately $625,000 and $37,000 are included in notes receivable – related parties and accrued receivable – related parties, respectively. For the year ended December 31, 2022, approximately $78,000 is included in interest income – related parties.

Arcadia 75 Loan

Effective July 13, 2022, we entered into an $8.6 million loan agreement with Arcadia 75, LLC, a wholly owned subsidiary of an affiliate (the "Arcadia 75 Loan"). The Arcadia 75 Loan provided for acquisition and pre-construction development costs of approximately 109 acres of real property. As of December 31, 2022, the loan is secured by a first lien deed of trust on approximately 109 acres recorded in the real property records of Bexar County, Texas, as well as two promissory notes and other loan documents. The interest rate on the loan is the lower of 13% per annum, or the highest rate allowed by law. The loan matures and becomes due and payable in full on July 31, 2024. The origination of the Arcadia 75 Loan included a commitment for principal advances of approximately $7 million and an interest reserve of approximately $1.6 million pursuant to which we annually compound the borrower's accrued interest into the principal balance of the loan. As of December 31, 2022, approximately $3.2 million and $192,000 are included in notes receivable – related parties and accrued receivable – related parties, respectively. For the year ended December 31, 2022, approximately $192,000 is included in interest income – related parties.

H. Related Party Transactions – continued

Related party receivable

As of December 31, 2022, we had approximately $324,000 included in accrued receivable – related parties from United Development Funding III for litigation expenses.

I. Concentration of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk are primarily cash and cash equivalents, accrued interest receivable, accrued receivable – related parties, notes receivable and notes receivable – related parties.

We maintain deposits in financial institutions that may at times exceed amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation ("FDIC"). We have not experienced any losses related to amounts in excess of FDIC limits.

As of December 31, 2022, all our real property loans and investments are secured by or related to properties located in Texas.

We may invest in multiple secured loans that share a common borrower. The bankruptcy, insolvency or other inability of any borrower that is the subject of multiple loans to pay interest or repay principal on its loans would have adverse consequences on our income and reduce the amount of funds available for distribution to investors. The more concentrated our portfolio is with one or a few borrowers, the greater credit risk we face. The loss of any one of these borrowers would have a material adverse effect on our financial condition and results of operations.

As of December 31, 2022, we had two loans to individual borrowers that each accounted for over 10% of the outstanding balance of our portfolio as of December 31, 2022. The properties financed by these two loans are in the Dallas/Fort Worth market. Including these two loans, as of December 31, 2022, we have invested approximately 88% of the outstanding balance of our portfolio in 28 loans to our largest individual borrower and its affiliates. For the year ended December 31, 2022, approximately 93% of our interest income was generated by loans to our largest individual borrower and its affiliates.

J. Subsequent Events

In preparing the consolidated financial statements, we have evaluated all subsequent events and transactions for potential recognition or disclosure through July 19, 2023, the date the consolidated financial statements were available for issuance.

On March 1 and June 6, 2023, our board of trustees authorized quarterly cash distributions of $0.065 per share for the first and second quarters of 2023 payable on March 31 and June 30, 2023, respectively, to shareholders of record at the close of business on March 24 and June 23, 2023, respectively.

On March 30, 2023, the board authorized 25,734 RSUs with a grant date fair value of $8.16 per share, which were awarded to three independent members of our board of trustees. 4,290 of the RSUs vested immediately upon issuance; 8,580 vest in 2024; 8,577 vest in 2025; and 4,287 vest in 2026. For holders of unvested RSUs granted before distribution record dates, the Trust will pay an amount in cash equal to the number of unvested RSUs multiplied by the distribution per share paid to such shareholders.

J. Subsequent Events – continued

One independent trustee, who is a resident of Maryland and is therefore ineligible to receive RSUs, received cash awards totaling $70,000, which will be paid in installments of $11,667 in 2023; $23,334 in 2024; $23,333 in 2025; and $11,666 in 2026.

After issuance of the 25,734 RSUs, there are 2,382,550 shares remaining under the Equity Incentive Plans. The March 30, 2023 board resolution authorizes an annual grant on January 1 of each year of RSUs for Trust shares with an aggregate fair market value of $35,000 to eligible independent trustee(s) and an annual cash award to the remaining independent trustee(s). Future RSU and cash awards will vest in three equal annual installments beginning one year after the grant date.

On April 26, 2023, we entered into a participation agreement with an affiliate lender pursuant to which we purchased up to a 100% pari passu participation interest in an interim construction loan to an unaffiliated borrower with a maximum origination amount of $5,000,000. The loan bears interest at 13% and has a maximum loan-to-value ratio of 80%. The proceeds of the loan participation will finance the construction of new single-family homes primarily in the greater Austin, Texas market. The loan is secured by the homes, as well as guarantees from the parent of the borrower and its founders.

Subsequent to year end, two Indemnity Agreements totaling approximately $0.6 million have been released.

Subsequent to year end, based on updated development cost estimates and a longer expected development timeline, we suspended interest recognition on a loan with a principal balance of approximately $57 million. We anticipate full recovery of the principal and accrued interest receivable balances reflected in the balance sheet as of December 31, 2022; however, we no longer expect full recovery of contractual interest for the expected life of the project.