Financial Statements
December 31, 2021 and 2020

Josephine Commons, LLC

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Independent Auditor's Report

To the Partners
Josephine Commons, LLC
Boulder, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Josephine Commons, LLC, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Josephine Commons, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Josephine Commons, LLC's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Josephine Commons, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Josephine Commons, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 the 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 29, 2022

	2021	2020
Assets		
Cash	$ 662,290	$ 382,382
Accounts receivable	5,682	3,943
Tenant security deposits	21,688	21,686
Prepaid expenses	-	39,325
Restricted cash	531,114	696,438
Property and equipment, at cost, less accumulated depreciation	11,356,520	11,819,646
Tax credit fees, at cost, net of accumulated amortization of $56,218 in 2021 and $50,194 in 2020	34,132	40,156
	$ 12,611,426	$ 13,003,576
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 16,198	$ 21,312
Due to related party	40,064	34,492
Accrued expenses	571,883	499,273
Tenant security deposits payable	20,100	19,250
Long-term debt, net of unamortized debt issuance costs	4,388,223	4,416,567
Total liabilities	5,036,468	4,990,894
Members' Equity	7,574,958	8,012,682
	$ 12,611,426	$ 13,003,576

	2021	2020
Operations		
Revenue		
Tenant rent	$ 579,731	$ 575,755
Rental assistance payments	272,303	251,881
Less vacancies and concessions	(38,981)	(17,980)
Net rental income	813,053	809,656
Tenant charges	1,769	1,832
Interest income	85	130
Other income	198	11
Total revenue	815,105	811,629
Expenses		
Maintenance and operating	257,231	334,687
Utilities	68,655	64,489
Administrative	128,982	112,820
Taxes and insurance	48,032	40,613
Interest	274,059	274,808
Depreciation and amortization	469,149	468,727
Total expenses	1,246,108	1,296,144
Loss before Company Fees and Loss on Disposal of Property and Equipment	(431,003)	(484,515)
Company Fees		
Asset management fee	6,721	6,525
Incentive management fee	-	92,203
Loss on Disposal of Property and Equipment	-	66,627
Net Loss	$ (437,724)	$ (649,870)

Members' Equity

	Managing Member	Investor and Special Members	Total
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
Net loss	(39)	(437,685)	(437,724)
Balance, December 31, 2021	$ 86,125	$ 7,488,833	$ 7,574,958

	2021	2020
Operating Activities		
Net loss	$ (437,724)	$ (649,870)
Adjustments to reconcile net loss to net cash from (used for) operating activities		
Depreciation	463,126	462,704
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	(1,738)	(3,055)
Prepaid expenses	39,325	(34,275)
Accounts payable	3,330	6,109
Prepaid rent	-	(3,882)
Accrued expenses	72,610	48,036
Tenant security deposits payable	850	(1,800)
Net Cash from (used for) Operating Activities	151,104	(98,081)
Net Cash used for Investing Activity		
Purchase of property and equipment	(8,444)	(106,735)
Financing Activities		
Principal payments on long-term debt	(33,646)	(31,379)
Advances from (payments to) related party	5,572	15,720
Member distributions	-	(12,806)
Net Cash used for Financing Activities	(28,074)	(28,465)
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	114,586	(233,281)
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	1,100,506	1,333,787
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	$ 1,215,092	$ 1,100,506
Cash	$ 662,290	$ 382,382
Tenant Security Deposits	21,688	21,686
Restricted Cash	531,114	696,438
Total cash, tenant security deposits, and restricted cash	$ 1,215,092	$ 1,100,506
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 196,343	$ 221,661

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, 2021 and 2020.

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, 2021 and 2020, 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 rental income.

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 29, 2022, the date which the financial statements were available to be issued.

Note 2 - Restricted Cash

Restricted cash at December 31, 2021 and 2020 consists of the following:

	2021	2020
Replacement Reserve	$ 185,471	$ 357,444
Insurance Reserve	49,259	42,610
Operating Reserve	296,384	296,384
	$ 531,114	$ 696,438

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, 2021 and 2020, is as follows:

	2021	2020
Balance, January 1	$ 357,444	$ 316,575
Deposits	40,774	40,774
Bank fees	-	(32)
Interest	84	127
Withdrawals	(212,831)	-
Balance, December 31	$ 185,471	$ 357,444

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, 2021 and 2020 consist of the following:

	2021	2020
Land and Improvements	$ 1,632,734	$ 1,632,734
Buildings and Improvements	13,538,591	13,538,591
Equipment and Furnishings	473,494	473,494
	15,644,819	15,644,819
Accumulated depreciation	(4,288,299)	(3,825,173)
	$ 11,356,520	$ 11,819,646

Note 4 - Accrued Expenses

Accrued expenses at December 31, 2021 and 2020 consist of the following:

	2021	2020
Interest (Note 5)	$ 565,162	$ 492,748
Asset Management Fees (Note 7)	6,721	6,525
	$ 571,883	$ 499,273

Note 5 - Long-Term Debt

Long-term debt as of December 31, 2021 and 2020 consists of:

	2021	2020
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	$ 2,786,461	$ 2,820,107
Unamortized debt issuance costs, based on effective interest rate of 7.35%	(41,531)	(46,833)
	2,744,930	2,773,274
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	443,293	443,293
Total long-term debt, net of unamortized debt issuance costs	$ 4,388,223	$ 4,416,567

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2022	$ 36,289
2023	38,913
2024	41,726
2025	44,742
2026	47,977
Thereafter	4,220,107
Unamortized debt issuance costs	(41,531)
	$ 4,388,223

A summary of accrued interest as of December 31, 2021 and 2020 is as follows:

	2021	2020
Berkadia Commercial Mortgage, Inc.	$ 16,634	$ 16,634
BCHA 4.3% (HOME)	255,562	221,738
BCHA 4.3% loan (AHP)	108,881	93,643
BCHA 4.3% loan (Worthycause I)	74,614	64,315
BCHA 4.3% (Worthycause II)	88,255	77,604
BCHA 0.5% loan	21,216	18,814
	548,528	476,114
	$ 565,162	$ 492,748

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), an entity related to the managing member. During 2021 and 2020, the Company incurred interest expense of $72,415 and $70,896, respectively, in relation to these mortgage notes payable. As of December 31, 2021 and 2020, the Company owes BCHA $548,528 and $476,114, respectively for accrued interest (Note 5).

Due to Related Party

As of December 31, 2021 and 2020, the Company owed BCHA $40,064 and $34,492, 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 2021 and 2020, the Company incurred management fees of $34,484.

Reimbursement of Expenses

During 2021 and 2020, the Company reimbursed BCHA approximately $203,800 and $157,200, respectively, for payroll and other expenses.

Asset Management Fee

Pursuant to the operating agreement, the Company is to pay Red Stone Equity Manager 2, 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 2021 and 2020, the Company incurred $6,721 and $6,525, respectively, for asset management fees. As of December 31, 2021 and 2020, the Company owed the special member $6,721 and $6,525, 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 2021 and 2020, the Company incurred and paid $0 and $92,203, respectively.

Distributions

During 2021 and 2020, the Company paid distributions to the investor member in the amount of $0 and $12,806, 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, 2021 and 2020

Josephine Commons, LLC

	2021	2020
Maintenance and Operating		
Reimbursed salaries and benefits	$ 98,253	$ 98,454
Contracted services	70,979	50,471
Grounds	47,284	30,140
Supplies	28,194	21,920
Trash removal	12,227	9,970
Non-routine rehab (exterior repairs, including painting)	294	123,732
	$ 257,231	$ 334,687
Utilities		
Electricity	$ 31,680	$ 28,998
Water and sewer	33,874	32,515
Other utilities	3,101	2,976
	$ 68,655	$ 64,489
Administrative		
Reimbursed salaries and benefits	$ 70,658	$ 55,543
Management fees	34,484	34,484
Audit and accounting	8,550	7,700
Telephone	10,844	11,531
Legal and compliance fees	66	3,562
Bad debt	526	-
Other administrative	3,854	-
	$ 128,982	$ 112,820
Taxes and Insurance		
Insurance	$ 46,913	$ 40,581
Other taxes, licenses, and permits	1,119	32
	$ 48,032	$ 40,613
Interest		
Berkadia Commercial Mortgage Inc.	$ 201,644	$ 203,912
BCHA	72,415	70,896
	$ 274,059	$ 274,808