Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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
April 4, 2018

	2017	2016
Assets		
Cash	$ 578,758	$ 655,345
Accounts receivable	2,658	7,801
Tenant security deposits	21,670	21,663
Prepaid expenses	-	3,011
Restricted deposits and funded reserves	622,925	556,633
Property and equipment, at cost, less accumulated depreciation	13,156,407	13,611,916
Tax credit fees, at cost, net of accumulated amortization of $32,125 in 2017 and $26,101 in 2016	58,225	64,249
	$ 14,440,643	$ 14,920,618
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 6,763	$ 9,098
Due to related party	11,380	12,208
Prepaid rent	2,529	2,925
Accrued expenses	335,130	269,723
Tenant security deposits payable	21,000	21,250
Developer fee payable	34,507	170,983
Long-term debt, net of unamortized debt issuance costs	4,488,592	4,508,741
Total liabilities	4,899,901	4,994,928
Members' Equity	9,540,742	9,925,690
	$ 14,440,643	$ 14,920,618

	2017	2016
Operations		
Revenue		
Tenant rent	$ 616,444	$ 634,369
Rental assistance payments	114,797	89,703
Less vacancies and concessions	(6,493)	(6,839)
Net rental income	724,748	717,233
Tenant charges	1,241	837
Interest income	86	61
Other income	458	641
Total revenue	726,533	718,772
Expenses		
Maintenance and operating	181,323	197,784
Utilities	58,690	64,758
Administrative	92,306	82,023
Taxes and insurance	35,154	38,581
Interest	275,073	271,707
Depreciation and amortization	467,273	467,376
Total expenses	1,109,819	1,122,229
Loss before Asset Management Fee and Gain on Involuntary Conversion of Equipment	(383,286)	(403,457)
Asset Management Fee	5,970	5,797
Gain on Involuntary Conversion of Equipment	(4,308)	-
Net Loss	$ (384,948)	$ (409,254)

Members' Equity

	Managing Member	Investor and Special Members	Total
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
Net loss	(35)	(384,913)	(384,948)
Balance, December 31, 2017	$ 86,299	$ 9,454,443	$ 9,540,742

	2017	2016
Operating Activities		
Net loss	$ (384,948)	$ (409,254)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	461,250	461,353
Amortization	6,024	6,023
Gain on involuntary conversion of equipment	(4,308)	-
Interest expense attributable to amortization of debt issuance costs	5,302	5,302
Accrued interest - long-term	65,233	60,152
Changes in operating assets and liabilities		
Accounts receivable	5,143	(5,075)
Tenant security deposits	(7)	(6)
Prepaid expenses	3,011	30,506
Accounts payable	(2,334)	(5,826)
Prepaid rent	(396)	(2,830)
Accrued expenses	174	171
Tenant security deposits payable	(250)	(50)
Net Cash from Operating Activities	153,894	140,466
Investing Activities		
Net (deposits to) withdrawals from restricted deposits and funded reserves	(66,292)	14,035
Purchase of property and equipment	(36,632)	-
Insurance proceeds received	35,198	-
Net Cash (used for) from Investing Activities	(67,726)	14,035
Financing Activities		
Principal payments on long-term debt	(25,451)	(23,735)
Payment on developer fee payable	(136,476)	(51,601)
Advances from (payment to) related party	(828)	4,620
Net Cash used for Financing Activities	(162,755)	(70,716)
Net Change in Cash	(76,587)	83,785
Cash, Beginning of Year	655,345	571,560
Cash, End of Year	$ 578,758	$ 655,345
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 204,538	$ 206,253

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, 2017 and 2016.

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.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable estimate of the effective interest method. Debt issuance costs are included within long-term debt on the balance sheet. Amortization of debt issuance costs is included in interest expense in the accompanying financial statements.

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, 2017 and 2016, 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 April 4, 2018, the date which the financial statements were available to be issued.

Note 2 - Restricted Deposits and Funded Reserves

	2017	2016
Replacement reserve	$ 245,550	$ 219,754
Insurance reserve	80,991	40,495
Operating reserve	296,384	296,384
	$ 622,925	$ 556,633

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, 2017 and 2016, is as follows:

	2017	2016
Balance, January 1	$ 219,754	$ 197,514
Deposits	25,737	22,200
Bank fees	(20)	(14)
Interest	79	54
Balance, December 31	$ 245,550	$ 219,754

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, 2017 and 2016 consist of the following:

	2017	2016
Land and improvements	$ 1,620,859	$ 1,620,859
Buildings and improvements	13,527,192	13,525,204
Equipment and furnishings	465,050	465,050
	15,613,101	15,611,113
Accumulated depreciation	(2,456,694)	(1,999,197)
	$ 13,156,407	$ 13,611,916

Note 4 - Accrued Expenses

Accrued expenses at December 31, 2017 and 2016 consist of the following:

	2017	2016
Interest (Note 5)	$ 329,160	$ 263,927
Asset management fees (Note 7)	5,970	5,796
	$ 335,130	$ 269,723

Note 5 - Long-Term Debt

Long-term debt as of December 31, 2017 and 2016 consists of:

	2017	2016
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 $62,739 in 2017 and $68,041 in 2016, based upon an effective interest rate of 7.35%	$ 2,845,299	$ 2,865,448
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

	2017	2016
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	$ 4,488,592	$ 4,508,741

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2018	$ 27,449
2019	29,434
2020	31,561
2021	33,843
2022	36,289
Thereafter	4,392,755
Unamortized debt issuance costs	(62,739)
	$ 4,488,592

A summary of accrued interest as of December 31, 2017 and 2016 is as follows:

	2017	2016
Berkadia Commercial Mortgage, Inc.	$ 16,964	$ 17,112
BCHA 4.3% (HOME)	141,091	109,741
BCHA 4.3% loan (AHP)	62,998	50,094
BCHA 4.3% loan (Worthycause I)	48,078	38,647
BCHA 4.3% (Worthycause II)	48,078	38,647
BCHA 0.5% loan	11,951	9,686
	312,196	246,815
	$ 329,160	$ 263,927

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 2017 and 2016, the Company paid developer fees of $136,476 and $51,601, respectively, to BCHA. As of December 31, 2017 and 2016, the Company owes BCHA $34,507 and $170,983, 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 2017 and 2016, the Company incurred interest expense of $65,381 and $60,289, respectively in relation to these mortgage notes payable. As of December 31, 2017 and 2016, the Company owes BCHA $312,196 and $246,815, respectively for accrued interest (Note 5).

Due to Related Party

As of December 31, 2017 and 2016, the Company owed BCHA $11,380 and $12,208, 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 2017 and 2016, the Company incurred management fees of $34,484 and $34,486, respectively.

Reimbursement of Expenses

During 2017 and 2016, the Company reimbursed BCHA approximately $136,100 and $142,300, 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 2017 and 2016, the Company incurred $5,970 and $5,797, respectively, for asset management fees. As of December 31, 2017 and 2016, the Company owed the special member $5,970 and $5,796, 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 2017 and 2016.

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 - Insurance Proceeds

During 2017, the Company replaced a failed boiler for the total cost of $36,179 The Company received insurance proceeds of $35,198 for this replacement. As a result, the failed boiler was written off and a gain on involuntary conversion of equipment was recorded in the amount of $4,308 for the difference between net book value of the failed boiler at the time of replacement and the amount received from insurance proceeds.

Insurance proceeds received	$ 35,198
Net book value of replaced boiler	30,890
Gain on involuntary conversion of equipment	$ 4,308

Supplementary Information
December 31, 2017 and 2016

Josephine Commons, LLC

	2017	2016
Maintenance and Operating		
Reimbursed salaries and benefits	$ 90,870	$ 94,271
Contracted services	46,745	58,624
Grounds	11,010	8,975
Supplies	11,029	25,523
Trash removal	8,883	10,044
Other maintenance and operating	12,786	347
	$ 181,323	$ 197,784
Utilities		
Electricity	$ 28,606	$ 37,034
Water and sewer	28,950	27,254
Other utilities	1,134	470
	$ 58,690	$ 64,758
Administrative		
Reimbursed salaries and benefits	$ 39,553	$ 30,813
Management fees	34,484	34,486
Audit and accounting	6,291	5,559
Telephone	10,434	9,649
Legal and compliance fees	10	120
Other administrative	1,534	1,396
	$ 92,306	$ 82,023
Taxes and Insurance		
Insurance	$ 35,134	$ 38,567
Other taxes, licenses, and permits	20	14
	$ 35,154	$ 38,581
Interest		
Berkadia Commercial Mortgage Inc.	$ 209,692	$ 211,418
BCHA	65,381	60,289
	$ 275,073	$ 271,707