



Financial Statements  
December 31, 2020 and 2019  
**Josephine Commons, LLC**

Independent Auditor’s Report .....	1
Financial Statements	
Balance Sheets .....	3
Statements of Operations and Members’ Equity .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6
Supplementary Information	
Schedules of Maintenance and Operating, Utilities, Administrative, Taxes and Insurance, and Interest Expenses .....	14



## 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, 2020 and 2019, 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.

**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, 2020 and 2019, 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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
March 9, 2021

## Josephine Commons, LLC

Balance Sheets

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash	\$ 382,382	\$ 659,917
Accounts receivable	3,943	888
Tenant security deposits	21,686	21,683
Prepaid expenses	39,325	5,050
Restricted cash	696,438	652,187
Property and equipment, at cost, less accumulated depreciation	11,819,646	12,242,242
Tax credit fees, at cost, net of accumulated amortization of \$50,194 in 2020 and \$44,172 in 2019	<u>40,156</u>	<u>46,179</u>
	<u>\$ 13,003,576</u>	<u>\$ 13,628,146</u>
<b>Liabilities and Members' Equity</b>		
<b>Liabilities</b>		
Accounts payable	\$ 21,312	\$ 15,203
Due to related party	34,492	18,772
Prepaid rent	-	3,882
Accrued expenses	499,273	451,237
Tenant security deposits payable	19,250	21,050
Long-term debt, net of unamortized debt issuance costs	<u>4,416,567</u>	<u>4,442,644</u>
Total liabilities	4,990,894	4,952,788
Members' Equity	<u>8,012,682</u>	<u>8,675,358</u>
	<u>\$ 13,003,576</u>	<u>\$ 13,628,146</u>

Josephine Commons, LLC  
Statements of Operations and Members' Equity  
Years Ended December 31, 2020 and 2019

	2020	2019	
Operations			
Revenue			
Tenant rent	\$ 575,755	\$ 607,171	
Rental assistance payments	251,881	167,468	
Less vacancies and concessions	(17,980)	(17,584)	
Net rental income	809,656	757,055	
Tenant charges	1,832	1,866	
Interest income	130	150	
Other income	11	44	
Total revenue	811,629	759,115	
Expenses			
Maintenance and operating	334,687	167,903	
Utilities	64,489	60,080	
Administrative	112,820	106,908	
Taxes and insurance	40,613	37,396	
Interest	274,808	274,593	
Depreciation and amortization	468,727	467,929	
Total expenses	1,296,144	1,114,809	
Loss before Company Fees and Loss on Disposal of Property and Equipment	(484,515)	(355,694)	
Company Fees			
Asset management fee	6,525	6,335	
Incentive management fee	92,203	65,858	
Loss on Disposal of Property and Equipment	66,627	-	
Net Loss	\$ (649,870)	\$ (427,887)	
Members' Equity			
	Managing Member	Investor and Special Members	Total
Balance, December 31, 2018	\$ 86,261	\$ 9,026,131	\$ 9,112,392
Distributions	-	(9,147)	(9,147)
Net loss	(39)	(427,848)	(427,887)
Balance, December 31, 2019	86,222	8,589,136	8,675,358
Distributions	-	(12,806)	(12,806)
Net loss	(58)	(649,812)	(649,870)
Balance, December 31, 2020	\$ 86,164	\$ 7,926,518	\$ 8,012,682

See Notes to Financial Statements

Josephine Commons, LLC  
Statements of Cash Flows  
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Net loss	\$ (649,870)	\$ (427,887)
Adjustments to reconcile net loss to net cash (used for) from operating activities		
Depreciation	462,704	461,907
Amortization	6,023	6,023
Loss on disposal of property and equipment	66,627	-
Interest expense attributable to amortization of debt issuance costs	5,302	5,302
Changes in operating assets and liabilities		
Accounts receivable	(3,055)	1,722
Prepaid expenses	(34,275)	32,310
Accounts payable	6,109	(2,595)
Prepaid rent	(3,882)	135
Accrued expenses	48,036	52,286
Tenant security deposits payable	(1,800)	350
Net Cash (used for) from Operating Activities	(98,081)	129,553
Net Cash used for Investing Activity		
Purchase of property and equipment	(106,735)	-
Financing Activities		
Principal payments on long-term debt	(31,379)	(29,262)
Advances from related party	15,720	3,575
Member distributions	(12,806)	(9,147)
Net Cash used for Financing Activities	(28,465)	(34,834)
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	(233,281)	94,719
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	1,333,787	1,239,068
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	\$ 1,100,506	\$ 1,333,787
Cash	\$ 382,382	\$ 659,917
Tenant Security Deposits	21,686	21,683
Restricted Cash	696,438	652,187
Total cash, tenant security deposits, and restricted cash	\$ 1,100,506	\$ 1,333,787
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 221,661	\$ 217,190
Supplemental Disclosure of Noncash Investing Activity		
Increase in property and equipment from accounts payable	\$ -	\$ 8,444

See Notes to Financial Statements

## **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 Company 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 Company 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, 2020 and 2019.

#### **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 years 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, 2020 and 2019, 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 and rental assistance represent 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.

### Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassification has no impact on net loss or member's equity.

### Subsequent Events

The Company has evaluated subsequent events through March 9, 2021, the date which the financial statements were available to be issued.

### Note 2 - Restricted Cash

	<u>2020</u>	<u>2019</u>
Replacement reserve	\$ 357,444	\$ 316,575
Insurance reserve	42,610	39,228
Operating reserve	<u>296,384</u>	<u>296,384</u>
	<u>\$ 696,438</u>	<u>\$ 652,187</u>

### 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, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Balance, January 1	\$ 316,575	\$ 275,042
Deposits	40,774	41,426
Bank fees	(32)	(37)
Interest	<u>127</u>	<u>144</u>
Balance, December 31	<u>\$ 357,444</u>	<u>\$ 316,575</u>

### 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, 2020 and 2019 consist of the following:

	2020	2019
Land and improvements	\$ 1,632,734	\$ 1,620,859
Buildings and improvements	13,538,591	13,527,192
Equipment and furnishings	473,494	473,494
Construction in progress	-	700
	15,644,819	15,622,245
Accumulated depreciation	(3,825,173)	(3,380,003)
	\$ 11,819,646	\$ 12,242,242

**Note 4 - Accrued Expenses**

Accrued expenses at December 31, 2020 and 2019 consist of the following:

	2020	2019
Interest (Note 5)	\$ 492,748	\$ 444,903
Asset management fees (Note 7)	6,525	6,334
	\$ 499,273	\$ 451,237

**Note 5 - Long-Term Debt**

Long-term debt as of December 31, 2020 and 2019 consists of:

	2020	2019
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	\$ 2,820,107	\$ 2,851,486
Unamortized debt issuance costs, based on effective interest rate of 7.35%	<u>(46,833)</u>	<u>(52,135)</u>
	<u>2,773,274</u>	<u>2,799,351</u>
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, payments due from cash flow, remaining principal and interest due August 2061, unsecured	<u>443,293</u>	<u>443,293</u>
Total long-term debt, net of unamortized debt issuance costs	<u><u>\$ 4,416,567</u></u>	<u><u>\$ 4,442,644</u></u>

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2021	\$ 33,843
2022	36,289
2023	38,913
2024	41,726
2025	44,742
Thereafter	4,267,887
Unamortized debt issuance costs	(46,833)
	\$ 4,416,567

A summary of accrued interest as of December 31, 2020 and 2019 is as follows:

	2020	2019
Berkadia Commercial Mortgage, Inc.	\$ 16,634	\$ 16,634
BCHA 4.3% (HOME)	221,738	198,058
BCHA 4.3% loan (AHP)	93,643	84,080
BCHA 4.3% loan (Worthycause I)	64,315	62,064
BCHA 4.3% (Worthycause II)	77,604	67,552
BCHA 0.5% loan	18,814	16,515
	476,114	428,269
	\$ 492,748	\$ 444,903

#### **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**

##### **Mortgage Notes Payable**

The Company has entered into multiple loan agreements with BCHA (Note 5). During 2020 and 2019, the Company incurred interest expense of \$70,896 and \$68,736, respectively, in relation to these mortgage notes payable. As of December 31, 2020 and 2019, the Company owes BCHA \$476,114 and \$428,269, respectively for accrued interest (Note 5).

### **Due to Related Party**

As of December 31, 2020 and 2019, the Company owed BCHA \$34,492 and \$18,772, 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 2020 and 2019, the Company incurred management fees of \$34,484.

### **Reimbursement of Expenses**

During 2020 and 2019, the Company reimbursed BCHA approximately \$157,200 and \$142,200, 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 2020 and 2019, the Company incurred \$6,525 and \$6,335, respectively, for asset management fees. As of December 31, 2020 and 2019, the Company owed the special member \$6,525 and \$6,334, 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. During 2020 and 2019, the Company incurred and paid \$92,203 and \$65,858, respectively.

### **Distributions**

During 2020 and 2019, the Company paid distributions to the investor member in the amount of \$12,806 and \$9,147, respectively. Distributions are paid based on available cash flow, as outlined in the operating agreement.

**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 operating agreement.

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



Supplementary Information  
December 31, 2020 and 2019

**Josephine Commons, LLC**



Josephine Commons, LLC

Schedules of Maintenance and Operating, Utilities, Administrative, Taxes and Insurance, and Interest Expenses  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Maintenance and Operating		
Reimbursed salaries and benefits	\$ 98,454	\$ 79,690
Contracted services	50,471	25,200
Grounds	30,140	33,596
Supplies	21,920	19,003
Trash removal	9,970	10,414
Non-routine rehab (exterior repairs, including painting)	123,732	-
	<u>\$ 334,687</u>	<u>\$ 167,903</u>
Utilities		
Electricity	\$ 28,998	\$ 25,841
Water and sewer	32,515	31,721
Gas and oil	-	41
Other utilities	2,976	2,477
	<u>\$ 64,489</u>	<u>\$ 60,080</u>
Administrative		
Reimbursed salaries and benefits	\$ 55,543	\$ 52,657
Management fees	34,484	34,484
Audit and accounting	7,700	7,705
Telephone	11,531	11,459
Legal and compliance fees	3,562	10
Other administrative	-	593
	<u>\$ 112,820</u>	<u>\$ 106,908</u>
Taxes and Insurance		
Insurance	\$ 40,581	\$ 37,360
Other taxes, licenses, and permits	32	36
	<u>\$ 40,613</u>	<u>\$ 37,396</u>
Interest		
Berkadia Commercial Mortgage Inc.	\$ 203,912	\$ 205,857
BCHA	70,896	68,736
	<u>\$ 274,808</u>	<u>\$ 274,593</u>