Beacon Ridge, LLC

NCHFA Project No. 9235554

Independent Auditor's Report, Financial Statements, and Supplementary Information

December 31, 2022 and 2021

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Independent Auditor's Report

Members
Beacon Ridge, LLC
NCHFA Project No. 9235554
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Beacon Ridge, LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, members' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Beacon Ridge, LLC as of December 31, 2022 and 2021, 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 1 to the financial statements, Beacon Ridge, LLC has changed its method of accounting for leases in accordance with Accounting Standards Codification Topic 842, Leases, effective January 1, 2022. Beacon Ridge, LLC adopted this standard using a modified retrospective approach and has elected to not restate prior periods. Our opinion is not modified with respect to this matter.

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 Beacon Ridge, 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 the 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 Beacon Ridge, LLC's ability to continue as a going concern within 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 Beacon Ridge, 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 Beacon Ridge, 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 audit.

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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 Income and 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.

FORVIS, LLP

High Point, NC
March 1, 2023

Beacon Ridge, LLC
NCHFA Project No. 9235554
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash, operating	**$ 853,224**	$ 827,633
Investments in equity securities:		
Tax and insurance escrow	**60,487**	70,252
Replacement reserve	**72,478**	25,000
Operating reserve	**522,742**	517,481
Principal reserve	**22,760**	21,121
Bond proceeds reserve	**26**	26
Accounts receivable, tenants	**94,742**	102,973
Prepaid management fee	**5,305**	-
Prepaid insurance	**9,870**	-
Total current assets	**1,641,634**	1,564,486
Restricted deposits and funded reserves:		
Cash, tenant security deposits	**96,743**	98,606
	96,743	98,606
Rental property:		
Land improvements	**2,490,751**	2,490,751
Buildings and improvements	**16,621,113**	16,621,113
Furniture and fixtures	**803,086**	803,086
	19,914,950	19,914,950
Less accumulated depreciation	**(1,499,203)**	(878,829)
	18,415,747	19,036,121
Other assets:		
Deferred rent asset	**-**	1,613,808
Land under right of use operating lease	**1,588,592**	-
Deferred tax credit fees, net of accumulated amortization of $54,284 in 2022 and $33,843 in 2021	**252,337**	272,778
Total other assets	**1,840,929**	1,886,586
	$ 21,995,053	$ 22,585,799

Beacon Ridge, LLC
NCHFA Project No. 9235554
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Current maturities of bonds payable	**$ 90,000**	$ 80,000
Accounts payable and accrued expenses	**16,657**	17,183
Accrued management fees	**3,553**	3,647
Accrued investor services fee	**-**	7,650
Accrued company administration fee	**116,591**	68,850
Accrued interest	**95,454**	104,348
Accrued interest, DHIC	**38,933**	-
Development fee payable, current	**125,321**	148,414
Total current liabilities	**486,509**	430,092
Deposits and prepayment liabilities:		
Tenant security deposits	**96,743**	98,606
Prepaid rent	**17,803**	10,282
	114,546	108,888
Long-term liabilities:		
Bonds payable, net of unamortized debt issuance costs of $493,812 in 2022 and $514,109 in 2021, net of current maturities	**8,081,188**	8,155,891
Notes payable, net of unamortized debt issuance costs of $23,739 in 2022 and $24,589 in 2021, net of current maturities	**7,051,584**	7,050,734
Development fee payable, deferred	**163,853**	268,546
	15,296,625	15,475,171
Members' equity	**6,097,373**	6,571,648
	$ 21,995,053	$ 22,585,799

Beacon Ridge, LLC
NCHFA Project No. 9235554
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rental income	$ 1,274,783	$ 1,253,026
Less: Vacancies	(38,320)	(6,978)
Less: Concessions	-	(1,986)
Less: Loss to lease	(10,464)	(2,105)
Plus: Excess rent	3,335	1,552
Net rental income	1,229,334	1,243,509
Other income:		
Interest income	6,473	96
Other income	79,217	104,130
Total other income	85,690	104,226
Total income	1,315,024	1,347,735
Expenses:		
Administrative	114,708	110,596
Property management fees	54,910	51,621
Professional fees	14,320	15,228
Repairs and maintenance	213,920	171,302
Taxes and insurance	68,568	23,980
Utilities	79,064	73,678
Total operating expense	545,490	446,405
Income from operations	769,534	901,330
Nonoperating expenses:		
Interest expense	524,732	577,106
Depreciation	620,374	620,375
Amortization	20,441	45,658
Lease expense	25,216	-
Investor services fee	5,305	5,150
Company administration fee	47,741	46,350
Total nonoperating expenses	1,243,809	1,294,639
Net loss	$ (474,275)	$ (393,309)

Beacon Ridge, LLC
NCHFA Project No. 9235554
Statements of Members' Equity (Deficit)
Years Ended December 31, 2022 and 2021

	Managing Member	Investor Member	Total
Balance, December 31, 2020	$ 55	$ 763,641	$ 763,696
Contributions	-	6,201,261	6,201,261
Net loss	(39)	(393,270)	(393,309)
Balance, December 31, 2021	16	6,571,632	6,571,648
Net loss	**(47)**	**(474,228)**	**(474,275)**
Balance, December 31, 2022	**$ (31)**	**$ 6,097,404**	**$ 6,097,373**

Beacon Ridge, LLC
NCHFA Project No. 9235554
Statements of Cash Flows
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Cash flows from operating activities:		
Net loss	**$ (474,275)**	$ (393,309)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	**620,374**	620,375
Amortization	**20,441**	45,658
Amortization of debt issuance costs	**21,147**	32,322
Non-cash operating lease expense	**25,216**	-
Bad debt expense	**4,873**	10,465
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	**3,358**	(91,627)
Prepaid management fee	**(5,305)**	-
Prepaid insurance	**(9,870)**	-
Increase (decrease):		
Accounts payable and accrued expenses	**(526)**	(12,018)
Accrued management fees	**(94)**	(1,021)
Accrued investor services fee	**(7,650)**	5,150
Accrued company administration fee	**47,741**	46,350
Accrued interest	**(8,894)**	27,455
Tenant security deposits	**(1,863)**	6,387
Prepaid rent	**7,521**	1,631
Accrued interest, DHIC	**38,933**	-
Net cash provided by operating activities	**281,127**	297,818
Cash flows from investing activities:		
Purchase of investments in equity securities	**(44,613)**	(5,978,367)
Proceeds from sales of investments	**-**	5,791,895
Payment of deferred tax credit fees	**-**	(105,600)
Purchases of property and equipment	**-**	(761,605)
Net cash used by investing activities	**(44,613)**	(1,053,677)
Cash flows from financing activities:		
Member contributions	**-**	6,201,261
Payment of development fee	**(127,786)**	-
Payment of bonds payable	**(85,000)**	(5,250,000)
Payment of notes payable	**-**	(1,677)
Net cash provided (used) by financing activities	**(212,786)**	949,584
Net increase in cash, restricted deposits and funded reserves	**23,728**	193,725
Cash, restricted deposits and funded reserves, beginning	**926,239**	732,514
Cash, restricted deposits and funded reserves, ending	**$ 949,967**	$ 926,239

See accompanying notes.

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 473,546**	$ 536,842
Reconciliation of cash, restricted deposits and funded reserves to balance sheet:		
Cash, operating	**$ 853,224**	$ 827,633
Tenant security deposits	**96,743**	98,606
	$ 949,967	$ 926,239

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Beacon Ridge, LLC (the "Company") was organized on August 23, 2018 for the purpose of developing, owning, maintaining and operating a 120-unit apartment complex (the "project") for rental to low-income individuals and families in Raleigh, North Carolina commonly known as "Beacon Ridge." The major activities of the Company are governed by the operating agreement and the loan agreements. The property was placed into service in July of 2020.

In September of 2019, the operating agreement was amended to admit a new investor member and to permit the withdrawal of the original investor member, DHIC, Inc. ("DHIC"). As a result, the Company has one managing member - Beacon Ridge Development, Inc.; and one investor member - Wincopin Circle LLLP.

Effective September 26, 2019, Wincopin Circle LLLP transferred its investor member interest to Enterprise Housing Partners XXX Limited Partnership.

The ownership of the Company is as follows:

Beacon Ridge Development, Inc.	0.01%
Enterprise Housing Partners XXX Limited Partnership	99.99%
	100.00%

The Company received an allocation of low-income housing tax credits from the North Carolina Housing Finance Agency under Section 42 of the Internal Revenue Code of 1986, as amended.

Basis of accounting

The financial statements of the Company are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles.

The following is a summary of significant accounting policies consistently applied in the preparation of these financial statements:

Use of 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 the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

The Company's investments consist of institutional class money market funds, which invest in short-term United States Treasury obligations. Management determines the classification of securities at the date individual investment securities are acquired and reassesses the appropriateness of such classification at each balance sheet date. The securities are stated at fair value, and unrealized holding gains and losses are reported as income or loss. For purposes of determining realized gains and losses, the cost of securities sold is based on the first-in-first-out method.

Restricted cash

Restricted cash consists of tenant security deposits and deposits held in segregated accounts for rent up costs. The tenant security deposit account represents cash restricted for the purpose of refunding tenants' security deposits paid at the move-in date. Security deposits are refunded to the tenants at the time of move-out in accordance with the tenant lease agreement, subject to cleaning and repairs incidental to normal wear on the tenant unit.

Accounts receivable and bad debts

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Rental property

Rental property is stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	20 years
Building	40 years
Furnishings and equipment	10 years

Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. No impairment loss was recognized during 2022 and 2021.

Other assets

Deferred tax credit fees are being amortized using the straight-line method over 15 years, the tax credit compliance period.

Leases

At lease inception, the Company determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (“ROU”) assets, current operating lease liabilities, and noncurrent lease liabilities in the financial statements. The Company has not entered into any leases which were determined to be finance leases.

ROU assets represent the Company’s right to use leased assets over the term of the lease. Lease liabilities represent the Company’s contractual obligation to make lease payments over the lease term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. The Company uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Company uses the risk-free rate of return as the discount rate. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs, plus any prepayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the Company if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. The Company has elected not to recognize an ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short-term leases is included in lease expense in the statement of operations.

To the extent a lease arrangement includes both lease and non-lease components, the components are accounted for separately.

Fair value measurements

The Company applies the guidance in Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements & Disclosures ("ASC 820”), which defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between unrelated market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to their fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Quoted prices for identical assets or liabilities (in active markets).

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Company’s own assumptions about the inputs used in pricing the assets or liabilities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the valuation methods are determined to be appropriate and consistent within the industry, the use of different methodologies or assumptions to determine the fair value of certain assets and liabilities could result in a different estimate of fair value at the reporting date.

The table below presents amounts at December 31, 2022 and 2021 for significant items measured at fair value on a recurring basis. The fair value of the Company's investments is based on "Level 1" inputs.

	December 31, 2022 Assets at Fair Value		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	**$ 678,493**	$ -	$ -
	$ 678,493	$ -	$ -

	December 31, 2021 Assets at Fair Value		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	$ 633,880	$ -	$ -
	$ 633,880	$ -	$ -

Debt issuance costs

Debt issuance costs are reported in the balance sheet as a direct deduction from the face amount of the related debt and are amortized over the lives of the related debt. Amortization of debt issuance costs is presented as a component of interest expense.

Revenue recognition

Rental revenue attributed to residential leases is recorded on a straight-line basis over the term of the lease. Leases are for periods of up to one year, with rental payments due monthly. Payments made in advance of scheduled due dates are deferred as prepaid rent and classified accordingly on the balance sheet until earned.

Other income includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned (when services are provided or when the tenant incurs the charge) and when collectability is reasonably assured. Advance receipts of revenue are deferred and classified as liabilities until earned.

Income taxes

As a limited liability company, the Company's taxable income or loss is allocated to the members in accordance with the operating agreement and is reflected in their income taxes; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Concentrations of credit risk

The Company maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Recent accounting pronouncements - adopted in 2022

Leases

On January 1, 2022, the Company adopted the requirements of Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

As part of the transition to the new standard, the Company was required to measure and recognize leases that existed at January 1, 2022 using a modified retrospective approach. For leases existing at the effective date, the Company elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. Additionally, the Company elected, as a practical expedient, to use the risk-free rate of return as the discount rate.

The adoption of Topic 842 resulted in the recording of a cumulative effect adjustment at January 1, 2022 consisting of the recognition of ROU assets of $1,588,592. The accounting for finance leases remained substantially unchanged with the adoption of Topic 842.

Subsequent Events

The Company evaluated the effect subsequent events would have on the financial statements through March 1, 2023, which is the date the financial statements were available to be issued.

2. Members' Capital Contributions

The managing member is required to make a capital contribution of $100, all of which has been contributed as of December 31, 2022. The investor member is required to make capital contributions of $7,816,993, in installments. The installments are subject to adjustment depending on certain conditions being met, primarily related to the amount and timing of low-income housing tax credits the Company is able to obtain. During 2021, the capital contribution requirement was reduced to $7,415,761 as result of downward tax credit equity adjuster. As of December 31, 2022 and 2021, the investor member has contributed $7,415,761.

3. Bonds Payable

To finance the construction of the Beacon Ridge project in order to qualify for federal tax credits, on September 1, 2019, the Raleigh Housing Authority (the "Housing Authority") issued Series 2019 Multifamily Housing Revenue Bonds in the amount of $14,000,000. The bonds bear interest at an annual rate of 4.85% through the stabilization date, and 4.20% thereafter. Interest only payments are due monthly commencing on November 1, 2019, through the stabilization date, as defined. In addition, a principal payment of $5,250,000 was due following receipt of the third installment of the investor member's capital contributions, reducing the permanent loan balance to $8,750,000. Commencing November 1, 2021 and thereafter, projected monthly amortizing payments of principal and interest are due in the amount of $37,665 through the maturity on October 1, 2059. Substantially all of the Company's property is pledged under the first lien deed of trust collateralizing the note. As of December 31, 2022 and 2021, the outstanding principal on the note payable amounted to $8,171,188 and $8,235,891, respectively, net of unamortized debt issuance costs of $493,812 and $514,109, respectively. Interest expense for the years ended December 31, 2022 and 2021 was $416,095 and $505,285, respectively, inclusive of deferred financing fees amortized to interest expense of $20,297 and $31,472, respectively. Accrued interest as of December 31, 2022 and 2021 amounted to 30,328 and $0, respectively.

The Series 2019 bonds are governed by a Regulatory Agreement between the Company and Raleigh Housing Authority. In accordance with the Regulatory Agreement, the Company is required to operate the project as a qualified residential rental project in accordance with IRC Section 142 throughout the low-income housing tax credit compliance period. In addition, the Regulatory Agreement restricts the ability of the Company to sell, lease, exchange, assign, convey, transfer, or otherwise dispose of all or substantially all of the project without prior written consent of the Raleigh Housing Authority and the lender.

The aggregate annual estimated principal maturities for the years subsequent to December 31, 2022, are as follows:

2023	$ 90,000
2024	85,000
2025	95,000
2026	100,000
2027	100,000
Thereafter	8,195,000
	$ 8,665,000

4. Notes Payable

Details of the notes payable at December 31 are as follows:

	2022	2021
Note payable to the City of Raleigh in the maximum amount of \$4,600,000, with interest accruing at 1%. During the construction period, no payments of principal and interest are due under the note. Upon conversion to the permanent phase, all accrued interest from the construction phase shall be due and annual payments of principal and interest shall begin, due on October 1st annually, subject to available cash flow. All outstanding principal and interest, if any, shall be due and payable on the maturity date, December 31, 2051. Accrued interest as of December 31, 2022 and 2021 amounted to \$46,000 and \$83,720, respectively. Total interest incurred for the years ended December 31, 2022 and 2021 amounted to \$46,000 and \$46,000, respectively. Interest paid during the year ended December 31, 2022, amounted to \$83,720 The note is secured by the second lien Deed of Trust on the property.	**\$ 4,600,000**	\$ 4,600,000
Note payable to Wake County in the amount of \$2,477,000, with interest accruing at 1%. Annual payments of principal and interest are due commencing March 1, 2021 and continuing through October 1, 2050, ranging from \$1,881 on March 1, 2021 to \$36,229 on March 1, 2049. The note matures on March 1, 2050, at which time all outstanding principal and interest shall be due and payable in a balloon payment in the projected amount of \$2,531,561. Accrued interest as of December 31, 2022 and 2021 amounted to \$19,126 and \$20,628, respectively. Total interest incurred for the years ended December 31, 2022 and 2021 amounted to \$22,854 and \$24,971, respectively. Interest paid during the years ended December 31, 2022 and 2021 amounted to \$24,356 and \$6,446, respectively. The loan is collateralized by a third lien Deed of Trust on the property.	**2,475,323**	2,475,323
Less: unamortized debt issuance costs	**(23,739)**	(24,589)
	\$ 7,051,584	\$ 7,050,734

Estimated maturities of long-term debt subsequent to December 31, 2022 are as follows:

2023	$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	2,475,323
*	4,600,000
	$ 7,075,323

**Future maturities cannot be reasonably determined at this time.*

5. Ground Lease

As described in Note 1, the Company adopted ASU 2016-02, *Leases* (Topic 842) on January 1, 2022. As of December 31, 2022, the Company has one noncancelable operating lease with an unrelated party for the land on which the building resides. The ground lease agreement was entered into with the YMCA of the Triangle Area, Inc. (the "YMCA"), on May 14, 2019. The term of the lease is for a period of 65 years, through January 1, 2086. In accordance with the operating lease agreement, Beacon Ridge, LLC paid the YMCA a total of $1,680,000 in advance for the lease of the premises. Beacon Ridge, LLC is to pay all operating costs, including property taxes, insurance and utilities for the premises throughout the term of the lease. Upon expiration of the lease term, the land and all improvements shall revert to the YMCA. The lease prepayment is being amortized on a straight-line basis over the life of the lease. For each of the years ended December 31, 2022 and 2021, amortization amounted to $25,216.

As of December 31, 2022, the Company has no operating leases that have not yet commenced.

Prior to the adoption of ASU 2016-02, *Leases* (Topic 842) on January 1, 2022, the Company followed the accounting guidance under ASC 840 and had a deferred rent asset of $1,613,808 at December 31, 2021.

6. Related-Party Transactions

Development fee

The Company incurred a development fee of $1,560,000 payable to DHIC for services rendered to the Company for overseeing the construction of the project. As of December 31, 2022 and 2020, the total fee has been earned. As of December 31, 2022 and 2021, $289,174 and $416,960, respectively, remained payable. The deferred portion of the development fee, as defined in the amended and restated development services agreement, shall be repaid out of available cash flow, as defined in the operating agreement (see Note 10), and shall accrue interest at a rate of 8%. The deferred portion of the developer fee, $416,960, was determined during the year ended December 31, 2021, upon receipt of investor member's final capital contributions. Deferred development fees in the amount of $164,254 are to be repaid during 2023 from available cash flow as of December 31, 2022. Any unpaid development fee and accrued interest thereon shall be due in full on December 31, 2034 Accrued interest amounted to $38,933 at December 31, 2022.

Investor services fee

The Company is required to pay the investor member a cumulative, annual investor services fee of $5,000, increasing by 3% annually. In the initial year of operations, the fee is to be prorated for the number of months that the Company receives rental income. The fee is compensation for property management oversight, tax credit compliance and monitoring and related services. The investor services fee is payable annually, with any unpaid balance to be paid out of the Company's net cash flow (see Note 10). The investor services fee shall commence on the date in which the project is placed in service and shall be prorated based on the number of full months that the project was in operations. For the years ended December 31, 2022 and 2021, investor services fees in the amount of $5,305 and $5,150 were incurred, respectively. As of December 31, 2022 and 2021, $0 and $7,650, respectively, remained payable.

Company administration fee

Beginning in 2020, the Company shall pay to the managing member, over the term of the agreement, an annual company administration fee of $45,000, to be prorated in the first year for the number of months the Company has rental income. After 2020, the company administration fee shall increase at the rate of 3% per year. The company administration fee is paid out of the Company's available cash flow (see Note 10). Company administration fees of $47,741 and $46,350 were incurred for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, accrued company administration fees were $116,591 and $68,850, respectively.

7. Reserves

Replacement reserve

The operating agreement and the Raleigh Housing Authority loan agreement require the Company to fund a replacement reserve using cash flow from operations, as defined. Reserve additions of $250 per unit per year, increasing at 4% each year, are required to be made annually. The operating agreement requires the reserve funding to commence the second full month after receipt of certificates of occupancy. The Raleigh Housing Authority loan agreement requires the reserve funding to commence the first business day of the month following the stabilization date, as defined in the replacement reserve and security agreement. This reserve is utilized to fund major repairs, capital expenditures and replacements of capital items in the project. The managing member shall not utilize the replacement reserve for any capital expenditure without written consent from the investor member, as well as Bellwether Real Estate Capital, LLC, the servicer of the Raleigh Housing Authority loan. Deposits to the replacement reserve were set to begin in September 2020, following completion in July 2020. As of December 31, 2022 and 2021, the account is underfunded by $0 and $15,400, respectively.

	2022	**2021**
Balance, beginning	**$ 25,000**	$ -
Funding	**47,016**	25,000
Interest earned, net of fees	**462**	-
Balance, ending	**$ 72,478**	$ 25,000

Operating reserve

The operating agreement requires the Company to fund an operating reserve account in the initial amount of $258,737 upon the payment of the fourth installment of the investor member's capital contribution, and in the additional amount of $258,733 upon the payment of the sixth installment of the investor member's capital contribution. The reserve shall be deposited into a segregated reserve account to fund operating expenses in excess of operating revenues. The managing member shall not utilize the operating reserve without written consent from the investor member. The operating reserve was funded in the amount of $517,481 during the year ended December 31, 2021 upon receipt of the fourth and sixth capital contributions of the investor member. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	$ 517,481	$ -
Funding	-	517,470
Interest earned, net of fees	5,261	11
Balance, ending	$ 522,742	$ 517,481

Lease-up reserve

The operating agreement requires the Company to establish a lease-up reserve fund of $42,000, no later than the date of the second installment of the investor member's capital contribution. The Company shall utilize the lease-up reserve to pay operating expenses to the extent funds are not available from other sources until the project has obtained 93% qualified occupancy, as defined in the operating agreement. Thereafter, the lease-up reserve account shall be closed and any balance remaining shall be transferred to the replacement reserve. The lease-up reserve was funded in the required amount of $42,000 during the year ended December 31, 2020. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	$ -	$ 28,312
Funding	-	-
Withdrawals	-	(28,312)
Balance, ending	$ -	$ -

8. Investments

Investments consist of the following as of December 31, 2022:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money Market Funds	$ 678,493	$ -	$ -	$ 678,493
	$ 678,493	$ -	$ -	$ 678,493

During the year ended December 31, 2020, securities were sold for total proceeds of $5,791,895. There were no gross realized gains or losses on these sales. For purposes of determining realized gains or losses, the cost of securities sold is based on the first-in-first-out method. There is no unrealized gain or loss on the securities as of December 31, 2022.

Investments consist of the following as of December 31, 2021:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money Market Funds	$ 633,880	$ -	$ -	$ 633,880
	$ 633,880	$ -	$ -	$ 633,880

During the year ended December 31, 2020, securities were sold for total proceeds of $7,845,090. There were no gross realized gains or losses on these sales. For purposes of determining realized gains or losses, the cost of securities sold is based on the first-in-first-out method. There is no unrealized gain or loss on the securities as of December 31, 2022.

9. Property Management Agreement

The Company has entered into a management agreement with Community Management Corporation, an unaffiliated management company, to provide property management services to the project. The management agent will be compensated an amount equal to 4.34% of gross operating revenues received from the preceding month. Such fee shall be paid out of the general operating account on a monthly basis. The term of the agreement is from June 11, 2019 until June 10, 2022 but shall be automatically renewed and shall continue thereafter on a year-to-year basis until 30 days from when either party notifies the other in writing of an intention to terminate the agreement. An additional one-time leasing and rent-up fee is to be paid to the management agent to cover the agent’s staff costs, overhead, and travel time for the period prior to occupancy, in the amount of $300 per unit, to be earned throughout the process of initial occupancy. The management fee expense for the years ended December 31, 2022 and 2021 amounted to $54,910 and $51,621, respectively.

10. Company Profits, Losses and Distributions

Payment of fees and other expenses contingent upon cash flow shall be made annually in the following order of priority:

1. To repay the City of Raleigh loan;
2. To repay the Wake County loan;
3. To repay the investor member in the amount of any credit deficiency;
4. To repay the investor member, an amount sufficient to pay federal income taxes on taxable income allocated to the investor member for such fiscal year by the Company, assuming the investor member is subject to the maximum corporate federal income tax rate then in effect;
5. To pay the investor services fee in accordance with the investor services agreement;
6. To fund the operating reserve up to the operating reserve amount;
7. To pay the deferred development fee, including any accrued interest;
8. To the managing member to repay any operating deficit contribution or other advances;
9. To pay the company administration fee in accordance with the company administration agreement;
10. Any remaining cash flow shall constitute net cash flow which is distributable to the members in the amount of their respective interests.

As of December 31, 2022, there was cash flow of $229,380 available for distribution.

11. Contingencies, Risks and Uncertainties

The Company's sole asset is its 120-unit housing complex located in Raleigh, North Carolina. The Company's operations are concentrated in the affordable housing real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the State Housing Agency. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the State Housing Agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

12. Operating Deficit Guarantee

In accordance with the First Amended and Restated Operating Agreement, an affiliate of the managing member guarantees to the investor member: the payment of any development advances required; to fund any operating deficit contributions not funded from the operating reserve up to a maximum of $517,000 through achievement of operating at the required debt service coverage for a period of at least two consecutive years and the balance of the operating reserve totals at least $517,470; the payment of any required credit adjuster advances and additional advances; the purchase of interest of the investor member and the indemnification of the Company and the investor member. As of December 31, 2022 and 2021, no amounts have been advanced under these guarantees.

13. Exemption from Real Estate Taxes

The managing member is wholly owned by a 501(c)(3) organization which qualifies the Company for full exemption for property taxes. The owner of the managing member is required to maintain in good standing its 501(c)(3) non-profit status. The tax-exemption is subject to change by an act of State Legislature. Such change may occur with little notice and would materially impact the rental operations of the project.

Supplementary Information

	2022	2021
Rental income:		
Residential income	**$ 1,229,334**	$ 1,243,509
Interest income:		
Interest income	**$ 6,473**	$ 96
Other income:		
Application fees	**$ 1,980**	$ 1,200
Laundry and vending	**814**	2,061
Damages and cleaning fees	**7,741**	15,518
Late fees	**16,171**	15,427
Cable TV fees	**7,137**	25,864
Water and sewer recoveries	**44,884**	39,195
Other revenue	**490**	4,865
	$ 79,217	$ 104,130
Administrative expenses:		
Administrative payroll	**$ 73,692**	$ 69,846
Health insurance and other benefits	**1,592**	809
Payroll taxes	**6,605**	6,561
Workers compensation	**689**	1,006
Advertising	**-**	80
Bad debt expense	**4,873**	10,465
Management consultant	**-**	862
Telephone, internet and cable	**4,740**	5,406
Office supplies and expenses	**1,993**	1,909
Administrative training expenses	**846**	488
Other administrative expenses	**19,678**	13,164
	$ 114,708	$ 110,596
Property management fees:		
Base management fee	**$ 54,910**	$ 51,621
	$ 54,910	$ 51,621

Beacon Ridge, LLC
NCHFA Project No. 9235554
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(3 pages)**

	2022	2021
Professional fees:		
Auditing and accounting	$ 13,832	$ 12,500
Legal fees	488	2,728
	$ 14,320	$ 15,228
Repairs and maintenance:		
Maintenance payroll	$ 51,182	$ 34,692
Repairs expense	47,405	41,158
Painting and decorating	16,831	11,065
Grounds maintenance	23,049	26,460
Cleaning expense	9,098	14,248
Exterminating	5,211	5,701
Fire alarm expense	6,637	5,815
Elevator	10,444	3,450
HVAC maintenance	11,894	5,260
Vehicle repairs and maintenance	-	16
Garbage removal	16,633	17,479
Other repairs and maintenance	15,536	5,958
	$ 213,920	$ 171,302
Taxes and insurance:		
Personal property tax	$ 5,462	$ 59
Property and liability insurance	63,006	23,722
Other insurance	100	199
	$ 68,568	$ 23,980
Utilities:		
Electricity	$ 30,416	$ 24,560
Water	21,725	24,028
Sewer	26,923	25,090
	$ 79,064	$ 73,678

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	2022	2021
Interest:		
Interest expense - Raleigh Housing Authority	**$ 395,798**	$ 473,813
Interest expense - City of Raleigh	**46,000**	46,000
Interest expense - Wake County	**22,854**	24,971
Interest expense - DHIC	**38,933**	-
Amortization of debt issuance costs	**21,147**	32,322
	$ 524,732	$ 577,106
Depreciation	**$ 620,374**	$ 620,375
Amortization	**$ 20,441**	$ 45,658
Lease expense	**$ 25,216**	$ -
Investor services fee	**$ 5,305**	$ 5,150
Company administration fee	**$ 47,741**	$ 46,350