Financial Statements
December 31, 2012

Josephine Commons, LLC

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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 sheet as of December 31, 2012, and the related statement of operations, 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 Josephine Commons, LLC as of December 31, 2012, 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.

Other Matter

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, Taxes and 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.

Eide Bailly LLP

Fargo, North Dakota
March 29, 2013

Assets		
Cash		
General operating	$	106,707
Construction		209,947
		316,654
Accounts Receivable		2,809
Prepaid Expenses		601
Tenant Security Deposits		18,146
Property and Equipment, at Cost, Less Accumulated Depreciation		15,719,764
Other Assets, at Cost, Less Accumulated Amortization of $2,008		145,342
	$	16,203,316
Liabilities and Members' Equity		
Liabilities		
Accounts payable	$	7,436
Accounts payable - construction		17,823
Due to related party		263,867
Prepaid rent		4,610
Accrued expenses		68,857
Tenant security deposits payable		18,145
Construction note payable		11,357,120
Developer fee payable		1,351,067
Long-term debt		1,615,893
Total liabilities		14,704,818
Members' Equity		1,498,498
	$	16,203,316

See Notes to Financial Statements

Operations

Revenue	
Tenant rent, net of vacancies of $45,169	$ 157,177
Rental assistance payments	26,258
Tenant charges	255
Interest income	1
Other income	1,890
	185,581
Expenses	
Maintenance and operating	28,703
Utilities	25,558
Administrative	34,067
Taxes and insurance	10,676
Interest	123,734
Depreciation and amortization	235,193
	457,931
Loss before Asset Management Fee	(272,350)
Asset Management Fee	5,000
Net Loss	$ (277,350)

Members' Equity

	Managing Member	Investor and Special Members	Total
Balance, January 1, 2012	$ 86,500	$ 1,689,348	$ 1,775,848
Contributions	-	-	-
Net loss	(28)	(277,322)	(277,350)
Balance, December 31, 2012	$ 86,472	$ 1,412,026	$ 1,498,498

Operating Activities	
Net loss	$ (277,350)
Charges and credits to net loss not affecting cash	
Depreciation	233,186
Amortization	2,008
Accrued interest - long-term	17,545
Interest - construction note payable	106,189
Change in assets and liabilities	
Accounts receivable	(2,809)
Prepaid expenses	(601)
Tenant security deposits	(18,146)
Accounts payable	7,436
Prepaid rent	4,610
Accrued expenses	51,312
Tenant security deposits payable	18,145
Net Cash from Operating Activities	141,525
Investing Activity	
Purchase of property and equipment	(10,850,825)
Financing Activities	
Proceeds from issuance of construction note payable	9,943,606
Purchase of other assets	(147,350)
Advances from related party	263,867
Net Cash from Financing Activities	10,060,123
Net Change in Cash	(649,177)
Cash at Beginning of Year	965,831
Cash at End of Year	$ 316,654
Supplemental Disclosure of Cash Flow Information	
Cash payments for interest net of capitalized interest of $120,781	$ -
Supplemental Disclosure of Noncash Investing and Finance Activities	
Increase in property and equipment from developer fees	$ 1,069,492
Interest expense added to the construction note payable	$ 106,189

See Notes to Financial Statements

Note 1 - Principal Activity and Significant Accounting Policies

Principal Activity, Risk, 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 Partnership's income is derived from the rental of its apartment units. 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.

Income Taxes

The Company, with the consent of members, has elected to be taxed under sections of the federal and state income tax laws, which provide that, in lieu of income taxes, the members separately account for their share of the Company's items of income, deduction, losses, and credit. Therefore, these statements do not include any provision for corporate income taxes.

The Company has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10. The implementation of this standard had no impact on the financial statements. As of December 31, 2012, 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.

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 and disclosure of contingent 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.

Depreciation

Depreciation is computed principally by the straight-line method over the following estimated useful lives:

Land improvements	15 years
Buildings and improvements	27 years
Equipment and furnishings	5 years

FASB Accounting Standards Codification Topic ASC 360-10 requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended December 31, 2012.

Other Assets

Other assets consist of financing costs and tax credit fees that have been capitalized. Financing costs will be amortized over the life of the permanent financing using the straight-line method of amortization. Tax credit fees are being amortized over the compliance period using the straight-line method of amortization.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred.

Capitalized Interest

Interest of $120,781 has been capitalized as part of the building during 2012.

Subsequent Events

The Company has evaluated subsequent events through March 29, 2013, the date which the financial statements were available to be issued.

Note 2 - Restricted Deposits and Funded Reserves

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. As of December 31, 2012, the Company had not opened a separate account for the replacement reserve but had money set aside to make the required deposits. Subsequent to year-end, the Company opened a separate bank account and funded the reserve for the 2012 requirements.

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 no later than limited partner's second capital contribution (approximately June 2013). The managing member may make withdrawals subject to the special member's approval. As of December 31, 2012, the operating reserve has not been funded.

Note 3 - Property and Equipment

Land and improvements	$ 1,620,859
Buildings and improvements	13,867,041
Equipment and furnishings	465,050
	15,952,950
Accumulated depreciation	(233,186)
	$ 15,719,764

Note 4 - Accrued Expenses

Interest - construction	$ 31,675
Interest - long-term debt	17,545
Salaries and wages	4,616
Asset management fees	5,000
Other	10,021
	$ 68,857

Note 5 - Property Taxes

Effective August 12, 2011, 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 6 - Construction Note Payable

The Company financed the construction of the project in part with a note payable with Citibank, N.A. in the amount up to $11,925,000, due September 1, 2013, unless extended. The interest rate is equal to the LIBOR rate plus 3.25 percentage points, (3.4597% as of December 31, 2012) recalculated and adjusted on the first day of each month until paid in full. The note is secured by a mortgage and an assignment of rents and leases. During 2012, the Partnership incurred $226,970 for interest expense, of which $120,781 has been capitalized as part of the building. The remaining interest was expensed and added to the principal of the note. As of December 31, 2012, the balance of the construction note was $11,357,120.

Note 7 - Long-Term Debt

4.3% mortgage note payable to Boulder County Housing Authority (BCHA) under the HOME funds, up to an amount of $550,000, payments due from cash flow, remaining principal and interest due August 2061, secured by a second mortgage	$	522,500
4.3% mortgage note payable to BCHA under the AHP funds payments due from cash flow, remaining principal and interest due August 2061, secured by a third mortgage		250,000
4.3% mortgage note payable to BCHA under the Worthy Cause Funds I program, entire principal balance will be forgiven after a term of 99 years unless canceled earlier, secured by a fourth mortgage		200,000
4.3% mortgage note payable to BCHA under the Worthy Cause Funds II program, entire principal balance will be forgiven after a term of 99 years unless canceled earlier, secured by a fifth mortgage		200,000
0.50% note payable to BCHA, due from cash flow, remaining principal and interest due August 2061, unsecured		443,393
	$	1,615,893

There are no maturities of long-term debt for years 2013 through 2017.

A summary of accrued interest is as follows:

BCHA 4.3% (HOME)	$	7,489
BCHA 4.3% loan (AHP)		3,583
BCHA 4.3% loan (Worthycause I)		2,867
BCHA 4.3% (Worthycause II)		2,867
BCHA 0.5% loan		739
	$	17,545

Note 8 - 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. Developer fees of $1,351,067 have been capitalized as part of the building. Developer fees are expected to be paid from capital contributions and approximately $641,448 is anticipated to be deferred and paid from net cash flow. As of December 31, 2012, the Company owes BCHA $1,351,067 for developer fees.

Mortgage Notes and Accrued Interest

The Company has entered into multiple loan agreements with BCHA, the sole member of the managing member, see Note 6.

Due to Related Party

As of December 31, 2012, the Company owed BCHA, the sole member of the managing member, $263,867, for costs related to the construction of the project.

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 2012, the Company incurred management fees of $9,960.

Reimbursement of Expenses

During 2012, the Partnership reimbursed BCHA approximately $11,500, 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 2012, the Company incurred $5,000 for asset management fees. As of December 31, 2012, the Company owed the special member $5,000 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. There were no incentive management fees paid during 2012.

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 - Partners' Equity

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

Pursuant of the operating agreement, the managing member is required to contribute land to the Company. As of December 31, 2012, the managing member had contributed the land to the Company with a value of $86,500.

Required capital contributions of the investor member are $11,732,452. As of December 31, 2012, the investor member has contributed $1,759,868 and syndication costs of $70,520 have been paid.

Josephine Commons, LLC
Schedule of Maintenance and Operating, Utilities, Administrative, Taxes and Insurance, and Interest Expenses
Year Ended December 31, 2012

Maintenance and Operating		
Salaries and benefits	$	10,943
Supplies		4,480
Grounds		2,885
Trash removal		1,894
Other contracted services		6,089
Other maintenance and operating		2,412
	$	28,703
Utilities		
Electricity	$	16,451
Water and sewer		8,840
Gas and oil		161
Other utilities		106
	$	25,558
Administrative		
Accounting	$	6,450
Legal and compliance fees		4,307
Advertising and marketing		7,349
Management fees		9,960
Bad debt		397
Other administrative		5,604
	$	34,067
Taxes and Insurance		
Insurance	$	8,674
Other taxes, licenses, and permits		2,002
	$	10,676
Interest		
Interest - construction note	$	106,189
Interest - long-term debt		17,545
	$	123,734