Financial Statements
December 31, 2019 and 2018

Josephine Commons, LLC

EideBailly®

Independent Auditor's Report

To the Members
Josephine Commons, LLC
Boulder, Colorado

Report on the Financial Statements
We have audited the accompanying financial statements of Josephine Commons, LLC, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Josephine Commons, LLC as of December 31, 2019 and 2018, 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.

Change in Accounting Principle
As discussed in Note 9 to the financial statements, the Company has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Accordingly, the December 31, 2018 statement of cash flows has been restated to adopt this standard. Our opinion is not modified with respect to this matter.

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

Eide Bailly LLP

Fargo, North Dakota
March 9, 2020

	2019	2018
Assets		
Cash	$ 659,917	$ 613,373
Accounts receivable	888	2,610
Tenant security deposits	21,683	21,676
Prepaid expenses	5,050	37,360
Restricted cash	652,187	604,019
Property and equipment, at cost, less accumulated depreciation	12,242,242	12,695,705
Tax credit fees, at cost, net of accumulated amortization of $44,172 in 2019 and $38,148 in 2018	46,179	52,202
	$ 13,628,146	$ 14,026,945
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 15,203	$ 9,354
Due to related party	18,772	15,197
Prepaid rent	3,882	3,747
Accrued expenses	451,237	398,951
Tenant security deposits payable	21,050	20,700
Long-term debt, net of unamortized debt issuance costs	4,442,644	4,466,604
Total liabilities	4,952,788	4,914,553
Members' Equity	8,675,358	9,112,392
	$ 13,628,146	$ 14,026,945

	2019		2018	
Operations				
Revenue				
Tenant rent	$	607,171	$	621,422
Rental assistance payments		167,468		124,255
Less vacancies and concessions		(17,584)		(12,479)
Net rental income		757,055		733,198
Tenant charges		1,866		2,246
Interest income		150		113
Other income		44		33
Total revenue		759,115		735,590
Expenses				
Maintenance and operating		167,903		194,341
Utilities		60,080		57,930
Administrative		106,908		101,705
Taxes and insurance		37,396		36,118
Interest		274,593		274,505
Depreciation and amortization		467,929		467,426
Total expenses		1,114,809		1,132,025
Loss before Company Fees		(355,694)		(396,435)
Company Fees				
Asset management fee		6,335		6,150
Incentive management fee		65,858		22,902
Net Loss	$	(427,887)	$	(425,487)

Members' Equity

	Managing Member		Investor and Special Members		Total	
Balance, December 31, 2017	$	86,299	$	9,454,443	$	9,540,742
Distributions		-		(2,863)		(2,863)
Net loss		(38)		(425,449)		(425,487)
Balance, December 31, 2018		86,261		9,026,131		9,112,392
Distributions		-		(9,147)		(9,147)
Net loss		(39)		(427,848)		(427,887)
Balance, December 31, 2019	$	86,222	$	8,589,136	$	8,675,358

	2019	2018 (As Restated)
Operating Activities		
Net loss	$ (427,887)	$ (425,487)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	461,907	461,402
Amortization	6,023	6,023
Interest expense attributable to amortization of debt issuance costs	5,302	5,302
Accrued interest - long-term	52,101	63,642
Changes in operating assets and liabilities		
Accounts receivable	1,722	48
Prepaid expenses	32,310	(37,360)
Accounts payable	(2,595)	2,591
Prepaid rent	135	1,218
Accrued expenses	185	179
Tenant security deposits payable	350	(300)
Net Cash from Operating Activities	129,553	77,258
Net Cash used for Investing Activity		
Purchase of property and equipment	-	(700)
Financing Activities		
Principal payments on long-term debt	(29,262)	(27,290)
Payment on developer fee payable	-	(34,507)
Advances from related party	3,575	3,817
Member distributions	(9,147)	(2,863)
Net Cash used for Financing Activities	(34,834)	(60,843)
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	94,719	15,715
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	1,239,068	1,223,353
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	$ 1,333,787	$ 1,239,068
Cash	$ 659,917	$ 613,373
Tenant Security Deposits	21,683	21,676
Restricted Cash	652,187	604,019
Total cash, tenant security deposits, and restricted cash	$ 1,333,787	$ 1,239,068
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 217,190	$ 205,561
Supplemental Disclosure of Noncash Investing Activity		
Increase in property and equipment from accounts payable	$ 8,444	$ -

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 project 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 project 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, 2019 and 2018.

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, 2019 and 2018, 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 represents gross rent for all units in the project. Vacancy loss is recorded for any unrented units and concessions are recorded for discounts to units to arrive at net tenant rent.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Policy

As of January 1, 2019, the Company adopted the provisions of Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, by including amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Retrospective application of the amendment is required. The Company has adopted this standard as management believes this presentation eliminates a diversity in practice in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows.

Subsequent Events

The Company has evaluated subsequent events through March 9, 2020, the date which the financial statements were available to be issued.

Note 2 - Restricted Cash

	2019	2018
Replacement reserve	$ 316,575	$ 275,042
Insurance reserve	39,228	32,593
Operating reserve	296,384	296,384
	$ 652,187	$ 604,019

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, 2019 and 2018, is as follows:

	2019	2018
Balance, January 1	$ 275,042	$ 245,550
Deposits	41,426	31,612
Withdrawals	-	(2,188)
Bank fees	(37)	(27)
Interest	144	95
Balance, December 31	$ 316,575	$ 275,042

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, 2019 and 2018 consist of the following:

	2019	2018
Land and improvements	$ 1,620,859	$ 1,620,859
Buildings and improvements	13,527,192	13,527,192
Equipment and furnishings	473,494	465,050
Construction in progress	700	700
	15,622,245	15,613,801
Accumulated depreciation	(3,380,003)	(2,918,096)
	$ 12,242,242	$ 12,695,705

Construction in progress consists of costs incurred in relation to design work for a future deck remodel, of which the total expected cost is currently unknown.

Note 4 - Accrued Expenses

Accrued expenses at December 31, 2019 and 2018 consist of the following:

	2019	2018
Interest (Note 5)	$ 444,903	$ 392,802
Asset management fees (Note 7)	6,334	6,149
	$ 451,237	$ 398,951

Note 5 - Long-Term Debt

Long-term debt as of December 31, 2019 and 2018 consists of:

	2019	2018
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	$ 2,851,486	$ 2,880,748
Unamortized debt issuance costs, based on effective interest rate of 7.35%	(52,135)	(57,437)
	2,799,351	2,823,311
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, 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	$ 4,442,644	$ 4,466,604

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2020	$ 31,561
2021	33,843
2022	36,289
2023	38,913
2024	41,726
Thereafter	4,312,447
Unamortized debt issuance costs	(52,135)
	$ 4,442,644

A summary of accrued interest as of December 31, 2019 and 2018 is as follows:

	2019	2018
Berkadia Commercial Mortgage, Inc.	$ 16,634	$ 16,804
BCHA 4.3% (HOME)	198,058	172,754
BCHA 4.3% loan (AHP)	84,080	73,595
BCHA 4.3% loan (Worthycause I)	62,064	57,711
BCHA 4.3% (Worthycause II)	67,552	57,711
BCHA 0.5% loan	16,515	14,227
	428,269	375,998
	$ 444,903	$ 392,802

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

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. Developer fees of $1,351,067 have been capitalized as part of the building. During 2018, the remaining fees of $34,507 were paid in full.

Mortgage Notes Payable

The Company has entered into multiple loan agreements with BCHA (Note 5). During 2019 and 2018, the Company incurred interest expense of $68,736 and $66,664, respectively in relation to these mortgage notes payable. As of December 31, 2019 and 2018, the Company owes BCHA $428,269 and $375,998, respectively for accrued interest (Note 5).

Due to Related Party

As of December 31, 2019 and 2018, the Company owed BCHA $18,772 and $15,197, 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 2019 and 2018, the Company incurred management fees of $34,484.

Reimbursement of Expenses

During 2019 and 2018, the Company reimbursed BCHA approximately $142,200 and $153,000, respectively, for payroll and other expenses.

Asset Management Fee

Pursuant to the operating agreement, the Company is to pay Red Stone Equity Manager, LLC, the special member, a cumulative fee equal to $5,000 annually, commencing in 2012, for the review of the operations of the Company. The fee is to increase by 3% annually. During 2019 and 2018, the Company incurred $6,335 and $6,150, respectively, for asset management fees. As of December 31, 2019 and 2018, the Company owed the special member $6,334 and $6,149, 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 2019 and 2018, the Company incurred and paid $65,858 and $22,902, respectively.

Distributions

During 2019 and 2018, the Company paid distributions to the investor member in the amount of $9,147 and $2,863, 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.

Note 9 - Restatement Resulting from Change in Accounting Policy

As discussed in Note 1 to the financial statements, the Company has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Accordingly, the December 31, 2018 statement of cash flows has been restated to adopt this standard. Following is a summary of the effects of the change in accounting policy in the Company's December 31, 2018 statement of cash flows.

	As Previously Reported	Adoption of ASU 2016-18	As Adjusted
Tenant Security Deposits	$ (6)	$ (6)	$ -
Net Cash from Operating Activities	77,252	(6)	77,258
Net withdrawals from restricted cash	18,906	18,906	-
Net Cash from Investing Activities	18,206	18,906	(700)
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	34,615	18,900	15,715
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	578,758	(644,595)	1,223,353
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	613,373	(625,695)	1,239,068

Supplementary Information
December 31, 2019 and 2018

Josephine Commons, LLC

	2019	2018
Maintenance and Operating		
Reimbursed salaries and benefits	$ 79,690	$ 80,939
Contracted services	25,200	59,450
Grounds	33,596	27,312
Supplies	19,003	15,192
Trash removal	10,414	11,448
	$ 167,903	$ 194,341
Utilities		
Electricity	$ 25,841	$ 28,715
Water and sewer	31,721	27,916
Gas and oil	41	-
Other utilities	2,477	1,299
	$ 60,080	$ 57,930
Administrative		
Reimbursed salaries and benefits	$ 52,657	$ 49,800
Management fees	34,484	34,484
Audit and accounting	7,705	6,470
Telephone	11,459	10,744
Legal and compliance fees	10	10
Other administrative	593	197
	$ 106,908	$ 101,705
Taxes and Insurance		
Insurance	$ 37,360	$ 36,091
Other taxes, licenses, and permits	36	27
	$ 37,396	$ 36,118
Interest		
Berkadia Commercial Mortgage Inc.	$ 205,857	$ 207,841
BCHA	68,736	66,664
	$ 274,593	$ 274,505