Financial Statements
December 31, 2016 and 2015

Josephine Commons, LLC

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Independent Auditor's Report

To 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, 2016 and 2015, 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, 2016 and 2015, 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.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the Company has changed its accounting policy for accounting for debt issuance costs by adopting the provisions of FASB Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. Accordingly the 2015 financial statements have been restated to adopt this update. Our opinion is not modified with respect to this matter.

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 2, 2017

	2016	2015 (As Restated)
Assets		
Cash	$ 655,345	$ 571,560
Accounts receivable	7,801	2,725
Tenant security deposits	21,663	21,657
Prepaid expenses	3,011	33,517
Restricted deposits and funded reserves	556,633	570,668
Property and equipment, at cost, less accumulated depreciation	13,611,916	14,073,270
Tax credit fees, at cost, net of accumulated amortization of $26,101 in 2016 and $20,078 in 2015	64,249	70,272
	$ 14,920,618	$ 15,343,669
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 9,098	$ 14,924
Due to related party	12,208	7,588
Prepaid rent	2,925	5,755
Accrued expenses	269,723	209,400
Tenant security deposits payable	21,250	21,300
Developer fee payable	170,983	222,584
Long-term debt, net of unamortized debt issuance costs	4,508,741	4,527,174
Total liabilities	4,994,928	5,008,725
Members' Equity	9,925,690	10,334,944
	$ 14,920,618	$ 15,343,669

	2016	2015 (As Restated)
Operations		
Revenue		
Tenant rent	$ 634,369	$ 618,575
Rental assistance payments	89,703	89,551
Less vacancies and concessions	(6,839)	(9,169)
Net rental income	717,233	698,957
Tenant charges	837	1,906
Interest income	61	23
Other income	641	618
Total revenue	718,772	701,504
Expenses		
Maintenance and operating	197,784	172,045
Utilities	64,758	73,115
Administrative	82,023	87,471
Taxes and insurance	38,581	39,931
Interest	271,707	271,274
Depreciation and amortization	467,376	467,376
Total expenses	1,122,229	1,111,212
Loss before Asset Management Fee	(403,457)	(409,708)
Asset Management Fee	5,797	5,627
Net Loss	$ (409,254)	$ (415,335)

Members' Equity

	Managing Member	Investor and Special Members	Total
Balance, December 31, 2014	$ 86,408	$ 10,663,871	$ 10,750,279
Net loss	(37)	(415,298)	(415,335)
Balance, December 31, 2015	86,371	10,248,573	10,334,944
Net loss	(37)	(409,217)	(409,254)
Balance, December 31, 2016	$ 86,334	$ 9,839,356	$ 9,925,690

	2016	2015 (As Restated)
Operating Activities		
Net loss	$ (409,254)	$ (415,335)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	461,353	461,353
Amortization	6,023	6,023
Interest expense attributable to amortization of debt issuance costs	5,302	5,302
Accrued interest - long-term	60,152	58,129
Changes in operating assets and liabilities		
Accounts receivable	(5,075)	(2,725)
Tenant security deposits	(6)	(347)
Prepaid expenses	30,506	(33,517)
Accounts payable	(5,826)	4,921
Prepaid rent	(2,830)	4,157
Accrued expenses	171	(34,380)
Tenant security deposits payable	(50)	(350)
Net Cash from Operating Activities	140,466	53,231
Net Cash from (used for) Investing Activity		
Net withdrawals from (deposits to) restricted deposits and funded reserves	14,035	(60,621)
Financing Activities		
Principal payments on long-term debt	(23,735)	(22,124)
Payment on developer fee payable	(51,601)	(390,473)
Advances from related party	4,620	3,216
Net Cash used for Financing Activities	(70,716)	(409,381)
Net Change in Cash	83,785	(416,771)
Cash, Beginning of Year	571,560	988,331
Cash, End of Year	$ 655,345	$ 571,560
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 206,253	$ 207,843

Note 1 - Principal Activity and Significant Accounting Policies

Principal 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, 2016 and 2015.

Tax Credit Fees

Tax credit fees are being amortized over a 15 year life using the straight-line method of amortization. Amortization expense for each of the next 5 year will be approximately $6,020.

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, 2016 and 2015, 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.

Change in Accounting Policy

As of January 1, 2016, the Company adopted the provisions of Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* This update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability. Adoption of this accounting standard update requires retroactive application by restating the financial statements of all prior periods presented.

The Company has adopted this standard as management believes this presentation more accurately reflects the costs of borrowing for arrangements in which debt issuance costs are incurred. The implementation resulted in the decrease of assets and long-term debt of $73,343 as of December 31, 2015, and an increase of interest expense and a decrease of amortization expense of $5,302 for the year ended December 31, 2015.

Subsequent Events

The Company has evaluated subsequent events through March 2, 2017, the date which the financial statements were available to be issued.

Note 2 - Restricted Deposits and Funded Reserves

	2016	2015
Replacement reserve	$ 219,754	$ 197,514
Insurance reserve	40,495	76,770
Operating reserve	296,384	296,384
	$ 556,633	$ 570,668

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, 2016 and 2015, is as follows:

	2016	2015
Balance, January 1	$ 197,514	$ 175,278
Deposits	22,200	22,201
Bank fees	(14)	-
Interest	54	35
Balance, December 31	$ 219,754	$ 197,514

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, 2016 and 2015 consist of the following:

	2016	2015
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	(1,999,197)	(1,537,843)
	$ 13,611,916	$ 14,073,270

Note 4 - Accrued Expenses

Accrued expenses at December 31, 2016 and 2015 consist of the following:

	2016	2015
Interest (Note 5)	$ 263,927	$ 203,775
Asset management fees (Note 7)	5,796	5,625
	$ 269,723	$ 209,400

Note 5 - Long-Term Debt

Long-term debt as of December 31, 2016 and 2015 consists of:

	2016	2015 (As Restated)
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; net of unamortized debt issuance costs of $68,041 in 2016 and $73,343 in 2015, based upon an effective interest rate of 7.35%	$ 2,865,448	$ 2,883,881
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

	2016	2015 (As Restated)
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
Total notes payable to BCHA due from cash flow	1,643,293	1,643,293
Total long-term debt, net of unamortized debt issuance costs	$ 4,508,741	$ 4,527,174

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2017	$ 25,599
2018	27,449
2019	29,434
2020	31,561
2021	33,843
Thereafter	4,428,896
Unamortized debt issuance costs	(68,041)
	$ 4,508,741

A summary of accrued interest as of December 31, 2016 and 2015 is as follows:

	2016	2015
Berkadia Commercial Mortgage, Inc.	$ 17,112	$ 17,250
BCHA 4.3% (HOME)	109,741	82,542
BCHA 4.3% loan (AHP)	50,094	37,722
BCHA 4.3% loan (Worthycause I)	38,647	29,414
BCHA 4.3% (Worthycause II)	38,647	29,414
BCHA 0.5% loan	9,686	7,433
	246,815	186,525
	$ 263,927	$ 203,775

Note 6 - 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 7 - 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 2016 and 2015, the Company paid developer fees of $51,601 and $390,473, respectively, to BCHA. As of December 31, 2016 and 2015, the Company owes BCHA $170,983 and $222,584, 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 5). During 2016 and 2015, the Company incurred interest expense of $60,289 and $58,259, respectively in relation to these mortgage notes payable. As of December 31, 2016 and 2015, the Company owes BCHA $246,815 and $186,525, respectively for accrued interest (Note 5).

Due to Related Party

As of December 31, 2016 and 2015, the Company owed BCHA $12,208 and $7,588, 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 2016 and 2015, the Company incurred management fees of $34,486 and $34,484, respectively.

Reimbursement of Expenses

During 2016 and 2015, the Company reimbursed BCHA approximately $142,300 and $161,400, respectively, for payroll and other expenses.

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 2016 and 2015, the Company incurred $5,797 and $5,627, respectively, for asset management fees. As of December 31, 2016 and 2015, the Company owed the special member $5,796 and $5,625, 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 2016 and 2015.

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 8 - 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%

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.

Note 9 - Restatement Resulting from Change in Accounting Policy

As disclosed in Note 1, the Company adopted the provisions of Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, as of January 1, 2016. The following is a summary of the effects of the change in accounting policy in the Company's December 31, 2015 financial statements.

Balance Sheet

	As Previously Reported	Change in Accounting Principle	As Restated
As of December 31, 2015			
Other assets (tax credit fees), at cost, net of amortization	$ 143,615	$ (73,343)	$ 70,272
Total assets	15,417,012	(73,343)	15,343,669
Long-term debt, net of unamortized debt issuance costs	4,600,516	(73,342)	4,527,174
Total liabilities	5,082,068	(73,343)	5,008,725
Total liabilities and members' equity	15,417,012	(73,343)	15,343,669

Statement of Operations

	As Previously Reported	Change in Accounting Principle	As Restated
Year ended December 31, 2015			
Depreciation and amortization	$ 472,678	$ (5,302)	$ 467,376
Interest expense	265,972	5,302	271,274

Statement of Cash Flows

	As Previously Reported	Change in Accounting Principle	As Restated
Year ended December 31, 2015			
Interest expense attributable to amortization of debt issuance costs	$ -	$ 5,302	$ 5,302
Amortization expense	11,325	(5,302)	6,023

Supplementary Information
December 31, 2016 and 2015

Josephine Commons, LLC

	2016	2015 (As Restated)
Maintenance and Operating		
Reimbursed salaries and benefits	$ 94,271	$ 92,127
Contracted services	58,624	36,432
Grounds	8,975	14,139
Supplies	25,523	15,891
Trash removal	10,044	9,868
Other maintenance and operating	347	3,588
	$ 197,784	$ 172,045
Utilities		
Electricity	$ 37,034	$ 47,061
Water and sewer	27,254	21,078
Gas and oil	-	4,183
Other utilities	470	793
	$ 64,758	$ 73,115
Administrative		
Reimbursed salaries and benefits	$ 30,813	$ 31,188
Management fees	34,486	34,484
Audit and accounting	5,559	7,154
Telephone	9,649	9,319
Legal and compliance fees	120	20
Other administrative	1,396	5,306
	$ 82,023	$ 87,471
Taxes and Insurance		
Insurance	$ 38,567	$ 39,931
Other taxes, licenses, and permits	14	-
	$ 38,581	$ 39,931
Interest		
Berkadia Commercial Mortgage Inc.	$ 211,418	$ 213,015
BCHA	60,289	58,259
	$ 271,707	$ 271,274