Financial Statements
December 31, 2017

Kestrel I, LLC

EideBailly®

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Members
Kestrel I, LLC
Boulder, Colorado

Report on the Financial Statements
We have audited the accompanying financial statements of Kestrel I, LLC, which comprise the balance sheet as of December 31, 2017, and the related statements of operations and members' equity, and cash flows for the year 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 audit. We conducted our audit 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 Kestrel I, LLC as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Maintenance and Operating, Utilities, Administrative, Insurance, and Interest Expense 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 audit 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 4, 2018

Assets	
Cash	
General operating	$ 361,633
Construction	22,494,991
	22,856,624
Accounts receivable	3,805
Prepaid expenses	19,504
Tenant security deposits	24,690
Property and equipment, at cost, less accumulated depreciation	71,691,713
Other assets	689,638
Tax credit fees, net of accumulated amortization of $4,300	150,491
	$ 95,436,465
Liabilities and Members' Equity	
Liabilities	
Accounts payable	$ 16,991
Accounts payable - construction	3,312,260
Due to related party	551,763
Prepaid rent	5,810
Accrued expenses	436,086
Tenant security deposits payable	24,690
Deferred revenue	17,667
Construction note payable	46,921,959
Developer fee payable	5,441,976
Long-term debt	13,151,609
Total liabilities	69,880,811
Members' Equity	25,555,654
	$ 95,436,465

Operations	
Revenue	
Tenant rent	$ 829,589
Rental assistance payments	128,092
Less vacancies	(532,158)
Net rental income	425,523
Tenant charges	4,444
Interest income	3,515
Other income	3,382
Total revenue	436,864
Expenses	
Maintenance and operating	48,570
Utilities	60,594
Administrative	290,442
Taxes and insurance	25,696
Interest	510,048
Depreciation and amortization	1,562,445
	2,497,795
Loss before Asset Management Fee	(2,060,931)
Asset Management Fee	13,460
Net Loss	$ (2,074,391)

Members' Equity

	Managing Member	Investor and Special Members	Total
Balance, January 1, 2017	$ -	$ 5,140,008	$ 5,140,008
Contributions	-	22,490,037	22,490,037
Net loss	(187)	(2,074,204)	(2,074,391)
Balance, December 31, 2017	$ (187)	$ 25,555,841	$ 25,555,654

Operating Activities	
Net loss	$ (2,074,391)
Adjustments to reconcile net loss to net cash used for operating activities	
Depreciation	1,558,145
Amortization	4,300
Changes in operating assets and liabilities	
Accounts receivable	(3,805)
Prepaid expenses	(19,504)
Tenant security deposits	(24,690)
Accounts payable	16,991
Prepaid rent	5,810
Accrued expenses	7,210
Tenant security deposits payable	24,690
Deferred rent	17,667
Net Cash used for Operating Activities	(487,577)
Net Cash used for Investing Activity	
Purchase of property and equipment	(25,372,239)
Financing Activities	
Proceeds from construction note payable	26,359,258
Payment for other assets	(72,855)
Payment for tax credit fees	(60,000)
Equity contributions	22,490,037
Net Cash from Financing Activities	48,716,440
Net Change in Cash	22,856,624
Cash at Beginning of Year	-
Cash at End of Year	$ 22,856,624

Supplemental Disclosure of Cash Flow Information	
Cash payments for interest	$ 81,172
Supplemental Disclosure of Noncash Investing and Financing Activities	
Increase in property and equipment from accounts payable - construction	$ 3,312,260
Increase in property and equipment from accrued interest	$ 428,876
Increase in property and equipment from due to related party	$ 551,763
Increase in property and equipment from developer fee payable	$ 5,441,976

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity, Risks, and Uncertainty

Kestrel I, LLC (Company) was formed March 5, 2014, 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 develop, construct, rehabilitate, own, maintain, and operate a 200 unit multi-family and senior housing complex. Substantially all of the Company's income is derived from the rental of its apartment units. Units were placed in service throughout 2017 as construction was completed in various phases.

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 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 members. All units within this project are subject to rent restrictions and qualified tenant restrictions as required by 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	5 - 40 years
Equipment and furnishings	10 years
Geothermal equipment	5 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.

Other Assets

Other assets consist of prepaid debt issuance costs.

Tax Credit Fees

Tax credit fees are being amortized over a 15 year life using the straight-line method of amortization. Amortization is expected to be approximately $10,320 for each of the next five years.

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, 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 are recognized in the month in which it is earned rather than received. Tenant rent represents gross rent for all units in the project. Vacancy loss is recorded for any unrented units to arrive at net rental income.

Prepaid Rent

Prepaid rent is recorded for rent or charges received in advance.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred.

Organizational Costs

Costs of $39,900 incurred for the organization of the Company haven been expensed.

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.

Capitalized Interest

Interest of $1,122,216 has been capitalized as part of the building in 2017.

Subsequent Events

The Company has evaluated subsequent events through May 4, 2018, the date which the financial statements were available to be issued.

Note 2 - Restricted Deposits and Funded Reserves

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 annually, $300 per unit, increasing at a rate of three percent each year. Any disbursements from the replacement reserve are to be made with the consent of the special investor member.

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 $783,304 from capital contributions and proceeds of project loans, no later than the special investor member’s third capital contribution. The managing member may make withdrawals subject to the special investor member’s approval. If the balance falls below the required amount, the reserve is to be replenished from net cash flow of the project.

Note 3 - Property and Equipment

Property and equipment at December 31, 2017 consists of the following:

Land and improvements	$ 7,688,846
Buildings and improvements	58,864,081
Equipment and furnishings	6,392,854
Construction in progress	304,077
	73,249,858
Accumulated depreciation	(1,558,145)
	$ 71,691,713

Note 4 - Accrued Expenses

Accrued expenses at December 31, 2017 consists of the following:

Interest	
BCHA notes payable	$ 428,876
Asset management fee	7,210
	$ 436,086

Note 5 - Deferred Revenue

The Company assumed a service agreement with CenturyLink Sales Solutions, Inc. The agreement required a one-time payment from CenturyLink in the amount of $20,000 for an easement on providing the project with cable services. The contract expires in 2026. As of December 31, 2017, deferred revenue is $17,667.

Note 6 - Construction Note Payable

The Company financed the construction of the project in part with a construction note payable with CitiBank N.A., in an amount up to $53,500,000. The note bears interest at the one-month LIBOR rate plus 1.85% (3.21% at December 31, 2017). Monthly payments of interest are being made through the conversion date. As of December 31, 2017, the balance of the construction note payable was $46,921,959. During 2017, the Company paid interest of $1,074,004, of which $769,554 was capitalized as part of the buildings costs. The note is secured by a deed of trust on the property, assignment of rent, security agreement, and fixture filing. It is expected that the construction note payable will be paid down from construction cash and converted to permanent financing with a maturity date in March 2049.

Subsequent to year-end, an additional $1,677,312 was advanced on the construction note payable. The Company also made a principal payment of $22,490,036 on the note subsequent to year-end.

Note 7 - Long-Term Debt

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

Related Party	
1.0%. $1,450,000 note payable to BCHA, due in annual interest only payments of $14,779 until June 2029 when annual principal and and interest payments of $304,511 are due through maturity April 2034, secured by a deed of trust on the property	$ 1,450,000
2.0%, $1,000,000 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due March 2066, secured by a deed of trust on the property	1,000,000
2.0%, $350,000 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due March 2066, secured by a deed of trust on the property	350,000
2.0%, $580,297 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due March 2066, secured by a deed of trust on the property	580,297
2.0%, $2,600,000 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due March 2066, secured by a deed of trust on the property	2,600,000

2.0%, $1,045,002 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due March 2066, note may be drawn to a maximum of $1,045,002, secured by a deed of trust on the property (a)	558,881
4.0%, $4,200,000 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due March 2066, note may be drawn to a maximum of $4,200,000, secured by a deed of trust on the property	2,900,000
	9,439,178
Unrelated	
0.0%, $3,712,431 note payable to the State of Colorado, payments are to be made from available cash flow beginning in June 2019 through maturity in March 2051, secured by a deed of trust on the property	3,712,431
	$ 13,151,609

(a) Subsequent to year-end, the remaining $486,121 was advanced on the note payable.

Future maturities of long-term debt are as follows:

Year Ended December 31,	Principal	Interest	Total
2018	$ -	$ 230,231	$ 230,231
2019	-	252,108	252,108
2020	-	259,447	259,447
2021	-	267,037	267,037
2022	-	274,887	274,887
Thereafter	13,151,609	26,001,699	39,153,308
	$ 13,151,609	$ 27,285,409	$ 40,437,018

Note 8 - Property Taxes

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

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 in the amount of $6,091,976, which has been capitalized as part of the building. Developer fees are expected to be paid from future capital contributions and net cash flow. The unpaid developer fees are to bear interest at a rate of 5%, compounding annually, commencing at the time of the fourth capital contribution. The fee is to be paid in full by the thirteenth year. As of December 31, 2017, the Company owes BCHA $5,441,976 for developer fees.

Mortgage Notes and Accrued Interest

The Company has entered into multiple loan agreements with BCHA (Note 7). During 2017, the Company incurred interest of $428,876 to BCHA on these mortgage notes payable, of which $352,662 has been capitalized as part of the building costs. As of December 31, 2017, the Company owes BCHA $428,876 for accrued interest (Note 4).

Due to Related Party

As of December 31, 2017, the Company owed BCHA $551,763 for construction costs and interest paid on behalf of the project by BCHA.

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 4.5% of gross collected rents. During 2017, the Company incurred management fees of $19,149 to BCHA.

Reimbursement of Expenses

During 2017, the Company reimbursed BCHA approximately $95,500 for payroll and other operating expenses.

Asset Management Fee

Pursuant to the operating agreement, the Company is to pay the special investor member a cumulative fee equal to $7,000 annually, commencing on March 1, 2017, for services for the review of the operations of the Company. The fee is to increase by 3% annually. During 2017, the Company incurred $13,460 for asset management fees, of which $6,250 was for the 2016 asset management fee and $7,210 was for the 2017 asset management fee. As of December 31, 2017, the Company owed the special investor member $7,210 for this fee (Note 4).

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 $1,200,000, shall bear no interest, and shall be repayable solely from net cash flow as allowed in the operating agreement.

Note 10 - Members' Equity

Members	Profit and Loss Percentages
Managing	
Kestrel Manager, LLC	0.009%
Investor	
Red Stone Kestrel, LLC	99.99%
Special	
Red Stone Equity Manager 2, LLC	0.001%
	100.00%

Pursuant to the operating agreement, the investor member is to make capital contributions in the amount of $34,600,056. During 2017, the investor member made capital contributions of $22,490,036 to the Company. As of December 31, 2017, the investor member has contributed $27,680,044 to the Company, which includes syndication costs of $50,000.

Pursuant to the operating agreement, the managing member is to make capital contributions in the amount of $100. During 2017, the managing member made capital contributions of $0 to the Company. As of December 31, 2017, the managing member has contributed $0 to the Company.

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

The members have certain rights and obligations as outlined in the operating agreement.

Supplementary Information
December 31, 2017

Kestrel I, LLC

Maintenance and Operating		
Reimbursed salaries and benefits	$	27,600
Supplies		12,865
Trash removal		5,235
Exterminating		330
Contracted services		2,363
Other maintenance and operating		177
	$	48,570
Utilities		
Electricity	$	31,595
Water and sewer		7,521
Other utilities		21,478
	$	60,594
Administrative		
Advertising and marketing	$	5,405
Reimbursed management salaries and benefits		204,270
Office supplies		2,757
Management fee		19,149
Organizational expenses		39,900
Other administrative		18,961
	$	290,442
Insurance		
Insurance	$	25,696
Interest		
BCHA notes	$	76,215
Construction note		433,833
	$	510,048