Financial Statements
December 31, 2013 and 2012

Josephine Commons, LLC

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Members
Josephine Commons, LLC
Boulder, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Josephine Commons, LLC, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statement of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Josephine Commons, LLC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Eide Bailly LLP

Fargo, North Dakota
May 15, 2014

	2013	2012
Assets		
Cash		
General operating	$ 259,589	$ 106,707
Construction	-	209,947
	259,589	316,654
Accounts Receivable	2,878	2,809
Due from Boulder County Housing Authority	435,347	-
Prepaid Expenses	-	601
Tenant Security Deposits	21,304	18,146
Restricted Deposits and Funded Reserves	351,177	-
Property and Equipment, at Cost, Less Accumulated Depreciation	15,326,418	15,719,764
Other Assets, at Cost, Less Accumulated Amortization of $8,915 in 2013 and $2,008 in 2012	166,265	145,342
	$ 16,562,978	$ 16,203,316
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 17,745	$ 7,436
Accounts payable - construction	-	17,823
Due to related party	1,745	263,867
Prepaid rent	4,208	4,610
Accrued expenses	122,509	68,857
Tenant security deposits payable	21,300	18,145
Construction note payable	-	11,357,120
Developer fee payable	1,345,395	1,351,067
Long-term debt	4,643,293	1,615,893
Total liabilities	6,156,195	14,704,818
Members' Equity	10,406,783	1,498,498
	$ 16,562,978	$ 16,203,316

	2013	2012
Operations		
Revenue		
Tenant rent, net of vacancies and rental concessions of $9,558 in 2013 and $45,169 in 2012	$ 581,847	$ 157,177
Rental assistance payments	96,552	26,258
Tenant charges	1,869	255
Interest income	4	1
Other income	14,264	1,890
	694,536	185,581
Expenses		
Maintenance and operating	102,551	28,703
Utilities	76,649	25,558
Administrative	55,713	34,067
Taxes and insurance	31,636	10,676
Interest	380,965	123,734
Depreciation and amortization	400,253	235,193
	1,047,767	457,931
Loss before Asset Management Fee	(353,231)	(272,350)
Asset Management Fee	7,121	5,000
Net Loss	$ (360,352)	$ (277,350)

Members' Equity

	Managing Member	Investor and Special Members	Total
Balance, January 1, 2012	$ 86,500	$ 1,689,348	$ 1,775,848
Net loss	(28)	(277,322)	(277,350)
Balance, December 31, 2012	86,472	1,412,026	1,498,498
Contributions	-	9,268,637	9,268,637
Net loss	(36)	(360,316)	(360,352)
Balance, December 31, 2013	$ 86,436	$ 10,320,347	$ 10,406,783

Josephine Commons, LLC
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Net loss	$ (360,352)	$ (277,350)
Charges and credits to net loss not affecting cash		
Depreciation	393,346	233,186
Amortization	6,907	2,008
Accrued interest - long-term	71,919	17,545
Interest - construction note payable	-	106,189
Change in assets and liabilities		
Accounts receivable	(69)	(2,809)
Prepaid expenses	601	(601)
Tenant security deposits	(3,158)	(18,146)
Accounts payable	10,309	7,436
Prepaid rent	(402)	4,610
Accrued expenses	(18,267)	51,312
Tenant security deposits payable	3,155	18,145
Net Cash from Operating Activities	103,989	141,525
Investing Activities		
Purchase of property and equipment	-	(10,850,825)
Net deposits to restricted deposits and funded reserves	(351,177)	-
Payment on accounts payable - construction	(17,823)	-
Net Cash used for Investing Activities	(369,000)	(10,850,825)
Financing Activities		
Proceeds from issuance of construction note payable	-	9,943,606
Principal payments on construction note payable	(8,357,120)	-
Proceeds from issuance of long-term debt	27,400	-
Purchase of other assets	(27,830)	(147,350)
Payment on developer fee payable	(5,672)	-
Contributions	9,268,637	-
(Payments to) advances from related party	(697,469)	263,867
Net Cash from Financing Activities	207,946	10,060,123
Net Change in Cash	(57,065)	(649,177)
Cash at Beginning of Year	316,654	965,831
Cash at End of Year	$ 259,589	$ 316,654
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest net of capitalized interest of $0 in 2013 and $120,781 in 2012	$ 340,721	$ -
Supplemental Disclosure of Noncash Investing and Finance Activities		
Increase in property and equipment from developer fees	$ -	$ 1,069,492
Interest expense added to the construction note payable	$ -	$ 106,189

See Notes to Financial Statements

Note 1 - Principal Activity and Significant Accounting Policies

Principal Activity, Risk, and Uncertainty

Josephine Commons, LLC (Company) was formed May 5, 2011, as a limited liability company under the laws of the State of Colorado and shall continue in perpetual existence, unless dissolved or terminated at an earlier date. The Company was formed for the purpose to acquire, own, develop, construct and lease, manage and operate a building in Lafayette, Colorado consisting of 74 units of affordable rental housing for low-income and elderly residents. The project began operations in September 2012. Substantially all of the Company's income is derived from the rental of its apartment units. All residential units within this project are subject to the contract restrictions regarding rental charges and other operating policies under the Low Income Housing Tax Credit Program.

Income Taxes

The Company, with the consent of members, has elected to be taxed under sections of the federal and state income tax laws, which provide that, in lieu of income taxes, the members separately account for their share of the Company’s items of income, deduction, losses, and credit. Therefore, these statements do not include any provision for corporate income taxes.

The Company has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10. The implementation of this standard had no impact on the financial statements. As of December 31, 2013 and 2012, the unrecognized tax benefit accrual was zero.

The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation

Depreciation is computed principally by the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings and improvements	40 years
Equipment and furnishings	10 years

FASB Accounting Standards Codification Topic ASC 360-10 requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended December 31, 2013 and 2012.

Other Assets

Other assets consist of financing costs and tax credit fees that have been capitalized. Financing costs are being amortized over the life of the permanent financing using the straight-line method of amortization. Tax credit fees are being amortized over the compliance period using the straight-line method of amortization.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred.

Capitalized Interest

Interest of $120,781 has been capitalized as part of the building during 2012.

Subsequent Events

The Company has evaluated subsequent events through May 15, 2014, the date which the financial statements were available to be issued.

Note 2 - Restricted Deposits and Funded Reserves

	2013	2012
Replacement reserve	$ 29,600	$ -
Insurance reserve	32,587	-
Operating reserve	288,990	-
	$ 351,177	$ -

Replacement Reserve

Pursuant to the operating agreement, the Company is to establish a replacement reserve to provide for working capital needs, improvements and replacements relating to the project, commencing upon final closing. The Company is to deposit $300 per unit, per year, increasing at a rate of three percent each year.

Insurance Reserve

The Company has established and maintains a reserve with the mortgage company, used to pay insurance expenses. The account is to receive monthly deposits equal to one-twelfth of the annual payment, which is paid annually from the account.

Operating Reserve

Pursuant to the operating agreement, the Company is to establish and maintain an operating reserve to meet operating expenses and debt service of the Company which exceed operating revenues. The reserve is to be funded in the amount of $288,984 no later than limited partner's second capital contribution (approximately June 2013). The managing member may make withdrawals subject to the special member's approval. During 2013, this reserve was funded with the second capital contribution.

Note 3 - Property and Equipment

	2013	2012
Land and improvements	$ 1,620,859	$ 1,620,859
Buildings and improvements	13,867,041	13,867,041
Equipment and furnishings	465,050	465,050
	15,952,950	15,952,950
Accumulated depreciation	(626,532)	(233,186)
	$ 15,326,418	$ 15,719,764

Note 4 - Accrued Expenses

	2013	2012
Interest - construction	$ -	$ 31,675
Interest - long-term debt	89,464	17,545
Salaries and wages	27,741	4,616
Asset management fees	5,304	5,000
Other	-	10,021
	$ 122,509	$ 68,857

Note 5 - Property Taxes

The Company is exempt from property taxes under C.R.S 29-4-507 through Josephine Commons Manager, LLC. Currently there is no expiration date on the property tax exemption for so long as Josephine Commons Manager, LLC owns interest in the Company.

Note 6 - Construction Note Payable

The Company financed the construction of the project in part with a note payable with Berkadia Commercial Mortgage, Inc. in the amount up to $11,925,000, due September 1, 2013. During 2013 and 2012, the Partnership incurred $293,879 and $226,970 for interest expense, of which $0 and $120,781, respectively, has been capitalized as part of the building. During 2013, the construction loan was paid down to a balance of $3,000,000 from the receipt of equity contributions (Note 9) and then converted into permanent financing (Note 7).

Note 7 - Long-Term Debt

	2013	2012
7.0% mortgage note payable to Berkadia Commercial Mortgage, Inc. due in monthly principal and interest payments of $19,166 through November 2029, secured by a deed of trust and assignment of rents	$ 3,000,000	$ -
4.3% mortgage note payable to Boulder County Housing Authority (BCHA) under the HOME funds, up to an amount of $550,000, payments due from cash flow, remaining principal and interest due August 2061, secured by a second mortgage	550,000	522,500
4.3% mortgage note payable to BCHA under the AHP funds payments due from cash flow, remaining principal and interest due August 2061, secured by a third mortgage	250,000	250,000
4.3% mortgage note payable to BCHA under the Worthy Cause Funds I program, entire principal balance will be forgiven after a term of 99 years unless canceled earlier, secured by a fourth mortgage	200,000	200,000
4.3% mortgage note payable to BCHA under the Worthy Cause Funds II program, entire principal balance will be forgiven after a term of 99 years unless canceled earlier, secured by a fifth mortgage	200,000	200,000
0.50% note payable to BCHA, due from cash flow, remaining principal and interest due August 2061, unsecured	443,293	443,393
	$ 4,643,293	$ 1,615,893

Aggregate maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2014	$ 75,065
2015	80,492
2016	86,310
2017	92,550
2018	99,240
Thereafter	4,209,636
	$ 4,643,293

A summary of accrued interest is as follows:

First mortgage note payable	$ 17,500
BCHA 4.3% (HOME)	31,462
BCHA 4.3% loan (AHP)	14,487
BCHA 4.3% loan (Worthycause I)	11,528
BCHA 4.3% (Worthycause II)	11,528
BCHA 0.5% loan	2,959
	$ 89,464

Note 8 - Related Party Transactions

Developer Fees

The Company has entered into a development agreement with BCHA, the sole member of the managing member, for the services provided in connection with the development and construction of the project. Developer fees of $1,351,067 have been capitalized as part of the building. Developer fees are expected to be paid from capital contributions and approximately $641,448 is anticipated to be deferred and paid from net cash flow. As of December 31, 2013 and 2012, the Company owes BCHA $1,345,395 and $1,351,067, respectively, for developer fees.

Mortgage Notes Payable

The Company has entered into multiple loan agreements with BCHA, the sole member of the managing member (Note 7). During 2013 and 2012, the Company incurred interest expense of $87,087 and $17,545, respectively in relation to these mortgage notes payable. As of December 31, 2013 and 2012, the Company owes BCHA $71,964 and $17,545, respectively for accrued interest (Note 6).

Due to Related Party

As of December 31, 2013 and 2012, the Company owed BCHA, the sole member of the managing member, $1,745 and $263,867, respectively, for costs related to operations and construction of the project.

Due from Related Party

As of December 31, 2013 and 2012, the Company is owed $435,347 and $0, respectively, from BCHA for overpayment of developer fees and other costs incurred by the Company.

Management Fees

The Company has entered into a management agreement with BCHA, to provide management services for the project. Under the terms of the agreement, the Company is to pay management fees equal to the lesser of $466 per unit or 5.5% of effective gross income. During 2013 and 2012, the Company incurred management fees of $34,484 and $9,960, respectively.

Reimbursement of Expenses

During 2013 and 2012, the Partnership reimbursed BCHA approximately $54,300 and $11,500, respectively, for payroll and other expenses. As of December 31, 2013 and 2012, the Company owed BCHA $27,741 and $4,616, respectively, for payroll costs.

Asset Management Fee

Pursuant to the operating agreement, the Company is to pay Red Stone Equity Manager, LLC, the special member, a cumulative fee equal to $5,000 annually, commencing in 2012, for the review of the operations of the Company. The fee is to increase by 3% annually. During 2013 and 2012, the Company incurred $7,121 and $5,000, respectively, for asset management fees. As of December 31, 2013 and 2012, the Company owed the special member $5,304 and $5,000, respectively, for these fees.

Incentive Management Fee

Pursuant to the operating agreement, the Company is to pay the managing member for their services in managing the business of the Company, a non-cumulative fee equal to 80% of cash flow remaining after other required payments. At no time is the fee to exceed 10% of gross revenues in any year. There were no incentive management fees paid, or incurred during 2013 and 2012.

Operating Deficit Guaranty

Pursuant to the operating agreement, the managing manager is required to fund operating deficits during the period beginning upon the date that stabilized operations is achieved and for five years thereafter as defined in the agreement. The managing manager shall be obligated to provide funds in the form of a loan, not to exceed $350,000, shall bear no interest and shall be repayable solely from net cash flow as allowed in the operating agreement.

Note 9 - Members' Equity

Members	Ownership Percentages
Managing	
Josephine Commons Manager, LLC	0.009%
Investor	
Red Stone Josephine, LLC	99.990%
Special	
Red Stone Equity Manager 2, LLC	0.001%
	100.000%

Pursuant of the operating agreement, the managing member is required to contribute land to the Company. As of December 31, 2013 and 2012, the managing member had contributed the land to the Company with a value of $86,500.

Required capital contributions by the investor member are $11,732,452. As of December 31, 2013 and 2012, the investor member has contributed $11,028,505 and $1,759,868, respectively. The investor member has also paid syndication costs of $70,520.

Supplementary Information
December 31, 2013 and 2012

Josephine Commons, LLC

Josephine Commons, LLC
Schedules of Maintenance and Operating, Utilities, Administrative, Taxes and Insurance, and Interest Expenses
Years Ended December 31, 2013 and 2012

	2013	2012
Maintenance and Operating		
Salaries and benefits	$ 41,513	$ 10,943
Supplies	14,359	4,480
Grounds	12,948	2,885
Trash removal	4,442	1,894
Other contracted services	25,182	6,089
Other maintenance and operating	4,107	2,412
	$ 102,551	$ 28,703
Utilities		
Electricity	$ 49,842	$ 16,451
Water and sewer	22,911	8,840
Gas and oil	2,820	161
Other utilities	1,076	106
	$ 76,649	$ 25,558
Administrative		
Audit and accounting	$ 3,014	$ 6,450
Salaries and benefits	5,663	-
Legal and compliance fees	230	4,307
Telephone	8,616	3,294
Advertising and marketing	590	7,349
Management fees	34,484	9,960
Bad debt	401	397
Other administrative	2,715	2,310
	$ 55,713	$ 34,067
Taxes and Insurance		
Insurance	$ 31,636	$ 8,674
Other taxes, licenses, and permits	-	2,002
	$ 31,636	$ 10,676
Interest		
Interest - construction note	$ 293,878	$ 106,189
Interest - long-term debt	87,087	17,545
	$ 380,965	$ 123,734