



Financial Statements
December 31, 2021 and 2020
Kestrel I, LLC

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Independent Auditor's Report

To the Members
Kestrel I, LLC
Boulder, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kestrel I, 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 Kestrel I, 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 Kestrel I, 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 Kestrel I, 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 Kestrel I, 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 Kestrel I, 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, 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 28, 2022

Kestrel I, LLC
Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Cash	\$ 766,500	\$ 921,416
Accounts receivable	59,704	63,637
Prepaid expenses	-	167,052
Tenant security deposits	69,654	69,654
Restricted cash	1,158,477	1,119,064
Property and equipment, at cost, less accumulated depreciation	59,464,184	62,683,839
Tax credit fees, net of accumulated amortization of \$67,679 in 2021 and \$50,559 in 2020	189,118	206,238
	\$ 61,707,637	\$ 65,230,900
Liabilities and Members' Equity		
Liabilities		
Accounts payable	\$ 45,803	\$ 50,482
Due to related party	71,972	114,443
Prepaid rent	-	21,919
Accrued expenses	1,631,647	1,380,311
Tenant security deposits payable	56,549	57,024
Deferred revenue	9,666	11,667
Developer fee payable	1,038,476	1,447,913
Long-term debt, net of unamortized debt issuance costs	37,654,567	37,941,170
	40,508,680	41,024,929
Total liabilities		
Members' Equity	21,198,957	24,205,971
	\$ 61,707,637	\$ 65,230,900

Kestrel I, LLC
 Statements of Operations and Members' Equity
 Years Ended December 31, 2021 and 2020

	2021	2020	
Operations			
Revenue			
Tenant rent	\$ 2,258,224	\$ 2,156,590	
Rental assistance payments	902,862	921,026	
Less vacancies	<u>(108,954)</u>	<u>(115,142)</u>	
Net rental income	3,052,132	2,962,474	
Tenant charges	30,456	22,194	
Interest income	50	43	
Other income	<u>3,513</u>	<u>9,995</u>	
Total revenue	<u>3,086,151</u>	<u>2,994,706</u>	
Expenses			
Maintenance and operating	633,313	515,832	
Utilities	330,587	302,239	
Administrative	362,920	307,145	
Taxes and insurance	165,972	168,304	
Interest	1,355,484	1,386,099	
Depreciation and amortization	<u>3,236,775</u>	<u>3,239,317</u>	
	<u>6,085,051</u>	<u>5,918,936</u>	
Loss before Asset Management Fee	(2,998,900)	(2,924,230)	
Asset Management Fee	<u>8,114</u>	<u>7,878</u>	
Net Loss	<u>\$ (3,007,014)</u>	<u>\$ (2,932,108)</u>	
Members' Equity			
	Managing Member	Investor and Special Members	Total
Balance (Deficit), December 31, 2019	\$ (686)	\$ 27,138,765	\$ 27,138,079
Net loss	<u>(264)</u>	<u>(2,931,844)</u>	<u>(2,932,108)</u>
Balance (Deficit), December 31, 2020	(950)	24,206,921	24,205,971
Net loss	<u>(271)</u>	<u>(3,006,743)</u>	<u>(3,007,014)</u>
Balance (Deficit), December 31, 2021	<u>\$ (1,221)</u>	<u>\$ 21,200,178</u>	<u>\$ 21,198,957</u>

Kestrel I, LLC
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Net loss	\$ (3,007,014)	\$ (2,932,108)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	3,219,655	3,222,197
Amortization	17,120	17,120
Bad debt expense	32,077	-
Interest expense attributable to amortization of debt issuance costs	48,393	48,393
Changes in operating assets and liabilities		
Accounts receivable	(28,143)	(48,438)
Prepaid expenses	167,052	(159,682)
Accounts payable	(4,679)	20,494
Prepaid rent	(21,919)	(2,913)
Accrued expenses	251,336	341,354
Tenant security deposits payable	(475)	1,200
Deferred revenue	(2,001)	(2,000)
Net Cash from Operating Activities	671,402	505,617
Financing Activities		
Advances from (payments to) related party	(42,471)	80,510
Payment on developer fee payable	(409,437)	-
Principal payments on long-term debt	(334,997)	(322,011)
Net Cash used for Financing Activities	(786,905)	(241,501)
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	(115,503)	264,116
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	2,110,134	1,846,018
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	\$ 1,994,631	\$ 2,110,134
Cash	\$ 766,500	\$ 921,416
Tenant Security Deposits	69,654	69,654
Restricted Cash	1,158,477	1,119,064
Total cash, tenant security deposits, and restricted cash	\$ 1,994,631	\$ 2,110,134
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 1,035,519	\$ 1,068,977

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 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 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.

Receivables and Credit Policy

Accounts receivable are rents and charges currently due from residential tenants. Payments on accounts receivable are applied to specific months. Management reviews accounts receivable monthly and charges operations with those considered uncollectible. All remaining accounts receivable are considered collectible.

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, 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 is expected to be approximately \$17,120 for each of the next five years.

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 are recognized in the month in which they are earned rather than received. Any rent received prior to the month of occupancy is reported as prepaid rent. Tenant rent plus rental assistance represents gross rent for all units in the project. Vacancy loss is recorded for any unrented 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.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred.

Subsequent Events

The Company has evaluated subsequent events through March 28, 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	\$ 201,104	\$ 131,849
Operating Reserve	783,304	783,304
Insurance Escrow	174,069	203,911
	\$ 1,158,477	\$ 1,119,064

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.

Replacement reserve activity for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance, January 1	\$ 131,849	\$ 71,816
Deposits	69,218	60,000
Interest	37	33
Balance, December 31	\$ 201,104	\$ 131,849

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.

Insurance Escrow

Pursuant to the terms of the operating agreement, the Company is to maintain an insurance escrow to pay insurance premiums. This account is used to receive monthly deposits to pay the annual insurance premiums.

Note 3 - Property and Equipment

Property and equipment at December 31, 2021 and 2020 consists of the following:

	2021	2020
Land and Improvements	\$ 9,152,606	\$ 9,152,606
Buildings and Improvements	63,028,633	63,028,633
Equipment and Furnishings	1,704,959	1,704,959
	73,886,198	73,886,198
Accumulated depreciation	(14,422,014)	(11,202,359)
	\$ 59,464,184	\$ 62,683,839

Note 4 - Accrued Expenses

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

	2021	2020
Interest		
First mortgage	\$ 82,302	\$ 82,302
Boulder County Housing Authority (BCHA) notes payable - Note 8	1,489,307	1,217,735
Developer fee - Note 8	51,924	72,396
Asset management fee - Note 8	8,114	7,878
	\$ 1,631,647	\$ 1,380,311

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, 2021 and 2020, deferred revenue is \$9,666 and \$11,666, respectively.

Note 6 - Long-Term Debt

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

	2021	2020
Unrelated		
3.96%, \$25,300,000 note payable to a commercial bank, due in monthly payments of \$108,653, including interest, through maturity in March 2034, secured by a deed of trust on the property	\$ 24,283,054	\$ 24,618,051
Unamortized debt issuance costs based upon an effective interest rate of 4.30%	(592,819)	(641,213)
	23,690,235	23,976,838
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	3,712,431
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 interest payments of \$304,511 are due through maturity April 2034, secured by a deed of trust on the property	1,450,000	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	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	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	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	2,600,000

	2021	2020
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, secured by a deed of trust on the property	1,045,002	1,045,002
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	3,226,602	3,226,602
	10,251,901	10,251,901
Long-term debt, net of unamortized debt issuance costs	\$ 37,654,567	\$ 37,941,170

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2022	\$ 348,506
2023	362,560
2024	377,181
2025	392,392
2026	408,215
Thereafter	36,358,532
Unamortized debt issuance costs	(592,819)
	\$ 37,654,567

Note 7 - 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 8 - 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 net cash flow. The fee is to be paid in full by the thirteenth year. During 2021 and 2020, the Company paid \$409,437 and \$0, respectively, for developer fees. As of December 31, 2021 and 2020, the Company owes BCHA \$1,038,476 and \$1,447,913, respectively, for developer fees.

The unpaid developer fees are to bear interest at a rate of 5%, compounding annually, commencing at the time of the fourth capital contribution. During 2021 and 2020, the Company incurred interest of \$51,924 and \$72,396, respectively, on the unpaid developer fees. As of December 31, 2021 and 2020, the Company owes BCHA \$51,924 and \$72,396, respectively, for accrued interest (Note 4).

Mortgage Notes and Accrued Interest

The Company has entered into multiple loan agreements with BCHA (Note 6). During 2021 and 2020, the Company incurred interest of \$286,329 and \$283,486, respectively, to BCHA on these mortgage notes payable. As of December 31, 2021 and 2020, the Company owes BCHA \$1,489,307 and \$1,217,735, respectively, for accrued interest (Note 4).

Due to Related Party

As of December 31, 2021 and 2020, the Company owed BCHA \$71,972 and \$114,443, respectively, for various costs paid on behalf of the project by BCHA during construction and payroll reimbursements.

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 2021 and 2020, the Company incurred management fees of \$137,346 and \$133,311, respectively, to BCHA.

Reimbursement of Expenses

During 2021 and 2020, the Company reimbursed BCHA approximately \$557,100 and \$446,700, respectively, for payroll, reimbursements of construction costs, 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 2021 and 2020, the Company incurred \$8,114 and \$7,878, respectively, for asset management fees. As of December 31, 2021 and 2020, the Company owed the special investor member \$8,114 and \$7,878, respectively, for this fee (Note 4).

Operating Deficit Guaranty

Pursuant to the operating agreement, the managing member 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 9 - 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. As of December 31, 2021 and 2020, the investor member has contributed \$34,803,168 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 2021 and 2020, the managing member made capital contributions of \$0 to the Company. As of December 31, 2021 and 2020, the managing member has contributed \$0 to the Company.

Profit or loss is allocated to the members in accordance with the operating agreement. The members have certain rights and obligations as outlined in the operating agreement.



Supplementary Information
December 31, 2021 and 2020
Kestrel I, LLC

Schedules of Maintenance and Operating, Utilities, Administrative, Insurance, and Interest Expenses
Years Ended December 31, 2021 and 2020

	2021	2020
Maintenance and Operating		
Reimbursed salaries and benefits	\$ 294,819	\$ 314,115
Snow removal	48,714	16,869
Supplies	48,584	48,796
Contracted services	170,271	93,173
Other maintenance and operating	21,792	4,296
Trash removal	30,115	27,081
Exterminating	138	-
Grounds maintenance	18,880	11,502
	<u>\$ 633,313</u>	<u>\$ 515,832</u>
Utilities		
Electricity	\$ 233,142	\$ 202,726
Water and sewer	61,633	55,514
Other utilities	35,812	43,999
	<u>\$ 330,587</u>	<u>\$ 302,239</u>
Administrative		
Reimbursed management salaries and benefits	\$ 166,147	\$ 154,546
Management fees	137,346	133,311
Bad debt	32,077	-
Other administrative	10,606	4,096
Audit and accounting	7,825	7,115
Legal	1,146	5,251
Advertising and marketing	5,950	-
Office supplies	1,823	2,826
	<u>\$ 362,920</u>	<u>\$ 307,145</u>
Insurance		
Insurance	\$ 165,972	\$ 161,834
Other taxes, licenses, permits, and financial	-	6,470
	<u>\$ 165,972</u>	<u>\$ 168,304</u>
Interest		
First mortgage	\$ 1,017,231	\$ 1,030,217
BCHA notes	286,329	283,486
Developer fee	51,924	72,396
	<u>\$ 1,355,484</u>	<u>\$ 1,386,099</u>