Financial Statements
December 31, 2024 and 2023

Josephine Commons, LLC

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Independent Auditor's Report

To the Members
Josephine Commons, LLC
Boulder, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Josephine Commons, LLC, which comprise the balance sheets as of December 31, 2024 and 2023, 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 Josephine Commons, LLC as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Josephine Commons, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Josephine Commons, LLC's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Maintenance and Operating, Utilities, Administrative, Taxes and Insurance, and Interest Expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. 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 31, 2025

	2024	2023
Assets		
Cash	$ 626,574	$ 653,431
Tenant security deposits	21,975	21,717
Restricted cash	661,489	622,050
Property and equipment, at cost, less accumulated depreciation	10,263,893	10,610,492
Tax credit fees, at cost, net of accumulated amortization of $74,287 in 2024 and $68,264 in 2023	16,063	22,086
	$ 11,589,994	$ 11,929,776
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 21,009	$ 13,427
Due to related party	30,875	85,450
Accrued expenses	787,749	725,612
Tenant security deposits payable	20,150	20,850
Long-term debt, net of unamortized debt issuance costs	4,287,878	4,324,059
Total liabilities	5,147,661	5,169,398
Members' Equity	6,442,333	6,760,378
	$ 11,589,994	$ 11,929,776

	2024	2023
Operations		
Revenue		
Tenant rent	$ 631,964	$ 574,053
Rental assistance payments	633,498	516,205
Less vacancies and concessions	(30,932)	(14,658)
Net rental income	1,234,530	1,075,600
Tenant charges	2,522	2,708
Interest income	432	143
Other income	86	55
Total revenue	1,237,570	1,078,506
Expenses		
Maintenance and operating	433,390	346,375
Utilities	88,298	85,398
Administrative	139,611	159,243
Taxes and insurance	52,875	55,793
Interest	275,344	274,480
Depreciation and amortization	441,062	435,769
Total expenses	1,430,580	1,357,058
Loss Before Company Fees	(193,010)	(278,552)
Company Fees		
Asset management fee	7,345	7,131
Incentive management fee	104,613	-
Net Loss	$ (304,968)	$ (285,683)

Members' Equity

	Managing Member	Investor and Special Members	Total
Balance, December 31, 2022	$ 86,080	$ 6,959,981	$ 7,046,061
Net loss	(26)	(285,657)	(285,683)
Balance, December 31, 2023	86,054	6,674,324	6,760,378
Distribution	-	(13,077)	(13,077)
Net loss	(27)	(304,941)	(304,968)
Balance, December 31, 2024	$ 86,027	$ 6,356,306	$ 6,442,333

	2024	2023
Operating Activities		
Net loss	$ (304,968)	$ (285,683)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	435,039	429,746
Amortization	6,023	6,023
Interest expense attributable to amortization of debt issuance costs	5,302	5,302
Changes in operating assets and liabilities		
Accounts receivable	-	7,263
Accounts payable	7,582	(19,214)
Accrued expenses	62,137	71,364
Tenant security deposits payable	(700)	-
Net Cash from Operating Activities	210,415	214,801
Net Cash used for Investing Activity		
Purchase of property and equipment	(88,440)	(12,758)
Financing Activities		
Principal payments on long-term debt	(41,483)	(38,689)
Member distributions	(13,077)	-
Advances from (payments to) related party	(54,575)	55,344
Net Cash (used for) from Financing Activities	(109,135)	16,655
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	12,840	218,698
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	1,297,198	1,078,500
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	$ 1,310,038	$ 1,297,198
Cash	$ 626,574	$ 653,431
Tenant Security Deposits	21,975	21,717
Restricted Cash	661,489	622,050
Total cash, tenant security deposits, and restricted cash	$ 1,310,038	$ 1,297,198
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 208,119	$ 191,301

Note 1 - Principal Activity and Significant Accounting Policies

Principal Activity, Risks, and Uncertainty

Josephine Commons, LLC (Company) was formed May 5, 2011, as a limited liability company under the laws of the State of Colorado and shall continue in perpetual existence, unless dissolved or terminated at an earlier date. The Company was formed for the purpose to acquire, own, develop, construct and lease, manage and operate a building in Lafayette, Colorado consisting of 74 units of affordable rental housing for low-income and elderly residents. The project began operations in September 2012. Substantially all of the Company's income is derived from the rental of its apartment units.

The Company has qualified and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of the complex as to occupant eligibility and unit gross rent, among other requirements. The Company must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of the previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the investor member. All residential units within this project are subject to the contract restrictions regarding rental charges and other operating policies under the Low-Income Housing Tax Credit Program.

Concentrations of Credit Risk

The Company maintains its cash in bank deposit accounts which may periodically exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. December 31, 2024 and 2023, the Company had approximately $831,600 and $806,500, respectively, in excess of FDIC-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, 2024 and 2023.

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 2 years will be approximately $6,020 and $4,030 in year three.

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 sheets. 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, 2024 and 2023, 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 and rental assistance represent gross rent for all units in the project. Vacancy loss is recorded for any unrented units and concessions are recorded for discounts to units to arrive at net rental income.

The future cash flows from operating lease payments to be received as of December 31, 2024 in 2025 are approximately $61,500.

Estimates

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

Subsequent Events

The Company has evaluated subsequent events through March 31, 2025, the date which the financial statements were available to be issued.

Note 2 - Restricted Cash

Restricted cash at December 31, 2024 and 2023 consists of the following:

	2024	2023
Replacement reserve	$ 308,047	$ 267,143
Insurance reserve	57,058	58,523
Operating reserve	296,384	296,384
	$ 661,489	$ 622,050

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, 2024 and 2023, is as follows:

	2024	2023
Balance, January 1	$ 267,143	$ 226,281
Deposits	40,774	40,774
Bank fees	(44)	(29)
Interest	174	117
Balance, December 31	$ 308,047	$ 267,143

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 - Tenant Security Deposits

Pursuant to management policy, the Partnership has set aside funds to repay tenant security deposits after lease termination.

Note 4 - Property and Equipment

As disclosed in Note 1, the Company owns and operated a 74-unit affordable rental housing for low-income and elderly residents in Lafayette, Colorado. All of the Company's property and equipment is subject to operating leases with the residential tenants at December 31, 2024 and 2023.

Property and equipment at December 31, 2024 and 2023 consist of the following:

	2024	2023
Land and improvements	$ 1,632,734	$ 1,632,734
Buildings and improvements	13,592,231	13,538,591
Equipment and furnishings	643,801	609,001
	15,868,766	15,780,326
Accumulated depreciation	(5,604,873)	(5,169,834)
	$ 10,263,893	$ 10,610,492

Note 5 - Accrued Expenses

Accrued expenses at December 31, 2024 and 2023 consist of the following:

	2024	2023
Interest (Note 6)	$ 780,404	$ 718,481
Asset management fees (Note 8)	7,345	7,131
	$ 787,749	$ 725,612

Note 6 - Long-Term Debt

Long-term debt as of December 31, 2024 and 2023 consists of:

	2024	2023
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	$ 2,670,211	$ 2,711,694
Unamortized debt issuance costs, based on effective interest rate of 7.35%	(25,626)	(30,928)
	2,644,585	2,680,766
4.3% mortgage note payable to Boulder County Housing Authority (BCHA), payments due from cash flow, remaining principal and interest due August 2061, secured by a second mortgage	550,000	550,000
4.3% mortgage note payable to BCHA, payments due from cash flow, remaining principal and interest due August 2061, secured by a third mortgage	250,000	250,000
4.3% mortgage note payable to BCHA, entire principal balance will be forgiven after a term of 99 years unless canceled earlier, secured by a fourth mortgage	200,000	200,000
4.3% mortgage note payable to BCHA, entire principal balance will be forgiven after a term of 99 years unless canceled earlier, secured by a fifth mortgage	200,000	200,000
0.50% note payable to BCHA, payments due from cash flow, remaining principal and interest due August 2061, unsecured	443,293	443,293
Total long-term debt, net of unamortized debt issuance costs	$ 4,287,878	$ 4,324,059

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2025	$ 44,742
2026	47,977
2027	51,445
2028	55,164
2029	59,152
Thereafter	4,055,024
Unamortized debt issuance costs	(25,626)
	$ 4,287,878

A summary of accrued interest as of December 31, 2024 and 2023 is as follows:

	2024	2023
Berkadia Commercial Mortgage, Inc.	$ 15,576	$ 16,634
BCHA 4.3% (HOME)	363,745	330,875
BCHA 4.3% loan (AHP)	153,099	140,398
BCHA 4.3% loan (Worthycause I)	99,345	95,235
BCHA 4.3% (Worthycause II)	120,421	109,467
BCHA 0.5% loan	28,218	25,872
	764,828	701,847
	$ 780,404	$ 718,481

Note 7 - 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 8 - Related Party Transactions

Mortgage Notes Payable

The Company has entered into multiple loan agreements with BCHA (Note 6), an entity related to the managing member. During 2024 and 2023, the Company incurred interest expense of $82,595 and $77,877, respectively, in relation to these mortgage notes payable. As of December 31, 2024 and 2023, the Company owes BCHA $764,827 and $701,847, respectively for accrued interest (Note 6).

Due to Related Party

As of December 31, 2024 and 2023, the Company owed BCHA $30,875 and $85,450, 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 2024 and 2023, the Company incurred management fees of $34,484.

Reimbursement of Expenses

During 2024 and 2023, the Company reimbursed BCHA approximately $385,500 and $249,000, respectively, for payroll and other expenses.

Asset Management Fee

Pursuant to the operating agreement, the Company is to pay Red Stone Equity Manager 2, LLC, the special member, a cumulative fee equal to $5,000 annually, commencing in 2012, for the review of the operations of the Company. The fee is to increase by 3% annually. During 2024 and 2023, the Company incurred $7,345 and $7,131, respectively, for asset management fees. As of December 31, 2024 and 2023, the Company owed the special member $7,345 and $7,131, 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 2024 and 2023, the Company incurred and paid $104,613 and $0, respectively.

Distributions

During 2024 and 2023, the Company paid distributions to the investor member in the amount of $13,077 and $0, 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 9 - Members' Equity

Members	Ownership Percentages
Managing	
Josephine Commons Manager, LLC	0.009%
Investor	
Red Stone Josephine, LLC	99.990%
Special	
Red Stone Equity Manager 2, LLC	0.001%
	100.000%

Profit or loss will be allocated as allocated in the operating agreement.

The members have certain rights and obligations as outlined in the operating agreement.

Supplementary Information
December 31, 2024 and 2023

Josephine Commons, LLC

	2024	2023
Maintenance and Operating		
Reimbursed salaries and benefits	$ 197,993	$ 165,914
Contracted services	95,332	75,775
Grounds	47,825	55,222
Supplies	53,766	36,929
Trash removal	13,224	12,535
Non-routine rehab (exterior repairs, including painting)	25,250	-
	$ 433,390	$ 346,375
Utilities		
Electricity	$ 39,664	$ 43,520
Water and sewer	44,529	37,951
Other utilities	4,105	3,927
	$ 88,298	$ 85,398
Administrative		
Reimbursed salaries and benefits	$ 83,056	$ 104,909
Management fees	34,484	34,484
Audit and accounting	9,540	7,640
Telephone	12,287	12,190
Legal and compliance fees	50	20
Bad debt (recoveries)	194	-
	$ 139,611	$ 159,243
Taxes and Insurance		
Insurance	$ 52,831	$ 55,765
Other taxes, licenses, and permits	44	28
	$ 52,875	$ 55,793
Interest		
Berkadia Commercial Mortgage Inc.	$ 192,749	$ 196,603
BCHA (Note 6)	82,595	77,877
	$ 275,344	$ 274,480