



Financial Statements  
December 31, 2020

# Tungsten Village LLC

|  |    |
|--|----|
| Independent Auditor’s Report .....   | 1  |
| Financial Statements   |    |
| Balance Sheet .....  | 3  |
| Statement of Operations and Members’ Equity .....  | 4  |
| Statement of Cash Flows .....  | 5  |
| Notes to Financial Statements .....  | 7  |
| Supplementary Information  |    |
| Schedule of Maintenance and Operating, Utilities, Administrative, Insurance, and Interest Expenses ..... | 15 |



## Independent Auditor's Report

To the Members  
Tungsten Village LLC  
Boulder, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of Tungsten Village LLC, which comprise the balance sheet as of December 31, 2020, and the related statements of operations and members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Tungsten Village LLC as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Maintenance and Operating, Utilities, Administrative, Insurance, and Interest Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Eric Bailey LLP".

Fargo, North Dakota  
April 9, 2021

## Tungsten Village LLC

Balance Sheet

December 31, 2020

---

|  |                     |
|--|---------------------|
| Assets   |                     |
| Cash   |                     |
| General operating  | \$ 119,221          |
| Construction   | 8,726               |
|  | <u>127,947</u>      |
| Prepaid expenses   | 13,484              |
| Tenant security deposits                                       | 7,900               |
| Restricted cash  | 2,600               |
| Property and equipment, at cost, less accumulated depreciation | 8,988,999           |
| Other assets   | 202,531             |
| Tax credit fees, net of accumulated amortization of \$4,668    | 135,384             |
|  | <u>9,478,845</u>    |
| Liabilities and Members' Equity                                |                     |
| Liabilities  |                     |
| Accounts payable   | \$ 25,217           |
| Prepaid rent   | 1,823               |
| Due to related party   | 63,146              |
| Accrued expenses   | 122,392             |
| Tenant security deposits payable                               | 7,900               |
| Construction note payable                                      | 5,943,746           |
| Developer fee payable  | 556,660             |
| Long-term debt   | 1,600,000           |
|  | <u>8,320,884</u>    |
| Total liabilities  | 8,320,884           |
| Members' Equity  | <u>1,157,961</u>    |
|  | <u>\$ 9,478,845</u> |

Tungsten Village LLC  
Statement of Operations and Members' Equity  
Year Ended December 31, 2020

Operations

Revenue

|                            |                 |
|----------------------------|-----------------|
| Tenant rent                | \$ 129,529      |
| Rental assistance payments | 55,461          |
| Less vacancies             | <u>(50,483)</u> |
| Net rental income          | 134,507         |

|                |            |
|----------------|------------|
| Tenant charges | 1,200      |
| Other income   | <u>202</u> |

|               |                |
|---------------|----------------|
| Total revenue | <u>135,909</u> |
|---------------|----------------|

Expenses

|                               |               |
|-------------------------------|---------------|
| Maintenance and operating     | 9,392         |
| Utilities                     | 17,949        |
| Administrative                | 48,732        |
| Insurance                     | 18,490        |
| Interest                      | 86,094        |
| Depreciation and amortization | 130,443       |
| Organizational expenses       | <u>13,176</u> |

324,276

|                          |           |
|--------------------------|-----------|
| Loss Before Company Fees | (188,367) |
|--------------------------|-----------|

|                            |              |
|----------------------------|--------------|
| Company Administration Fee | 4,740        |
| Investor Service Fee       | <u>1,667</u> |

|          |                     |
|----------|---------------------|
| Net Loss | <u>\$ (194,774)</u> |
|----------|---------------------|

Members' Equity

|                            | Managing<br>Member | Investor<br>Member  | Total               |
|----------------------------|--------------------|---------------------|---------------------|
| Balance, January 1, 2020   | \$ 100             | \$ 835,581          | \$ 835,681          |
| Contributions              | -                  | 557,054             | 557,054             |
| Syndication costs          | -                  | (40,000)            | (40,000)            |
| Net loss                   | <u>(19)</u>        | <u>(194,755)</u>    | <u>(194,774)</u>    |
| Balance, December 31, 2020 | <u>\$ 81</u>       | <u>\$ 1,157,880</u> | <u>\$ 1,157,961</u> |

|   |                          |
|---|--------------------------|
| Operating Activities  |                          |
| Net loss  | \$ (194,774)             |
| Adjustments to reconcile net loss to net cash from operating activities |                          |
| Depreciation  | 125,775                  |
| Amortization  | 4,668                    |
| Changes in operating assets and liabilities                             |                          |
| Prepaid expenses  | (13,484)                 |
| Accounts payable  | 10,117                   |
| Prepaid rent  | 1,823                    |
| Due to related party  | 63,146                   |
| Accrued expenses  | 122,392                  |
| Tenant security deposits payable  | 7,900                    |
|   | <u>127,563</u>           |
| Net Cash from Operating Activities                                      | <u>127,563</u>           |
| Net Cash used for Investing Activity                                    |                          |
| Purchase of property and equipment                                      | <u>(4,104,729)</u>       |
| Financing Activities  |                          |
| Proceeds from construction note payable                                 | 4,346,435                |
| Principal payment on construction note payable                          | (406,188)                |
| Payment for other assets  | (202,531)                |
| Payment for tax credit fees   | (140,052)                |
| Payment of syndication costs  | (40,000)                 |
| Equity contributions  | 557,054                  |
|   | <u>4,114,718</u>         |
| Net Cash from Financing Activities                                      | <u>4,114,718</u>         |
| Net Change in Cash, Tenant Security Deposits, and Restricted Cash       | 137,552                  |
| Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year  | <u>895</u>               |
| Cash, Tenant Security Deposits, and Restricted Cash, End of Year        | <u><u>\$ 138,447</u></u> |
|   |                          |
| Cash  | \$ 127,947               |
| Tenant Security Deposits  | 7,900                    |
| Restricted Cash   | <u>2,600</u>             |
|   | <u><u>\$ 138,447</u></u> |
| Total cash, tenant security deposits, and restricted cash               | <u><u>\$ 138,447</u></u> |

Supplemental Disclosure of Cash Flow Information

|   |                  |
|---|------------------|
| Cash payments for interest, net of capitalized interest | <u>\$ 58,788</u> |
|---|------------------|

Supplemental Disclosure of Noncash Investing and Financing Activities

|  |                  |
|--|------------------|
| Increase in property and equipment from accounts payable | <u>\$ 15,100</u> |
|--|------------------|

|   |                   |
|---|-------------------|
| Increase in property and equipment from developer fee payable | <u>\$ 556,660</u> |
|---|-------------------|



## **Note 1 - Principal Business Activity and Significant Accounting Policies**

### **Principal Business Activity, Risks, and Uncertainty**

Tungsten Village LLC (Company) was formed November 12, 2018, 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 26-unit multi-family housing complex located in Nederland, Colorado. Substantially all of the Company's income is derived from the rental of its apartment units. The Company began operations in August 2020.

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.

### **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          | 15 years     |
| Buildings and improvements | 5 - 40 years |
| Equipment and furnishings  | 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, 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 \$9,340 for each of the next five years.

### **Other Assets**

Other assets consist of prepaid debt issuance costs on permanent financing. Debt issuance costs will be 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 will be included within long-term debt on the balance sheet upon issuance of the permanent debt.

### **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, the unrecognized tax benefit accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

### **Rental Income**

Housing units are rented under operating lease agreements with terms of one year or less. Rent income from tenants and rental assistance payments are recognized in the month in which it is earned rather than received. Tenant rent represents gross rent for all units in the project. Prepaid rent is recorded for rent or charges received in advance. Vacancy loss is recorded for any unrented units to arrive at net rental income.

### **Advertising and Marketing**

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense totaled \$27,423 for the year ended December 31, 2020.

### **Organization Costs**

Costs of \$13,176 incurred for the organization of the Company were expensed in 2020.

### **Capitalized Interest**

Interest in the amount of \$197,100 has been capitalized as part of the building costs, of which, \$182,323 was incurred during 2020. Interest in the amount of \$46,027 has been capitalized as part of the land costs, of which, \$30,082 was incurred during 2020.

### **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 April 9, 2021, the date which the financial statements were available to be issued.

## **Note 2 - Restricted Cash**

### **Replacement Reserve**

Pursuant to the operating agreement, the Company is to establish a replacement reserve to fund major repairs, capital expenditures, and replacement of capital items. The Company is to deposit annually, \$300 per unit per year, increasing at a rate of three percent each year. Any withdrawals for capital expenditures over \$5,000 from the replacement reserve are to be made with the consent of the investor member. As of December 31, 2020, the replacement reserve had a balance of \$2,600.

### **Operating Reserve**

Pursuant to the operating agreement, the Company is to establish and maintain an operating reserve equal to \$118,000. The reserve is to be funded upon the third and fourth capital installments. The managing member shall fund the reserve to maintain the minimum balance as necessary. The managing member may make withdrawals subject to the investor member's approval. The reserve shall be maintained in an interest-bearing account in a bank approved by the investor member. As of December 31, 2020 the operating reserve has not been funded.

### **Insurance Escrow**

The Company plans to establish an insurance escrow to pay insurance premiums. This account will be used to receive monthly deposits to pay the annual insurance premiums. As of December 31, 2020 the insurance escrow has not been funded.

### **Lease-up Reserve**

Pursuant to the terms of the operating agreement, the Company is to maintain a lease-up reserve of \$24,990 to be funded by the second capital installment. The reserve is to be used to pay operating expenses from completion date to stabilization date or loan conversion whichever is later. As of December 31, 2020 the lease-up reserve has not been funded.

**Note 3 - Property and Equipment**

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

|                            |              |
|----------------------------|--------------|
| Land and improvements      | \$ 927,846   |
| Buildings and improvements | 7,939,813    |
| Equipment and furnishings  | 247,116      |
|                            | 9,114,775    |
| Accumulated depreciation   | (125,776)    |
|                            | \$ 8,988,999 |

**Note 4 - Accrued Expenses**

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

|                                     |            |
|-------------------------------------|------------|
| Interest                            |            |
| Construction note                   | \$ 27,304  |
| BCHA 6% - \$500,000                 | 46,027     |
| BCHA 3% - \$400,000                 | 18,411     |
| BCHA 1% - \$260,000                 | 3,989      |
| BCHA 3% - \$440,000                 | 20,252     |
| Investor service fee (Note 9)       | 1,667      |
| Company administration fee (Note 9) | 4,740      |
| Other accrued liabilities           | 2          |
|                                     | \$ 122,392 |

**Note 5 - Construction Note Payable**

The Company financed the construction of the project in part with a construction note payable with FirstBank, in an amount up to \$7,127,134. The note accrues interest at a rate of 5%. Monthly payments of interest are to be made through the expected conversion date, June 2021. As of December 31, 2020, the balance of the construction note payable is \$5,943,746. During 2020, the Company incurred interest of \$232,980 on the construction note payable, of which \$161,455 was capitalized as part of the buildings costs and \$71,525 was expensed. The note is secured by a security agreement, assignment of rent, and fixture financing statement. The note is expected to be paid down with equity contributions and conversion to permanent financing in the amount of \$2,880,000.

**Note 6 - Construction Contract**

The Company had entered into a construction contract with MWCC-US Bank in the amount of \$6,426,170, including change orders, for construction services in connection with the project. As of December 31, 2020, all construction was completed and billed.

**Note 7 - Long-Term Debt**

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

Related Party

|  |                            |
|--|----------------------------|
| 6.0%, \$500,000 note payable to Boulder County Housing Authority (BCHA), payments are to be made from available cash flow, unpaid principal and interest due December 2054, secured by a deed of trust on the property | \$ 500,000                 |
| 3.0%, \$400,000 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due December 2054, secured by a deed of trust on the property                                    | 400,000                    |
| 1.0%, \$260,000 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due December 2054, secured by a deed of trust on the property                                    | 260,000                    |
| 3.0%, \$440,000 note payable to BCHA, payments are to be made from available cash flow, unpaid principal and interest due December 2054, secured by a deed of trust on the property                                    | <u>440,000</u>             |
| Total long-term debt   | <u><u>\$ 1,600,000</u></u> |

There are no expected maturities for the next 5 years due to the notes being due from available cash flows.

**Note 8 - Property Taxes**

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

## **Note 9 - Related Party Transactions**

### **Developer Fees**

The Company has entered into a development agreement with 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 \$793,735, which has been capitalized as part of the building. Developer fees are expected to be paid from various capital installments. During 2020, the Company paid \$150,866 for developer fees and is included in the purchase of property and equipment on the statement of cash flow. As of December 31, 2020, the Company owes BCHA \$556,660 for developer fees. No interest has been incurred on the unpaid fees. The unpaid developer fees are to be paid from available cash flow and bear interest at a rate of 6%, compounding annually, commencing at the time of the fourth capital contribution. Any amount that remains unpaid shall be paid no later than December 31, 2035.

### **Mortgage Notes and Accrued Interest**

The Company has entered into multiple loan agreements with BCHA (Note 7). The Company incurred total interest of \$88,679 on the BCHA mortgage notes payable, of which \$74,110 has been capitalized to property and equipment and land, while \$14,569 has been expensed. As of December 31, 2020, the Company owes BCHA \$88,679, for accrued interest (Note 4).

### **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 \$10,000 annually. During 2020, the Company incurred management fees of \$3,333 to BCHA.

BCHA is periodically reimbursed for various office expenses, payroll and other operating expenses incidental to the operations of the project. There were no reimbursements during 2020. As of December 31, 2020, the Company owed BCHA \$63,146, for the various costs paid on behalf of the project.

### **Investor Service Fee**

Pursuant to the operating agreement, the Company is to pay the investor member a cumulative fee equal to \$5,000 annually, commencing on the later of the year 2020 or the first calendar year the Company receives rental income. The fee is for services provided for the review of the operations of the Company and shall be payable from cash flow. The fee is to increase by 3% annually. During 2020, the Company incurred \$1,667 for investor service fees. As of December 31, 2020, the Company owed the investor member \$1,667 for accrued investor service fees.

### **Company Administration Fee**

Pursuant to the operating agreement, the Company is to pay the managing member a cumulative fee equal to \$11,375 annually, commencing on the later of the year 2020 or the first calendar year the Company receives rental income. The fee is for services provided in the administration of the project and shall be payable from cash flow. The fee is to increase by 3% annually. During 2020, the Company incurred \$4,740 for company administration fees. As of December 31, 2020, the Company owed the managing member \$4,740 for accrued company administration fees.

### **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 \$234,000, shall bear no interest, and shall be repayable solely from net cash flow as allowed in the operating agreement.

### **Distributions of Cash Flow**

Pursuant to the operating agreement, net cash flow shall be distributed to the members in the following order and priority after payment of the priority distribution to the investor member and any development costs.

1. First, to the Investor Member in an amount equal to the credit deficiency;
2. Second, to the Investor Member in the amount of the maximum federal corporate income tax liability that would be imposed on the Investor Member and its partners from the transaction giving rise to sale or refinancing proceeds;
3. Third, to the Investor Member in the amount of any unpaid investor services fee;
4. Fourth, from and after the fourth installment of the Investor Member's capital contribution to fund the operating reserve up to the operating reserve amount;
5. Fifth, to pay any deferred portion of the property management fee in accordance with the property management agreement;
6. Sixth, to pay the deferred development fee;
7. Seventh, to the Managing Member to repay any operating deficit contribution;
8. Eighth, to pay the company administration fee;
9. Ninth, to pay the seller carryback loan until it is paid in full, thereafter, to pay the BCHA CDOH loan until it is paid in full, thereafter, to pay the BCHA worth cause loan until it is paid in full, and thereafter, to pay the BCHA development Loan until it is paid off;
10. Any remaining cash flow shall constitute net cash flow which is distributable to the members in accordance with Section 8.01 of the operating agreement.

**Note 10 - Members' Equity**

| Members  | Profit and Loss Percentages |
|--|-----------------------------|
| Managing<br>Tungsten GP, LLC                   | 0.01%                       |
| Investor<br>Enterprise FB Housing Fund I, LLLP | <u>99.99%</u>               |
|  | <u><u>100.00%</u></u>       |

Pursuant to the operating agreement, the investor member is to make capital contributions in the amount of \$5,570,542. During 2020, the investor member made capital contributions of \$557,054 to the Company and paid \$40,000 of syndication costs. As of December 31, 2020, the investor member has made total contributions of \$1,392,635 to the Company.

Pursuant to the operating agreement, the managing member is to make capital contributions in the amount of \$100. As of December 31, 2020, the managing member has contributed \$100 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, 2020

# Tungsten Village LLC

Tungsten Village LLC

Schedule of Maintenance and Operating, Utilities, Administrative, Insurance, and Interest Expenses  
Year Ended December 31, 2020

|   |                  |
|---|------------------|
| Maintenance and Operating                     |                  |
| Reimbursed salaries and benefits              | \$ 4,589         |
| Supplies                                      | 316              |
| Contracted services                           | 688              |
| Other maintenance and operating               | 843              |
| Trash removal                                 | 2,956            |
|   | <u>9,392</u>     |
|   | <u>\$ 9,392</u>  |
| Utilities                                     |                  |
| Electricity                                   | \$ 9,138         |
| Water and sewer                               | 8,811            |
|   | <u>17,949</u>    |
|   | <u>\$ 17,949</u> |
| Administrative                                |                  |
| Reimbursed management salaries and benefits   | \$ 17,360        |
| Management fees                               | 3,333            |
| Other administrative                          | 616              |
| Advertising and marketing                     | 27,423           |
|   | <u>48,732</u>    |
|   | <u>\$ 48,732</u> |
| Insurance                                     |                  |
| Insurance                                     | \$ 15,899        |
| Other taxes, licenses, permits, and financial | 2,591            |
|   | <u>18,490</u>    |
|   | <u>\$ 18,490</u> |
| Interest                                      |                  |
| Construction note                             | \$ 71,525        |
| BCHA notes                                    | 14,569           |
|   | <u>86,094</u>    |
|   | <u>\$ 86,094</u> |