Financial Statements
December 31, 2015 and 2014

Josephine Commons, LLC

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, 2015 and 2014, and the related statements 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, 2015 and 2014, 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.

Report on Supplementary Information
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 are presented for purposes of additional analysis and are 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 1, 2016

	2015	2014
Assets		
Cash	$ 571,560	$ 988,331
Accounts receivable	2,725	-
Tenant security deposits	21,657	21,310
Prepaid expenses	33,517	-
Restricted deposits and funded reserves	570,668	510,047
Property and equipment, at cost, less accumulated depreciation	14,073,270	14,534,623
Other assets, at cost, less accumulated amortization	143,615	154,940
	$ 15,417,012	$ 16,209,251
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 14,925	$ 10,004
Due to related party	7,588	4,372
Prepaid rent	5,755	1,598
Accrued expenses	209,400	185,651
Tenant security deposits payable	21,300	21,650
Developer fee payable	222,584	613,057
Long-term debt	4,600,516	4,622,640
Total liabilities	5,082,068	5,458,972
Members' Equity	10,334,944	10,750,279
	$ 15,417,012	$ 16,209,251

		2015		2014
Operations				
Revenue				
Tenant rent	$	618,575	$	599,435
Rental assistance payments		89,551		104,460
Less vacancies and concessions		(9,169)		(9,918)
Net rental income		698,957		693,977
Tenant charges		1,906		1,330
Interest income		23		56
Other income		618		1,075
Total revenue		701,504		696,438
Expenses				
Maintenance and operating		172,045		148,441
Utilities		73,115		75,570
Administrative		87,471		91,489
Taxes and insurance		39,931		37,515
Interest		265,972		265,518
Depreciation and amortization		472,678		469,830
Total expenses		1,111,212		1,088,363
Loss before Asset Management Fee		(409,708)		(391,925)
Asset Management Fee		5,627		5,463
Net Loss	$	(415,335)	$	(397,388)

Members' Equity

		Managing Member		Investor and Special Members		Total
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
Net loss		(42)		(415,293)		(415,335)
Balance, December 31, 2015	$	86,355	$	10,248,589	$	10,334,944

		2015		2014
Operating Activities				
Net loss	$	(415,335)	$	(397,388)
Adjustments to reconcile net loss to net cash from operating activities				
Depreciation		461,353		458,504
Amortization		11,325		11,325
Accrued interest - long-term		58,129		56,182
Changes in operating assets and liabilities				
Accounts receivable		(2,725)		2,878
Tenant security deposits		(347)		(6)
Prepaid expenses		(33,517)		-
Accounts payable		4,921		(7,741)
Prepaid rent		4,157		(2,610)
Accrued expenses		(34,380)		6,960
Tenant security deposits payable		(350)		350
Net Cash from Operating Activities		53,231		128,454
Net Cash used for Investing Activity				
Net deposits to restricted deposits and funded reserves		(60,621)		(158,870)
Financing Activities				
Principal payments on long-term debt		(22,124)		(20,653)
Payment on developer fee payable		(390,473)		(732,338)
Contributions		-		732,338
Advances from related party		3,216		779,811
Net Cash (used for) from Financing Activities		(409,381)		759,158
Net Change in Cash		(416,771)		728,742
Cash, Beginning of Year		988,331		259,589
Cash, End of Year	$	571,560	$	988,331
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest	$	207,843	$	209,336

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 investor member. 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, 2015 and 2014.

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, 2015 and 2014, 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.

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. Any rent received prior to the month of occupancy is reported as prepaid rent. Tenant rent represents gross rent for all units in the project. Vacancy loss is recorded for any unrented units and concessions are recorded for discounts to units to arrive at net tenant rent.

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 1, 2016, the date which the financial statements were available to be issued.

Note 2 - Restricted Deposits and Funded Reserves

	2015	2014
Replacement reserve	$ 197,514	$ 175,278
Insurance reserve	76,770	38,385
Operating reserve	296,384	296,384
	$ 570,668	$ 510,047

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, 2015 and 2014, is as follows:

	2015	2014
Balance, January 1	$ 175,278	$ 29,600
Deposits	22,201	145,678
Interest	35	-
Balance, December 31	$ 197,514	$ 175,278

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. The managing member may make withdrawals subject to the special member's approval.

Note 3 - Property and Equipment

Property and equipment at December 31, 2015 and 2014 consist of the following:

	2015	2014
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	(1,537,843)	(1,076,490)
	$ 14,073,270	$ 14,534,623

Note 4 - Other Assets

Other assets at December 31, 2015 and 2014 consist of the following:

	2015	2014
Tax credit fees	$ 90,350	$ 90,350
Financing costs	84,830	84,830
	175,180	175,180
Accumulated amortization	(31,565)	(20,240)
	$ 143,615	$ 154,940

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

Note 5 - Accrued Expenses

Accrued expenses at December 31, 2015 and 2014 consist of the following:

	2015	2014
Interest (Note 6)	$ 203,775	$ 145,646
Salaries and wages (Note 8)	-	34,543
Asset management fees (Note 8)	5,625	5,462
	$ 209,400	$ 185,651

Note 6 - Long-Term Debt

Long-term debt as of December 31, 2015 and 2014 consists of:

	2015	2014
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	$ 2,957,223	$ 2,979,347
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
	$ 4,600,516	$ 4,622,640

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2016	$ 23,873
2017	25,599
2018	27,449
2019	29,434
2020	31,561
Thereafter	4,462,600
	$ 4,600,516

A summary of accrued interest as of December 31, 2015 and 2014 is as follows:

	2015	2014
Berkadia Commercial Mortgage, Inc.	$ 17,250	$ 17,379
BCHA 4.3% (HOME)	82,542	56,465
BCHA 4.3% loan (AHP)	37,722	25,860
BCHA 4.3% loan (Worthycause I)	29,414	20,376
BCHA 4.3% (Worthycause II)	29,414	20,376
BCHA 0.5% loan	7,433	5,190
	186,525	128,267
	$ 203,775	$ 145,646

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 - 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 2015 and 2014, the Company paid developer fees of $390,473 and $732,338, respectively, to BCHA. As of December 31, 2015 and 2014, the Company owes BCHA $222,584 and $613,057, 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 2015 and 2014, the Company incurred interest expense of $58,259 and $56,303, respectively in relation to these mortgage notes payable. As of December 31, 2015 and 2014, the Company owes BCHA $186,525 and $128,267, respectively for accrued interest (Note 6).

Due to Related Party

As of December 31, 2015 and 2014, the Company owed BCHA $7,588 and $4,372, respectively, for costs related to operations.

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 2015 and 2014, the Company incurred management fees of $34,484 and $34,487, respectively.

Reimbursement of Expenses

During 2015 and 2014, the Company reimbursed BCHA approximately $161,400 and $40,200, respectively, for payroll and other expenses. As of December 31, 2015 and 2014, the Company owed BCHA $0 and $34,543, 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 2015 and 2014, the Company incurred $5,627 and $5,463, respectively, for asset management fees. As of December 31, 2015 and 2014, the Company owed the special member $5,625 and $5,462, 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 2015 and 2014.

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 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 2015 and 2014, the investor member made contributions of $0 and $732,338, respectively, to the Company. As of December 31, 2015 and 2014, the investor member has contributed $11,760,843, respectively, to the Company net of syndication costs of $70,520.

Profit or loss will be allocated as allocated in the partnership agreement.

The partners have certain rights and obligations as outlined in the partnership agreement.

Supplementary Information
December 31, 2015 and 2014

Josephine Commons, LLC

Josephine Commons, LLC
Schedules of Maintenance and Operating, Utilities, Administrative, Taxes and Insurance, and Interest Expenses
Years Ended December 31, 2015 and 2014

	2015	2014
Maintenance and Operating		
Salaries and benefits	$ 92,127	$ 74,681
Contracted services	36,432	37,510
Grounds	14,139	14,735
Supplies	15,891	11,432
Trash removal	9,868	9,809
Other maintenance and operating	3,588	274
	$ 172,045	$ 148,441
Utilities		
Electricity	$ 47,061	$ 46,279
Water and sewer	21,078	23,976
Gas and oil	4,183	4,883
Other utilities	793	432
	$ 73,115	$ 75,570
Administrative		
Salaries and benefits	$ 31,188	$ 35,894
Management fees	34,484	34,487
Audit and accounting	7,154	9,279
Telephone	9,319	9,108
Bad debt	-	145
Legal and compliance fees	20	-
Other administrative	5,306	2,576
	$ 87,471	$ 91,489
Taxes and Insurance		
Insurance	$ 39,931	$ 36,557
Other taxes, licenses, and permits	-	958
	$ 39,931	$ 37,515
Interest		
Interest - Berkadia Commercial Mortgage Inc.	$ 207,713	$ 209,215
Interest - BCHA	58,259	56,303
	$ 265,972	$ 265,518