Brookridge Housing, LLC

NCHFA Project No. 9002721

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

December 31, 2022 and 2021

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FORVIS

Independent Auditor's Report

Members
Brookridge Housing, LLC
NCHFA Project No. 9002721
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Brookridge Housing, LLC, NCHFA Project No. 9002721, 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 Brookridge Housing, 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.

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 Brookridge Housing, 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 Brookridge Housing, 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 Brookridge Housing, 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 Brookridge Housing, 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.

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 6, 2023

Brookridge Housing, LLC
NCHFA Project No. 9002721
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash	**$ 44,279**	$ 43,916
Accounts receivable, tenants	**4,605**	14,140
Prepaid expenses	**2,259**	11,291
Total current assets	**51,143**	69,347
Restricted deposits and funded reserves:		
Cash, operating reserve	**94,240**	94,025
Cash, special operating reserve	**275,406**	274,969
Cash, tenant security deposits	**18,036**	17,097
Cash, replacement reserve	**77,272**	81,954
Cash, tax and insurance escrow	**12,543**	4,205
	477,497	472,250
Rental property:		
Buildings	**3,286,811**	3,282,424
Land improvements	**544,973**	544,973
Furnishings and equipment	**142,170**	142,170
	3,973,954	3,969,567
Accumulated depreciation	**(2,040,110)**	(1,888,969)
	1,933,844	2,080,598
Land	**799,976**	799,976
	2,733,820	2,880,574
Other assets:		
Deferred tax credit fees (net of accumulated amortization of $48,860 in 2022 and $44,850 in 2021)	**11,284**	15,294
Prefunded asset management fee (net of accumulated amortization of $34,671 in 2022 and $32,004 in 2021)	**5,329**	7,996
	16,613	23,290
Total assets	**$ 3,279,073**	$ 3,445,461

See accompanying notes.

Brookridge Housing, LLC
NCHFA Project No. 9002721
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$ 5,656**	$ 7,814
Total current liabilities	**5,656**	7,814
Deposits and prepayment liabilities:		
Tenant security deposits	**18,036**	17,097
Prepaid rent	**1,784**	3,123
	19,820	20,220
Long-term liabilities:		
Accrued interest - other	**360,000**	330,000
Accrued interest - DHIC	**169,687**	162,946
Notes payable, net of unamortized debt issuance costs of $28,011 in 2022 and $29,572 in 2021	**2,159,532**	2,157,971
	2,689,219	2,650,917
Members' equity	**564,378**	766,510
Total liabilities and members' equity	**$ 3,279,073**	$ 3,445,461

Brookridge Housing, LLC
NCHFA Project No. 9002721
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rental income	**$ 229,706**	$ 229,065
Less: Vacancy loss	**(8,556)**	(4,343)
Less: Loss to lease	**(270)**	(957)
Less: Concessions	**-**	(368)
Net rent revenue	**220,880**	223,397
Other income	**11,480**	19,552
Total revenues	**232,360**	242,949
Expenses:		
Administrative	**76,424**	55,359
Utilities	**35,633**	45,442
Management fees	**20,104**	19,196
Repairs and maintenance	**82,467**	87,988
Taxes and insurance	**9,955**	9,399
Total expenses	**224,583**	217,384
Income from operations	**7,777**	25,565
Nonoperating (income) expenses:		
Interest expense	**44,761**	44,761
Interest income	**(916)**	(739)
Depreciation and amortization	**164,005**	162,686
Loss on Disposal	**2,059**	3,881
Total nonoperating expenses	**209,909**	210,589
Net loss	**$ (202,132)**	$ (185,024)

Brookridge Housing, LLC
NCHFA Project No. 9002721
Statements of Members' Equity (Deficit)
Years Ended December 31, 2022 and 2021

	2022			
	Managing Member	**Investor Members**	**Total**	**2021**
Balance (deficit), beginning	**$ (141)**	**$ 766,651**	**$ 766,510**	$ 951,534
Net loss	**(20)**	**(202,112)**	**(202,132)**	(185,024)
Balance (deficit), ending	**$ (161)**	**$ 564,539**	**$ 564,378**	$ 766,510

See accompanying notes.

Brookridge Housing, LLC
NCHFA Project No. 9002721
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net loss	**$ (202,132)**	$ (185,024)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	**157,328**	156,009
Amortization of intangible assets	**6,677**	6,677
Amortization of deferred financing costs	**1,561**	1,561
Loss on disposal of asset	**2,059**	3,881
Deferred interest expense	**36,741**	33,200
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	**9,535**	(11,937)
Prepaid expenses	**9,032**	(5,294)
Increase (decrease):		
Accounts payable and accrued expenses	**(2,158)**	(5,057)
Accounts payable to affiliate	**-**	(5,600)
Tenant security deposit liability	**939**	(190)
Prepaid rent	**(1,339)**	(2,140)
Net cash provided (used) by operating activities	**18,243**	(13,914)
Cash flows from investing activities		
Investment in rental property	**(12,633)**	(9,325)
Net increase (decrease) in cash	**5,610**	(23,239)
Cash and restricted deposits and funded reserves, beginning of year	**516,166**	539,405
Cash and restricted deposits and funded reserves, end of year	**$ 521,776**	$ 516,166
Reconciliation of cash, restricted deposits and funded reserves to the balance sheet:		
Cash	**$ 44,279**	$ 43,916
Restricted deposits and funded reserves	**477,497**	472,250
	$ 521,776	$ 516,166

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Brookridge Housing, LLC (the "Company") was organized for the purpose of developing, constructing, owning, maintaining, and operating a 41-unit apartment complex with 40 units being leased to low-income families located in Raleigh, North Carolina. The major activities of the Company are governed by the operating agreement and the loan agreements. The property was placed into service in September of 2010.

The Company has one managing member - Brookridge Affordable Housing, Inc., and two investor members - RBC Tax Credit Manager II, Inc. (special member), and RBC Tax Credit Equity National Fund - 16, LP (investor member). The ownership of the Company is as follows:

Brookridge Affordable Housing, Inc.	0.009%
RBC Tax Credit Manager II, Inc.	0.001%
RBC Tax Credit Equity National Fund - 16, LP	99.990%
	100.000%

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.

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.

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	15 years
Building	27.5 years
Furnishings and equipment	5 years

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

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.

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.

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 losses were recognized during 2022 and 2021.

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.

Other assets

Deferred tax credit fees are being amortized over 15 years. Prefunded asset management fees are being amortized over 15 years.

Concentrations of credit risk

The Company maintains its cash in financial institutions insured by 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.

Subsequent events evaluation

The Company evaluated the effect subsequent events would have on the financial statements through March 6, 2023, which is the date the financial statements were available to be issued.

Debt issuance costs

Loan costs are being amortized to interest expense over the life of the related loan.

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 special member is required to make a capital contribution of $10, which remains to be contributed as of December 31, 2022. The investor members are required to make capital contributions of $3,247,729, all of which has been contributed as of December 31, 2022.

3. Notes Payable

Details of the notes payable at December 31, 2022 and 2021 are as follows:

	2022	2021
Note payable to City of Raleigh, bearing interest at 2% with no principal or interest payments due until October 1, 2040. Accrued interest amounted to $219,000 and $201,000, respectively, at December 31, 2022 and 2021. Interest expense amounted to $18,000 for each of the years ended December 31, 2022 and 2021. The loan is collateralized by the first deed of trust on the rental property.	**$ 900,000**	$ 900,000
Note payable to Wake County, bearing interest at 2%. Interest will begin to accrue six months after the issuance of a Certificate of Occupancy which was issued on September 19, 2010. No payments of principal or interest are due until maturity on March 16, 2041. Accrued interest amounted to $141,000 and $129,000, respectively, at December 31, 2022 and 2021. Interest expense amounted to $12,000 for each of the years ended December 31, 2022 and 2021. The loan is collateralized by the second deed of trust on the rental property.	**600,000**	600,000
Noninterest-bearing mortgage payable to the North Carolina Housing Finance Agency ("NCHFA"), with no payments until maturity on May 13, 2041. The note is collateralized by the third deed of trust on the rental property.	**423,543**	423,543
Note payable to DHIC, Inc. ("DHIC"), an affiliate of the managing member, in the amount of $264,000, bearing interest at 5% will be payable in one single payment on September 30, 2038. Accrued interest amounted to $169,687 and $162,946, respectively, at December 31, 2022 and 2021. Interest expense amounted to $13,200 for each of the years ended December 31, 2022 and 2021. Interest paid during 2022 and 2021 was $6,459 and $10,000, respectively. The loan is collateralized by the fourth deed of trust on the rental property.	**264,000**	264,000
Less: unamortized debt issuance costs	**(28,011)**	(29,572)
	$ 2,159,532	$ 2,157,971

Interest cost incurred during each of the years ended December 31, 2022 and 2021 amounted to $43,200, net of deferred financing costs amortized to interest expense of $ 1,561 for each of the years then ended.

4. Related-Party Transactions

Development fee

The Company incurred a development fee of $430,500 payable to DHIC for services rendered to the Company for overseeing the construction of the complex. As of December 31, 2022 , the total fee has been earned and capitalized into the basis of the building. As of December 31, 2022 the entire fee had been paid.

Incentive management fee

The Company has entered into an incentive management fee agreement with the managing member for its services in managing the business. This management fee is based on net cash flow as defined in Note 8 and is not cumulative. No incentive management fees were incurred for the years ended December 31, 2022 and 2021.

5. Reserves

Operating reserve funding

The operating agreement requires the Company to fund an operating reserve account in an initial amount of $91,055. Withdrawals require NCHFA approval if the balance is below the required minimum balance ($92,784) per the loan agreement, or if the withdrawal would cause the reserve balance to fall below the required minimum balance. Withdrawals must also be approved by the special member. An analysis of the operating reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 94,025**	$ 93,810
Interest, net of fees	**215**	215
Balance, ending	**$ 94,240**	$ 94,025

Replacement reserve funding

The operating agreement requires that a reserve for replacements be funded in the amount of $10,250 per year, increasing at 4% annually. This reserve is utilized to fund major repairs, capital expenditures and replacements of capital items in the project. All withdrawals must be approved by the NCHFA and the special member.

An analysis of the replacement reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 81,954**	$ 86,180
Annual funding	**15,780**	15,173
Approved withdrawals	**(20,593)**	(19,437)
Interest, net of fees	**131**	38
Balance, ending	**$ 77,272**	$ 81,954

Special operating reserve funding

The operating agreement requires the special operating reserve be funded in the amount of $378,819. The special operating reserve was funded from the fourth capital contribution. Withdrawals must be approved by the special member. During the period of the operating deficit guaranty, the managing member shall be entitled to withdraw funds, subject to the special member consent, up to an aggregate amount of $91,000 for payments required under the operating deficit guaranty. In the event that there are any funds remaining in this special operating reserve upon the expiration of the compliance period, they shall be distributed as net cash flow in accordance with Note 7, herein. An analysis of the special operating reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 274,969**	$ 274,515
Interest, net of fees	**437**	454
Balance, ending	**$ 275,406**	$ 274,969

6. Property Management Agreement

The Company has entered into a management agreement with Community Management Corporation ("CMC"), an unaffiliated management company, to provide property management services to the Project. The management agent will be compensated at the rate of 8.94% of gross collections, as defined. The term of the agreement is three years from the date of initial occupancy and renews for successive terms automatically under certain conditions, as defined. Management fee expense amounted to $20,104 and $19,196, respectively, for the years ended December 31, 2022 and 2021. As of December 31, 2022 and 2021, $1,852 and $1,930, respectively, remained payable.

7. Company Profits, Losses and Distributions

The interest of the managing member is 0.009% and the interest of the investor members is 99.991%.

Distributable cash flow is payable annually in the following order:

1. To the investor members until the aggregate amount of distributions made to the investor member for the current and all prior years equals the assumed investor members' tax liability for the current and all prior years;
2. To the investor members for any unpaid tax credit shortfalls, or investor members' advances;
3. To the extent any amounts have been withdrawn from the operating reserve, to the replenishment of the operating reserve;
4. To the managing member until the aggregate amount of distributions made to the managing member for the current and all prior years equal the assumed managing member tax liability for the current and all prior years;
5. To the payment of any amounts due under the development agreement;
6. After the end of the compliance period, to the repayment of the project loans in the following priority (1) the Wake County Loan and (2) the City Loan;
7. Following the full payment of amounts due under the development agreement, to the pro rata payment of any outstanding operating deficit loans, managing member loans, or managing member guarantee loans based upon the respective outstanding balances of each;
8. 80% of all amounts remaining to the managing member as payment of the incentive management fee; and
9. Thereafter, the balance to the members in accordance with their percentage interests.

8. Contingencies, Risks and Uncertainties

The Company's sole asset is its 41-unit low-income 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.

Supplementary Information

Brookridge Housing, LLC
NCHFA Project No. 9002721
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Rental income:		
Residential income	**$ 220,880**	$ 223,397
Interest income:		
Interest income	**$ 916**	$ 739
Other income:		
Application fees	**$ 420**	$ 335
Damages and cleaning fees	**1,502**	3,501
Other income	**9,558**	15,716
	$ 11,480	$ 19,552
Administrative:		
Advertising/marketing/renting expenses	**$ 1,421**	$ 810
Office payroll and related expenses	**14,857**	9,698
Office supplies	**6,745**	4,074
Audit fees	**12,632**	6,720
Manager salaries	**19,820**	22,010
Telephone	**5,527**	6,014
Payroll taxes	**2,748**	3,238
Bad debt	**7,673**	307
Miscellaneous	**5,001**	2,488
	$ 76,424	$ 55,359
Utilities:		
Electricity	**$ 26,488**	$ 26,630
Water	**3,978**	7,642
Sewer	**5,167**	11,170
	$ 35,633	$ 45,442
Management fees:		
Management fees	**$ 20,104**	$ 19,196

Brookridge Housing, LLC
NCHFA Project No. 9002721
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Repairs and maintenance:		
Grounds maintenance	$ 18,046	$ 7,771
Repairs supplies	8,779	11,507
Painting/decorating	4,795	3,602
Janitor and cleaning contract	4,871	5,063
Repairs and maintenance payroll	20,445	22,480
Exterminating contract	1,877	3,365
Garbage and trash	6,860	6,403
Fire protection	5,813	8,528
Other repairs and maintenance	10,981	19,269
	$ 82,467	$ 87,988
Taxes and insurance:		
Property insurance	$ 9,668	$ 9,007
Other insurance	100	99
Property taxes	187	293
	$ 9,955	$ 9,399
Interest expense:		
Interest expense - DHIC	$ 13,200	$ 13,200
Interest expense - City of Raleigh	18,000	18,000
Interest expense - Wake County	12,000	12,000
Amortization of deferred financing costs	1,561	1,561
	$ 44,761	$ 44,761
Depreciation and amortization:		
Depreciation	$ 157,328	$ 156,009
Amortization	6,677	6,677
	$ 164,005	$ 162,686
Loss on disposal	$ 2,059	$ 3,881