



Financial Statements
December 31, 2022 and 2021
Kestrel I, LLC

Independent Auditor’s Report.....	1
Financial Statements	
Balance Sheets	4
Statements of Operations and Members’ Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Schedules of Maintenance and Operating, Utilities, Administrative, Insurance, and Interest Expenses.....	15



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, 2022 and 2021, 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 accompanying financial statements referred to above present fairly, in all material respects, the financial position of Kestrel I, LLC as of December 31, 2022 and 2021, 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 23, 2023

Kestrel I, LLC

Balance Sheets

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash	\$ 344,034	\$ 766,500
Accounts receivable	8,402	59,704
Due from related party	15,605	-
Tenant security deposits	69,654	69,654
Restricted cash	1,423,311	1,158,477
Property and equipment, at cost, less accumulated depreciation	57,191,944	59,464,184
Tax credit fees, net of accumulated amortization of \$84,798 in 2022 and \$67,679 in 2021	171,999	189,118
	<u>\$ 59,224,949</u>	<u>\$ 61,707,637</u>
Liabilities and Members' Equity		
Liabilities		
Accounts payable	\$ 99,801	\$ 45,803
Due to related party	91,056	71,972
Prepaid rent	5,539	-
Accrued expenses	1,912,827	1,631,647
Tenant security deposits payable	57,849	56,549
Deferred revenue	7,666	9,666
Developer fee payable	722,128	1,038,476
Long-term debt, net of unamortized debt issuance costs	37,354,454	37,654,567
	<u>40,251,320</u>	<u>40,508,680</u>
Total liabilities	40,251,320	40,508,680
Members' Equity	<u>18,973,629</u>	<u>21,198,957</u>
	<u>\$ 59,224,949</u>	<u>\$ 61,707,637</u>

Kestrel I, LLC
Statements of Operations and Members' Equity
Years Ended December 31, 2022 and 2021

	2022	2021	
Operations			
Revenue			
Tenant rent	\$ 2,237,639	\$ 2,258,224	
Rental assistance payments	973,860	902,862	
Less vacancies	(88,211)	(108,954)	
Net rental income	3,123,288	3,052,132	
Tenant charges	13,587	30,456	
Interest income	72	50	
Other income	21,686	3,513	
Total revenue	3,158,633	3,086,151	
Expenses			
Maintenance and operating	716,145	633,313	
Utilities	315,470	330,587	
Administrative	428,258	362,920	
Taxes and insurance	167,057	165,972	
Interest	1,336,583	1,355,484	
Depreciation and amortization	2,412,091	3,236,775	
	5,375,604	6,085,051	
Loss before Asset Management Fee	(2,216,971)	(2,998,900)	
Asset Management Fee	8,357	8,114	
Net Loss	\$ (2,225,328)	\$ (3,007,014)	
Members' Equity			
	Managing Member	Investor and Special Members	Total
Balance (Deficit), December 31, 2020	\$ (950)	\$ 24,206,921	\$ 24,205,971
Net loss	(271)	(3,006,743)	(3,007,014)
Balance (Deficit), December 31, 2021	(1,221)	21,200,178	21,198,957
Net loss	(200)	(2,225,128)	(2,225,328)
Balance (Deficit), December 31, 2022	\$ (1,421)	\$ 18,975,050	\$ 18,973,629

Kestrel I, LLC
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Net loss	\$ (2,225,328)	\$ (3,007,014)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	2,394,971	3,219,655
Amortization	17,120	17,120
Bad debt expense	12,616	32,077
Interest expense attributable to amortization of debt issuance costs	48,393	48,393
Changes in operating assets and liabilities		
Accounts receivable	38,686	(28,143)
Due from related party	(15,605)	-
Prepaid expenses	-	167,052
Accounts payable	(20,980)	(4,679)
Prepaid rent	5,539	(21,919)
Accrued expenses	281,180	251,336
Tenant security deposits payable	1,300	(475)
Deferred revenue	(2,000)	(2,001)
Net Cash from Operating Activities	535,892	671,402
Net Cash used for Investing Activity		
Purchase of property and equipment	(47,753)	-
Financing Activities		
Advances from (payments to) related party	19,084	(42,471)
Payment on developer fee payable	(316,348)	(409,437)
Principal payments on long-term debt	(348,507)	(334,997)
Net Cash used for Financing Activities	(645,771)	(786,905)
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	(157,632)	(115,503)
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	1,994,631	2,110,134
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	\$ 1,836,999	\$ 1,994,631
Cash	\$ 344,034	\$ 766,500
Tenant Security Deposits	69,654	69,654
Restricted Cash	1,423,311	1,158,477
Total cash, tenant security deposits, and restricted cash	\$ 1,836,999	\$ 1,994,631
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 988,839	\$ 1,035,519
Supplemental Schedule for Noncash Investing Activities		
Purchase of property and equipment included in accounts payable	\$ 74,978	\$ -

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, 2022 and 2021.

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, 2022 and 2021, 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 23, 2023, the date which the financial statements were available to be issued.

Note 2 - Restricted Cash

Restricted cash at December 31, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Replacement Reserve	\$ 272,285	\$ 201,104
Operating Reserve	783,304	783,304
Insurance Escrow	<u>367,722</u>	<u>174,069</u>
	<u>\$ 1,423,311</u>	<u>\$ 1,158,477</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 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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, January 1	\$ 201,104	\$ 131,849
Deposits	71,127	69,218
Interest	<u>54</u>	<u>37</u>
Balance, December 31	<u>\$ 272,285</u>	<u>\$ 201,104</u>

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, 2022 and 2021 consists of the following:

	2022	2021
Land and Improvements	\$ 9,227,584	\$ 9,152,606
Buildings and Improvements	63,028,633	63,028,633
Equipment and Furnishings	1,752,712	1,704,959
	74,008,929	73,886,198
Accumulated depreciation	(16,816,985)	(14,422,014)
	\$ 57,191,944	\$ 59,464,184

Note 4 - Accrued Expenses

Accrued expenses at December 31, 2022 and 2021 consists of the following:

	2022	2021
Interest		
First mortgage	\$ 78,984	\$ 82,302
Boulder County Housing Authority (BCHA)		
Notes payable - Note 8	1,791,976	1,489,307
Developer fee - Note 8	33,510	51,924
Asset Management Fee - Note 8	8,357	8,114
	\$ 1,912,827	\$ 1,631,647

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, 2022 and 2021, deferred revenue is \$7,666 and \$9,666, respectively.

Note 6 - Long-Term Debt

Long-term debt as of December 31, 2022 and 2021 consists of:

	2022	2021
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	\$ 23,934,548	\$ 24,283,054
Unamortized debt issuance costs based upon an effective interest rate of 4.30%	(544,426)	(592,819)
	23,390,122	23,690,235
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

	2022	2021
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	\$ 37,354,454	\$ 37,654,567

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2023	\$ 362,560
2024	377,181
2025	392,392
2026	408,215
2027	424,677
Thereafter	35,933,855
Unamortized debt issuance costs	(544,426)
	\$ 37,354,454

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 2022 and 2021, the Company paid \$316,348 and \$409,437, respectively, for developer fees. As of December 31, 2022 and 2021, the Company owes BCHA \$722,128 and \$1,038,476, 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 2022 and 2021, the Company incurred interest of \$33,510 and \$51,924, respectively, on the unpaid developer fees. As of December 31, 2022 and 2021, the Company owes BCHA \$33,510 and \$51,924, respectively, for accrued interest (Note 4).

Mortgage Notes and Accrued Interest

The Company has entered into multiple loan agreements with BCHA (Note 6). During 2022 and 2021, the Company incurred interest of \$302,669 and \$286,329, respectively, to BCHA on these mortgage notes payable. As of December 31, 2022 and 2021, the Company owes BCHA \$1,791,976 and \$1,489,307, respectively, for accrued interest (Note 4).

Due from Related Party

As of December 31, 2022 and 2021, the Company is owed \$15,605 and \$0, respectively, from BCHA for amounts paid to BCHA.

Due to Related Party

As of December 31, 2022 and 2021, the Company owed BCHA \$91,056 and \$71,972, 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 2022 and 2021, the Company incurred management fees of \$140,548 and \$137,346, respectively, to BCHA.

Reimbursement of Expenses

During 2022 and 2021, the Company reimbursed BCHA approximately \$698,900 and \$557,100, 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 2022 and 2021, the Company incurred \$8,357 and \$8,114, respectively, for asset management fees. As of December 31, 2022 and 2021, the Company owed the special investor member \$8,357 and \$8,114, 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, 2022 and 2021, 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 2022 and 2021, the managing member made capital contributions of \$0 to the Company. As of December 31, 2022 and 2021, 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, 2022 and 2021
Kestrel I, LLC

Schedules of Maintenance and Operating, Utilities, Administrative, Insurance, and Interest Expenses
 Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Maintenance and Operating		
Reimbursed salaries and benefits	\$ 396,028	\$ 294,819
Snow removal	50,835	48,714
Supplies	67,593	48,584
Contracted services	133,852	170,271
Other maintenance and operating	10,000	21,792
Trash removal	29,130	30,115
Exterminating	-	138
Grounds maintenance	28,707	18,880
	<u>\$ 716,145</u>	<u>\$ 633,313</u>
Utilities		
Electricity	\$ 227,063	\$ 233,142
Water and sewer	54,851	61,633
Other utilities	33,556	35,812
	<u>\$ 315,470</u>	<u>\$ 330,587</u>
Administrative		
Reimbursed management salaries and benefits	\$ 256,186	\$ 166,147
Management fees	140,548	137,346
Bad debt	12,616	32,077
Other administrative	7,391	10,606
Audit and accounting	9,195	7,825
Legal	713	1,146
Advertising and marketing	476	5,950
Office supplies	1,133	1,823
	<u>\$ 428,258</u>	<u>\$ 362,920</u>
Insurance		
Insurance	\$ 167,057	\$ 165,972
Interest		
First mortgage	\$ 1,000,404	\$ 1,017,231
BCHA notes	302,669	286,329
Developer fee	33,510	51,924
	<u>\$ 1,336,583</u>	<u>\$ 1,355,484</u>