Financial Statements
December 31, 2024 and 2023

Kestrel I, LLC

EideBailly
CPAs & BUSINESS ADVISORS

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, 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 Kestrel I, 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 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 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, 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 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 27, 2025

	2024	2023
Assets		
Cash	$ 535,362	$ 763,815
Accounts receivable	66,445	18,195
Prepaid expenses	149,694	-
Tenant security deposits	58,199	58,199
Restricted cash	1,561,306	1,301,724
Property and equipment, at cost, less accumulated depreciation	53,355,469	55,234,032
Tax credit fees, net of accumulated amortization of $119,038 in 2024 and $101,918 in 2023	137,759	154,879
	$ 55,864,234	$ 57,530,844
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$ 35,285	$ 27,263
Due to related party	114,704	189,805
Prepaid rent	4,656	1,490
Accrued expenses	2,544,536	2,257,464
Tenant security deposits payable	57,999	57,599
Deferred revenue	3,666	5,666
Developer fee payable	691,111	722,128
Long-term debt, net of unamortized debt issuance costs	36,711,500	37,040,288
Total liabilities	40,163,457	40,301,703
Members' Equity	15,700,777	17,229,141
	$ 55,864,234	$ 57,530,844

	2024	2023
Operations		
Revenue		
Tenant rent	$ 2,516,560	$ 2,348,155
Rental assistance payments	1,431,233	1,181,270
Less vacancies	(117,077)	(160,842)
Net rental income	3,830,716	3,368,583
Tenant charges	24,777	19,298
Interest income	277	184
Other income	13,507	16,698
Total revenue	3,869,277	3,404,763
Expenses		
Maintenance and operating	970,849	816,231
Utilities	386,549	368,154
Administrative	641,840	471,025
Taxes and insurance	162,378	170,153
Interest	1,331,477	1,334,053
Depreciation and amortization	1,895,682	1,981,027
	5,388,775	5,140,643
Loss before Asset Management Fee	(1,519,498)	(1,735,880)
Asset Management Fee	8,866	8,608
Net Loss	$ (1,528,364)	$ (1,744,488)

Members' Equity

	Managing Member	Investor and Special Members	Total
Balance (Deficit), December 31, 2022	$ (1,421)	$ 18,975,050	$ 18,973,629
Net loss	(157)	(1,744,331)	(1,744,488)
Balance (Deficit), December 31, 2023	(1,578)	17,230,719	17,229,141
Net loss	(138)	(1,528,226)	(1,528,364)
Balance (Deficit), December 31, 2024	$ (1,716)	$ 15,702,493	$ 15,700,777

	2024	2023
Operating Activities		
Net loss	$ (1,528,364)	$ (1,744,488)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	1,878,563	1,963,907
Amortization	17,120	17,120
Bad debt expense	29,125	4,080
Interest expense attributable to amortization of debt issuance costs	48,393	48,393
Changes in operating assets and liabilities		
Accounts receivable	(77,375)	(13,873)
Due from related party	-	15,605
Prepaid expenses	(149,694)	-
Accounts payable	8,022	2,440
Prepaid rent	3,166	(4,049)
Accrued expenses	287,072	344,637
Tenant security deposits payable	400	(250)
Deferred revenue	(2,000)	(2,000)
Net Cash from Operating Activities	514,428	631,522
Net Cash used for Investing Activity		
Purchase of property and equipment	-	(80,972)
Financing Activities		
Advances from related party	-	98,749
Payments to related party	(75,101)	-
Payment on developer fee payable	(31,017)	-
Principal payments on long-term debt	(377,181)	(362,560)
Net Cash used for Financing Activities	(483,299)	(263,811)
Net Change in Cash, Tenant Security Deposits, and Restricted Cash	31,129	286,739
Cash, Tenant Security Deposits, and Restricted Cash, Beginning of Year	2,123,738	1,836,999
Cash, Tenant Security Deposits, and Restricted Cash, End of Year	$ 2,154,867	$ 2,123,738
Cash	$ 535,362	$ 763,815
Tenant Security Deposits	58,199	58,199
Restricted Cash	1,561,306	1,301,724
Total cash, tenant security deposits, and restricted cash	$ 2,154,867	$ 2,123,738
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 996,270	$ 941,274

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 in Louisville, Colorado. 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 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. At December 31, 2024 and 2023, the Company had approximately $1,843,100 and $1,682,700, respectively, in excess of FDIC-insured limits.

Receivables and Credit Policy

Accounts receivable are rents and charges currently due from residential tenants and proceeds from an insurance claim. 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, 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 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 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 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.

The future cash flows from operating lease payments to be received as of December 31, 2024 in 2025 are approximately $217,700.

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 27, 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	$ 411,686	$ 340,350
Operating reserve	783,304	783,304
Insurance escrow	366,316	178,070
	$ 1,561,306	$ 1,301,724

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, 2024 and 2023 is as follows:

	2024	2023
Balance, January 1	$ 340,350	$ 272,285
Deposits	71,127	71,127
Interest	209	138
Withdrawals	-	(3,200)
Balance, December 31	$ 411,686	$ 340,350

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 - Tenant Security Deposits

Pursuant to management policy, the Partnership has set aside funds as of December 31, 2024 and 2023, to repay tenant security deposits after lease termination.

Note 4 - Property and Equipment

As disclosed in Note 1, the Company owns and operates a 200-unit multi-family and senior housing complex in Louisville, 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 consists of the following:

	2024	2023
Land and improvements	$ 9,227,584	$ 9,227,584
Buildings and improvements	63,028,633	63,028,633
Equipment and furnishings	1,758,707	1,758,707
	74,014,924	74,014,924
Accumulated depreciation	(20,659,455)	(18,780,892)
	$ 53,355,469	$ 55,234,032

Note 5 - Accrued Expenses

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

	2024	2023
Interest		
First mortgage	$ 76,543	$ 77,788
Boulder County Housing Authority (BCHA)		
Notes payable - Note 9	2,420,315	2,101,452
Developer fee - Note 9	38,812	69,616
Asset management fee - Note 9	8,866	8,608
	$ 2,544,536	$ 2,257,464

Note 6 - 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, 2024 and 2023, deferred revenue is $3,666 and $5,666, respectively.

Note 7 - Long-Term Debt

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

	2024	2023
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	$ 23,194,807	$ 23,571,988
Unamortized debt issuance costs based upon an effective interest rate of 4.30%	(447,639)	(496,032)
	22,747,168	23,075,956
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 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

	2024	2023
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	$ 36,711,500	$ 37,040,288

Future maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2025	$ 392,392
2026	408,215
2027	424,677
2028	441,803
2029	749,352
Thereafter	34,742,700
Less: unamortized debt issuance costs	(447,639)
	$ 36,711,500

Note 8 - 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 9 - 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 2024 and 2023, the Company paid $31,017 and $0, respectively, for developer fees. As of December 31, 2024 and 2023, the Company owes BCHA $691,111 and $722,128, 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 2024 and 2023, the Company incurred interest of $38,812 and $36,105, respectively, on the unpaid developer fees. As of December 31, 2024 and 2023, the Company owes BCHA $38,812 and $69,616, respectively, for accrued interest (Note 5).

Mortgage Notes and Accrued Interest

The Company has entered into multiple loan agreements with BCHA (Note 7). During 2024 and 2023, the Company incurred interest of $318,863 and $309,476, respectively, to BCHA on these mortgage notes payable. As of December 31, 2024 and 2023, the Company owes BCHA $2,420,315 and $2,101,452, respectively, for accrued interest (Note 5).

Due to Related Party

As of December 31, 2024 and 2023, the Company owed BCHA $114,704 and $189,805, 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 2024 and 2023, the Company incurred management fees of $172,382 and $151,586, respectively, to BCHA.

Reimbursement of Expenses

During 2024 and 2023, the Company reimbursed BCHA approximately $1,171,000 and $761,500, 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 2024 and 2023, the Company incurred $8,866 and $8,608, respectively, for asset management fees. As of December 31, 2024 and 2023, the Company owed the special investor member $8,866 and $8,608, respectively, for this fee (Note 5).

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 10 - 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, 2024 and 2023, 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. As of December 31, 2024 and 2023, the managing member has not contributed 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, 2024 and 2023

Kestrel I, LLC

	2024	2023
Maintenance and Operating		
Reimbursed salaries and benefits	$ 602,928	$ 479,077
Snow removal	43,573	50,835
Supplies	105,333	89,866
Contracted services	145,144	109,192
Other maintenance and operating	14,892	19,150
Trash removal	34,451	32,647
Exterminating	-	7,404
Grounds maintenance	24,528	28,060
	$ 970,849	$ 816,231
Utilities		
Electricity	$ 280,792	$ 276,997
Water and sewer	66,357	58,542
Other utilities	39,400	32,615
	$ 386,549	$ 368,154
Administrative		
Reimbursed management salaries and benefits	$ 392,894	$ 296,517
Management fees	172,382	151,586
Bad debt	29,125	4,080
Other administrative	2,052	6,140
Audit and accounting	8,860	7,270
Legal	2,465	2,090
Advertising and marketing	32,631	1,771
Office supplies	1,431	1,571
	$ 641,840	$ 471,025
Insurance		
Insurance	$ 162,378	$ 170,153
Interest		
First mortgage	$ 973,802	$ 988,472
BCHA notes	318,863	309,476
Developer fee	38,812	36,105
	$ 1,331,477	$ 1,334,053