Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013, and the related statement of operations and 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 audits 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, 2014 and 2013, 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
March 18, 2015

Josephine Commons, LLC
Balance Sheets
December 31, 2014 and 2013

	2014	2013
Assets		
Cash	$ 988,331	$ 259,589
Accounts receivable	-	2,878
Due from Boulder County Housing Authority	-	777,184
Tenant security deposits	21,310	21,304
Restricted deposits and funded reserves	510,047	351,177
Property and equipment, at cost, less accumulated depreciation	14,534,623	14,993,127
Other assets, at cost, less accumulated amortization	154,940	166,265
	$ 16,209,251	$ 16,571,524
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 10,004	$ 17,745
Due to related party	4,372	1,745
Prepaid rent	1,598	4,208
Accrued expenses	185,651	122,509
Tenant security deposits payable	21,650	21,300
Developer fee payable	613,057	1,345,395
Long-term debt	4,622,640	4,643,293
Total liabilities	5,458,972	6,156,195
Members' Equity	10,750,279	10,415,329
	$ 16,209,251	$ 16,571,524

	2014	2013
Operations		
Revenue		
Tenant rent	$ 599,435	$ 591,405
Rental assistance payments	104,460	96,552
Less vacancies and concessions	(9,918)	(9,558)
Net rental income	693,977	678,399
Tenant charges	1,330	1,869
Interest income	56	4
Other income	1,075	251
Total revenue	696,438	680,523
Expenses		
Maintenance and operating	148,441	102,551
Utilities	75,570	62,636
Administrative	91,489	55,713
Taxes and insurance	37,515	31,636
Interest	265,518	380,965
Depreciation and amortization	469,830	391,707
Total expenses	1,088,363	1,025,208
Loss before Asset Management Fee	(391,925)	(344,685)
Asset Management Fee	5,463	7,121
Net Loss	$ (397,388)	$ (351,806)

Members' Equity

	Managing Member	Investor and Special Members	Total
Balance, December 31, 2012	$ 86,472	$ 1,412,026	$ 1,498,498
Contributions	-	9,268,637	9,268,637
Net loss	(35)	(351,771)	(351,806)
Balance, December 31, 2013	86,437	10,328,892	10,415,329
Contributions	-	732,338	732,338
Net loss	(40)	(397,348)	(397,388)
Balance, December 31, 2014	$ 86,397	$ 10,663,882	$ 10,750,279

	2014	2013
Operating Activities		
Net loss	$ (397,388)	$ (351,806)
Charges and credits to net loss not affecting cash		
Depreciation	458,504	384,800
Amortization	11,325	6,907
Accrued interest - long-term	56,182	71,919
Change in assets and liabilities		
Accounts receivable	2,878	(69)
Prepaid expenses	-	601
Tenant security deposits	(6)	(3,158)
Accounts payable	(7,741)	10,309
Prepaid rent	(2,610)	(402)
Accrued expenses	6,960	(18,267)
Tenant security deposits payable	350	3,155
Net Cash from Operating Activities	128,454	103,989
Investing Activities		
Net deposits to restricted deposits and funded reserves	(158,870)	(351,177)
Payment on accounts payable - construction	-	(17,823)
Net Cash used for Investing Activities	(158,870)	(369,000)
Financing Activities		
Principal payments on construction note payable	-	(8,357,120)
Principal payments on long-term debt	(20,653)	-
Proceeds from issuance of long-term debt	-	27,400
Purchase of other assets	-	(27,830)
Payment on developer fee payable	(732,338)	(5,672)
Contributions	732,338	9,268,637
Receipts from (payments to) related party	779,811	(697,469)
Net Cash from Financing Activities	759,158	207,946
Net Change in Cash	728,742	(57,065)
Cash, Beginning of Year	259,589	316,654
Cash, End of Year	$ 988,331	$ 259,589
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 209,336	$ 340,721

Note 1 - Principal Activity and Significant Accounting Policies

Principal Business Activity, Risks, 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.

The project has qualified and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of the complex as to occupant eligibility and unit gross rent, among other requirements. The project must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of the previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the limited partners. 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.

Concentrations of Credit Risk

The Company maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federally insured limits.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

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

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at December 31, 2014 and 2013.

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.

Income Taxes

As a limited liability company, the Company's taxable income or loss is allocated to members in accordance with the operating agreement. Therefore, no provision for income taxes has been included in the 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, 2014 and 2013, 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. The Company is no longer subject to Federal tax examinations by tax authorities for years before 2011 and state examinations for years before 2010.

Rental Income

Housing units are rented under operating lease agreements with terms of one year or less. Rent income from tenants and rental assistance payments is recognized in the month in which it is earned rather than received. Vacancy loss is recorded for any unrented units to arrive at tenant rent.

Advertising and Marketing

Advertising and marketing costs are expensed as 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 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.

Subsequent Events

The Company has evaluated subsequent events through March 18, 2015, the date which the financial statements were available to be issued.

Reclassification

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 net loss or members' equity.

Note 2 - Restricted Deposits and Funded Reserves

	2014	2013
Replacement reserve	$ 175,278	$ 29,600
Insurance reserve	38,385	32,587
Operating reserve	296,384	288,990
	$ 510,047	$ 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.

Replacement reserve activity for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Balance, January 1	$ 29,600	$ -
Deposits	145,678	29,600
Balance, December 31	$ 175,278	$ 29,600

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

Property and equipment at December 31, 2014 and 2013 consist of the following:

	2014	2013
Land and improvements	$ 1,620,859	$ 1,620,859
Buildings and improvements	13,525,204	13,525,204
Equipment and furnishings	465,050	465,050
	15,611,113	15,611,113
Accumulated depreciation	(1,076,490)	(617,986)
	$ 14,534,623	$ 14,993,127

Note 4 - Other Assets

Other assets at December 31, 2014 and 2013 consist of the following:

	2014	2013
Tax credit fees	$ 90,350	$ 90,350
Financing costs	84,830	84,830
	175,180	175,180
Accumulated amortization	(20,240)	(8,915)
	$ 154,940	$ 166,265

Amortization expense will be $11,325 for the next 5 years.

Note 5 - Accrued Expenses

Accrued expenses at December 31, 2014 and 2013 consist of the following:

	2014	2013
Interest (Note 6)	$ 145,646	$ 89,464
Salaries and wages (Note 9)	34,543	27,741
Asset management fees (Note 9)	5,462	5,304
	$ 185,651	$ 122,509

Note 6 - Long-Term Debt

Long-term debt consists of:

	2014	2013
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	$ 2,979,347	$ 3,000,000
4.3% mortgage note payable to Boulder County Housing Authority (BCHA), payments due from cash flow, remaining principal and interest due August 2061, secured by a second mortgage	550,000	550,000
4.3% mortgage note payable to BCHA, 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, 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, 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	443,293
	1,643,293	1,643,293
	$ 4,622,640	$ 4,643,293

Aggregate maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2015	$ 22,264
2016	23,873
2017	25,599
2018	27,449
2019	29,434
Thereafter	4,494,021
	$ 4,622,640

A summary of accrued interest is as follows:

	2014	2013
First mortgage note payable	$ 17,379	$ 17,500
BCHA 4.3% (HOME)	56,465	31,462
BCHA 4.3% loan (AHP)	25,860	14,487
BCHA 4.3% loan (Worthycause I)	20,376	11,528
BCHA 4.3% (Worthycause II)	20,376	11,528
BCHA 0.5% loan	5,190	2,959
	128,267	71,964
	$ 145,646	$ 89,464

Note 7 - 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 8 - 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, the construction loan was paid down to a balance of $3,000,000 from the receipt of equity contributions (Note 10) and then converted into permanent financing (Note 6).

Note 9 - Related Party Transactions

Developer Fees

The Company has entered into a development agreement with Boulder County Housing Authority (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. During 2014 and 2013, the Company paid developer fees of $732,338 and $5,672, respectively, to BCHA. As of December 31, 2014 and 2013, the Company owes BCHA $613,057 and $1,345,395, respectively, for developer fees. The remaining developer fees are expected to be paid from net cash flow.

Mortgage Notes Payable

The Company has entered into multiple loan agreements with BCHA (Note 6). During 2014 and 2013, the Company incurred interest expense of $56,303 and $54,420, respectively in relation to these mortgage notes payable. As of December 31, 2014 and 2013, the Company owes BCHA $128,267 and $71,964, respectively for accrued interest (Note 6).

Due to Related Party

As of December 31, 2014 and 2013, the Company owed BCHA $4,372 and $1,745, respectively, for costs related to operations.

Due from Related Party

As of December 31, 2013, the Company was owed $777,184 from BCHA for overpayment of developer fees and other costs incurred by the Company. During 2014, BCHA repaid this amount to 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 2014 and 2013, the Company incurred management fees of $34,487 and $34,484, respectively.

Reimbursement of Expenses

During 2014 and 2013, the Company reimbursed BCHA approximately $40,200 and $54,300, respectively, for payroll and other expenses. As of December 31, 2014 and 2013, the Company owed BCHA $34,543 and $27,741, respectively, for payroll costs (Note 5).

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 2014 and 2013, the Company incurred $5,463 and $7,121, respectively, for asset management fees. As of December 31, 2014 and 2013, the Company owed the special member $5,462 and $5,304, 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 2014 and 2013.

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 10 - 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 to the operating agreement, the investor member is required to make capital contributions to the Company in the amount of $11,732,452, before an upward equity adjustor of $28,391. During 2014 and 2013, the investor member made contributions of $732,338 and $9,268,637, respectively, to the Company. As of December 31, 2014 and 2013, the investor member has contributed $11,760,843 and $11,028,505, respectively, to the Company net of syndication costs of $70,520.

Supplementary Information
December 31, 2014 and 2013

Josephine Commons, LLC

Josephine Commons, LLC
Schedules of Maintenance and Operating, Utilities, Administrative, Taxes and Insurance, and Interest Expenses
Years Ended December 31, 2014 and 2013

	2014	2013
Maintenance and Operating		
Salaries and benefits	$ 74,681	$ 41,513
Contracted services	37,510	25,182
Grounds	14,735	12,948
Supplies	11,432	14,359
Trash removal	9,809	4,442
Other maintenance and operating	274	4,107
	$ 148,441	$ 102,551
Utilities		
Electricity	$ 46,279	$ 35,829
Water and sewer	23,976	22,911
Gas and oil	4,883	2,820
Other utilities	432	1,076
	$ 75,570	$ 62,636
Administrative		
Salaries and benefits	$ 35,894	$ 5,663
Management fees	34,487	34,484
Audit and accounting	9,279	3,014
Telephone	9,108	8,616
Bad debt	145	401
Legal and compliance fees	-	230
Advertising and marketing	-	590
Other administrative	2,576	2,715
	$ 91,489	$ 55,713
Taxes and Insurance		
Insurance	$ 36,557	$ 31,636
Other taxes, licenses, and permits	958	-
	$ 37,515	$ 31,636
Interest		
Interest - construction note	$ -	$ 293,878
Interest - Berkadia Commercial Mortgage Inc.	209,215	32,667
Interest - BCHA	56,303	54,420
	$ 265,518	$ 380,965