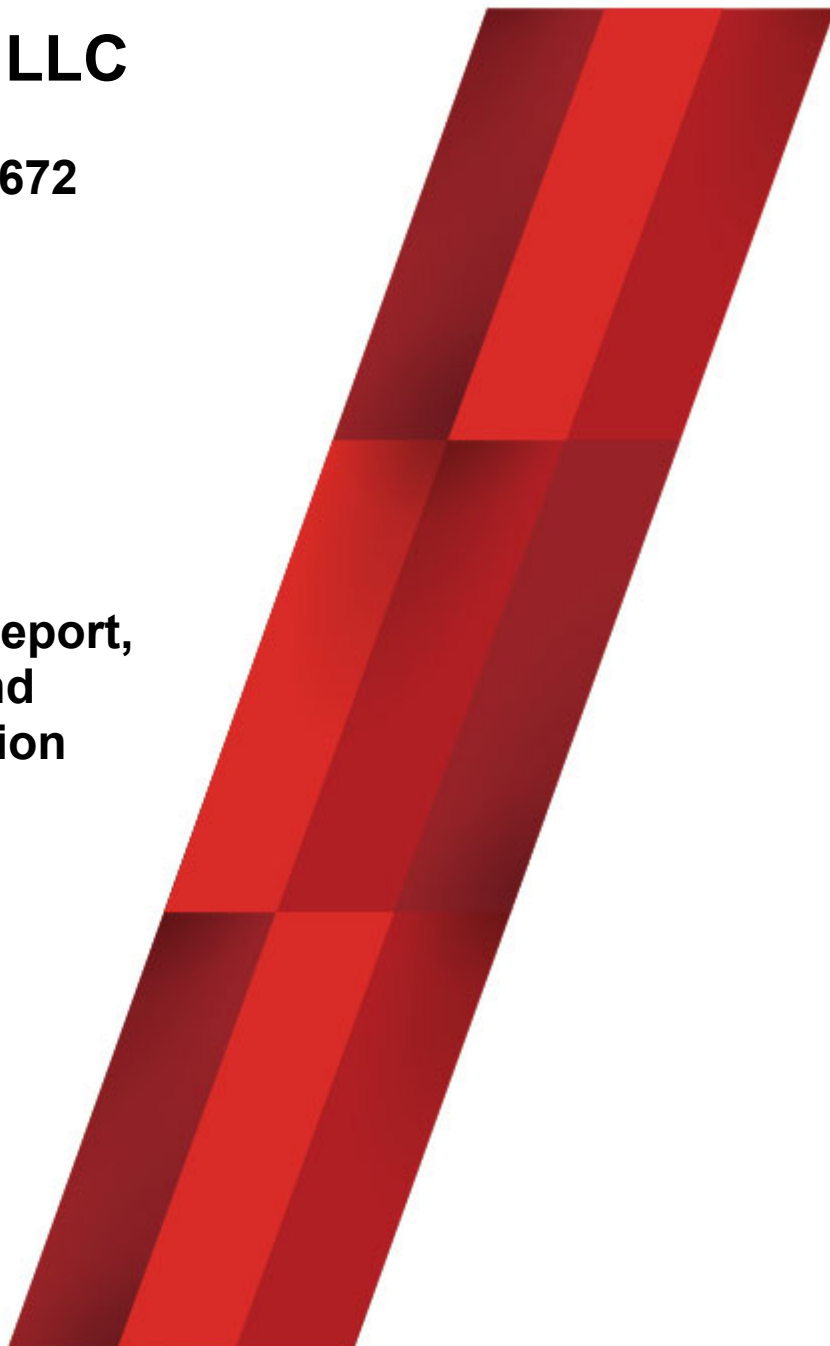


# **Capital Towers III, LLC**

**NCHFA Project No. 9250672**

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

**December 31, 2022 and 2021**



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## Independent Auditor's Report

Members  
Capital Towers III, LLC  
NCHFA Project No. 9250672  
Raleigh, NC

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the financial statements of Capital Towers III, LLC (NCHFA Project No. 9250672), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income and comprehensive income, 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 Capital Towers III, 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 Capital Towers III, 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 Capital Towers III, 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 Capital Towers III, 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 Capital Towers III, 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.

# FORVIS

## 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  
May 5, 2023

**Capital Towers III, LLC**  
**NCHFA Project No. 9250672**  
**Balance Sheets**  
**December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Current assets:		
Cash, operating	\$ 67,835	\$ 815,900
Cash, construction	53,611	915,659
Accounts receivable, tenants	13,732	8,097
Accounts receivable, other	1,139,883	6,408
Interest receivable	35,545	-
Prepaid insurance	13,970	56,432
Lender good faith deposit	-	155,000
	<u>1,324,576</u>	<u>1,957,496</u>
Total current assets		
Restricted deposits and funded reserves:		
Cash, replacement reserve	155,942	51,976
Cash, operating reserve	860,016	-
Cash, tenant security deposits	217,753	209,980
Cash, tax and insurance escrow	72,831	1,147
Cash, bond reserves	101,040	15,573,061
	<u>1,407,582</u>	<u>15,836,164</u>
Total restricted deposits and funded reserves		
Rental property:		
Land	-	5,810,969
Land improvements	600,000	600,000
Building	33,497,883	34,365,542
Furniture and fixtures	540,451	540,451
Construction in process	443,194	-
	<u>35,081,528</u>	<u>41,316,962</u>
Less accumulated depreciation	<u>(2,314,767)</u>	<u>(1,420,392)</u>
	<u>32,766,761</u>	<u>39,896,570</u>
Other assets:		
Investments in held-to-maturity securities	15,398,368	-
Finance lease right-of-use asset, net	5,730,818	-
Deferred tax credit fees, net of accumulated amortization of \$53,156 in 2022 and \$17,668 in 2021	461,339	247,347
	<u>21,590,525</u>	<u>247,347</u>
	<u>\$ 57,089,444</u>	<u>\$ 57,937,577</u>

See accompanying notes.

Capital Towers III, LLC  
NCHFA Project No. 9250672  
Balance Sheets  
December 31, 2022 and 2021

(2 pages)

	<u>2022</u>	<u>2021</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Current liabilities:		
Current maturities of notes payable	\$ 279,428	\$ -
Accounts payable, trade	133,994	83,364
Accounts payable, other	157,273	-
Accounts payable, affiliate	2,400	155,521
Accrued investor services fee	-	5,300
Accrued company administration fee	188,264	139,091
Development fee payable	439,981	1,614,800
Accrued interest, current	110,388	112,858
	<u>1,311,728</u>	<u>2,110,934</u>
Deposits and prepayment liabilities:		
Tenant security deposits	208,213	209,976
Prepaid rent	40,978	35,419
	<u>249,191</u>	<u>245,395</u>
Long-term liabilities:		
Construction loan payable	-	17,961,815
Bonds payable, net of unamortized debt issuance costs of \$591,034 in 2022 and \$624,647 in 2021, net of current maturities	14,908,966	14,875,353
Notes payable, net of unamortized debt issuance costs of \$661,516 in 2022 and \$604,956 in 2021	29,458,222	14,153,923
Capital lease note payable	-	4,271,601
Finance lease liability	4,516,838	-
Accrued interest, noncurrent	673,045	242,820
	<u>49,557,071</u>	<u>51,505,512</u>
Members' equity	<u>5,971,454</u>	<u>4,075,736</u>
	<u>\$ 57,089,444</u>	<u>\$ 57,937,577</u>

See accompanying notes.

**Capital Towers III, LLC**  
**NCHFA Project No. 9250672**  
**Statements of Income and Comprehensive Income**  
**Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Revenue:		
Gross rental income	\$ 2,858,454	\$ 2,839,932
Less:		
Vacancy loss	(78,920)	(727,030)
Concessions and gain or loss to lease	(78,777)	(139,917)
Total rental income	<u>2,700,757</u>	1,972,985
Other income:		
Interest income	235,430	162,845
Other	230,159	275,732
Total income	<u>3,166,346</u>	<u>2,411,562</u>
Expenses:		
Administrative	399,282	432,945
Professional fees	52,778	47,110
Utilities	350,611	299,075
Management fees	170,155	178,045
Repairs and maintenance	616,393	611,530
Taxes and insurance	64,569	53,313
Depreciation	937,778	932,402
Amortization	115,639	17,668
Total operating expense	<u>2,707,205</u>	<u>2,572,088</u>
Income (loss) from operations	<u>459,141</u>	<u>(160,526)</u>
Nonoperating (income) expenses:		
Interest expense	1,815,796	1,613,508
Realized losses on investments	-	16,541
Investor services fee	5,464	5,300
Company administration fee	49,173	139,091
Casualty gain	(150,048)	-
Total nonoperating expenses	<u>1,720,385</u>	<u>1,774,440</u>
Net loss	<u>(1,261,244)</u>	<u>(1,934,966)</u>
Other comprehensive income:		
Change in unrealized gain on available-for-sale securities	-	(136,271)
Total comprehensive loss	<u>\$ (1,261,244)</u>	<u>\$ (2,071,237)</u>

See accompanying notes.



**Capital Towers III, LLC**  
**NCHFA Project No. 9250672**  
**Statements of Members' Equity (Deficit)**  
**Years Ended December 31, 2022 and 2021**

	<u>Six Forks Seniors, Inc.</u>	<u>PHI Capital Towers Development, LLC</u>	<u>Enterprise Housing Partners XXX LP</u>	<u>Enterprise Housing Partners XXXI LP</u>	<u>Enterprise Housing Partners XXXII LP</u>	<u>Total</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, January 1, 2021	\$ (38)	\$ 63	\$ 506,021	\$ 1,007,223	\$ 414,455	\$ 1,927,724	\$ 136,271	\$ 2,063,995
Contributions	-	-	1,071,782	2,133,356	877,840	4,082,978	-	4,082,978
Change in unrealized gain on available-for- sale securities	-	-	-	-	-	-	(136,271)	(136,271)
Net loss	<u>(153)</u>	<u>(41)</u>	<u>(507,878)</u>	<u>(1,010,917)</u>	<u>(415,977)</u>	<u>(1,934,966)</u>	<u>-</u>	<u>(1,934,966)</u>
Balance (deficit), December 31, 2021	(191)	22	1,069,925	2,129,662	876,318	4,075,736	-	4,075,736
Contributions	-	-	828,703	1,649,512	678,747	3,156,962	-	3,156,962
Net loss	<u>(100)</u>	<u>(26)</u>	<u>(331,044)</u>	<u>(658,933)</u>	<u>(271,141)</u>	<u>(1,261,244)</u>	<u>-</u>	<u>(1,261,244)</u>
Balance (deficit), December 31, 2022	<u>\$ (291)</u>	<u>\$ (4)</u>	<u>\$ 1,567,584</u>	<u>\$ 3,120,241</u>	<u>\$ 1,283,924</u>	<u>\$ 5,971,454</u>	<u>\$ -</u>	<u>\$ 5,971,454</u>

See accompanying notes.

**Capital Towers III, LLC**  
**NCHFA Project No. 9250672**  
**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

**(2 pages)**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net loss	\$ (1,261,244)	\$ (1,934,966)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	937,778	932,402
Amortization	115,639	17,668
Amortization of deferred financing costs	79,247	150,855
Loss on sale of investments	-	16,541
Casualty gain	(150,048)	-
Compounded interest on finance lease	245,237	232,262
Interest on bonds payable converted to notes payable upon refinancing	-	175,139
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	(5,635)	(5,352)
Accounts receivable, other	(151,019)	(5,349)
Accrued interest receivable	(35,545)	904
Prepaid insurance	42,462	(25,337)
Increase (decrease):		
Accounts payable, trade	70,630	8,561
Accounts payable, other	157,273	-
Accrued investor services fee	(5,300)	150
Accrued company administration fee	49,173	139,091
Unearned revenue	-	(5,000)
Accrued interest	427,755	289,078
Tenant security deposit liability	(1,763)	103,150
Prepaid rent	5,559	23,619
Net cash provided by operating activities	<u>520,199</u>	<u>113,416</u>
Cash flows from investing activities:		
Purchase of investments in held-to-maturity securities	(15,398,368)	-
Proceeds from sale of available-for-sale securities	-	15,461,000
Payment of deferred tax credit fees	(249,480)	-
Investment in rental property	(1,799,286)	(5,664,688)
Net cash provided (used) by investing activities	<u>(17,447,134)</u>	<u>9,796,312</u>
Cash flows from financing activities:		
Member contributions	3,156,962	4,082,978
Proceeds from notes payable	16,000,000	3,207,217
Payments of notes payable	(359,713)	-
Payment of deferred financing costs	(102,194)	(23,250)
Proceeds from construction loan payable	-	6,894,449
Payment of construction loan payable	(17,961,815)	(7,348,943)
Return of good faith deposit with permanent lender	155,000	-
Net cash provided by financing activities	<u>888,240</u>	<u>6,812,451</u>

See accompanying notes.

**Capital Towers III, LLC**  
**NCHFA Project No. 9250672**  
**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

**(2 pages)**

	<b>2022</b>	<b>2021</b>
Net increase (decrease) in cash, restricted deposits, and funded reserves	<b>\$ (16,038,695)</b>	\$ 16,722,179
Cash, restricted deposits, and funded reserves, beginning of year	<b>17,567,723</b>	845,544
Cash, restricted deposits, and funded reserves, end of year	<b><u>\$ 1,529,028</u></b>	<b><u>\$ 17,567,723</u></b>
Supplemental disclosure of cash flow information:		
Cash paid for interest, including capitalized interest of \$0 in 2022 and \$21,918 in 2021	<b><u>\$ 1,063,557</u></b>	<b><u>\$ 788,092</u></b>
Supplemental disclosures of noncash investing and financing activities:		
Construction costs, included in liability accounts:		
Development fee payable	\$ -	\$ 120,300
Accounts payable, trade	-	20,000
Accounts payable, construction	<b>157,273</b>	-
	<b><u>\$ 157,273</u></b>	<b><u>\$ 140,300</u></b>
Conversion of accrued interest to principal upon refinancing	<b><u>\$ -</u></b>	<b><u>\$ 564,209</u></b>
Net change in unrealized gains on available-for-sale securities	<b><u>\$ -</u></b>	<b><u>\$ (136,271)</u></b>
Reconciliation of cash, restricted deposits and funded reserves to balance sheet:		
Cash, operating	<b>\$ 67,835</b>	\$ 815,900
Cash, construction	<b>53,611</b>	915,659
Cash, replacement reserve	<b>155,942</b>	51,976
Cash, operating reserve	<b>860,016</b>	-
Cash, tenant security deposits	<b>217,753</b>	209,980
Cash, tax and insurance escrow	<b>72,831</b>	1,147
Cash, bond reserves	<b>101,040</b>	15,573,061
	<b><u>\$ 1,529,028</u></b>	<b><u>\$ 17,567,723</u></b>

## Notes to Financial Statements

### 1. Nature of Operations and Significant Accounting Policies

#### *Nature of operations*

Capital Towers III, LLC (the “Company”) was organized on January 14, 2016 for the purpose of acquiring, developing, rehabilitating, leasing, managing, and operating a 297-unit apartment complex (the “project”) for rental to seniors in Raleigh, North Carolina commonly known as “Capital Towers”. The major activities of the Company are governed by the operating agreement and the loan agreements. The property was acquired in June 2019 and has been in operation since the acquisition.

In June of 2019, the operating agreement was amended to admit an investor member. As a result, the Company had one managing member - Six Forks Seniors, Inc.; one special member - PHI Capital Towers Development, LLC; and one investor member - Wincopin Circle LLLP.

Effective December 12, 2019, Wincopin Circle LLLP assigned its investor member interest to Enterprise Housing Partners XXX Limited Partnership, Enterprise Housing Partners XXXI Limited Partnership and Enterprise Housing Partners XXXII Limited Partnership.

The ownership of the Company is as follows:

Six Forks Seniors, Inc.	0.0079%
PHI Capital Towers Development, LLC	0.0021%
Enterprise Housing Partners XXX Limited Partnership	26.2474%
Enterprise Housing Partners XXXI Limited Partnership	52.2447%
Enterprise Housing Partners XXXII Limited Partnership	<u>21.4979%</u>
	<u>100.0000%</u>

The Company expects to receive 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.

#### *Change in accounting principle*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Company adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Company elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Company has a lease agreement with non-lease components that relate to the lease components. The Company elected the practical expedient to account for non-lease components and the lease components to which they relate as a single lease component for all leases. Also, the Company elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Company did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022. As a result of implementation of Topic 842, the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect our Statements of Income and Comprehensive Income or Cash Flows.

### ***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 Fannie Mae mortgage-backed securities, and are classified as held-to-maturity. 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. All current investments are considered held-to-maturity and are carried at amortized cost on the balance sheets. The Company has both the intent and the ability to hold the investments to maturity.

Available-for-sale securities were stated at fair value, and unrealized holding gains and losses were reported as accumulated other comprehensive 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. During the year ended December 31, 2021, the remaining available-for-sale securities were sold, and all previously unrealized gains on the available-for-sale securities were realized.

**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.

**Restricted cash**

Restricted cash consists of tenant security deposits and escrow deposits held in segregated accounts for property taxes and insurance, and bond reserves required by the terms of the trust indenture. 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.

**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	40 years
Furnishings and equipment	5 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 to be amortized using the straight-line method over the 15-year monitoring period, which commenced in 2021.

**Lease liabilities**

The Company determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the Balance Sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Company determines lease classification as operating or finance at the lease commencement date. Finance leases are included in long-term liabilities in the balance sheets.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives, as applicable. The Company uses the implicit rate in the lease agreement for its only lease.

The Company has no operating lease liabilities. For finance leases, after lease commencement the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment made during the period. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of (1) the end of the useful life of the ROU asset, or (2) the end of the lease term. If the underlying asset is transferred to the Company at the end of the lease term (either through a contract provision or purchase option that the Company is reasonably certain to exercise), the ROU asset is amortized over the useful life of the underlying asset. Amortization is straight-line unless another basis is more representative of the pattern in which benefit is expected to be derived from the right to use the underlying asset. The discount rate used by the Company for the finance lease is 5.75%, which is the rate implicit in the lease agreements.

The Company has elected not to record leases with an initial term of 12 months or less on the Balance Sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

#### ***Debt issuance costs***

Debt issuance costs represent costs incurred in conjunction with acquiring debt facilities. In accordance with GAAP, the debt issuance costs are presented as an offset of the related debt instruments within the liabilities section of the Balance Sheet. Amortization expense is included in interest expense on the accompanying Statement of Income and Comprehensive Income. The costs are amortized over the terms of the related debt using a method that approximates the effective interest method.

#### ***Revenue recognition***

Rental revenue attributed to residential leases is recorded on a straight-line basis over the term of the lease. Residential 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.

Rental revenue attributed to cell tower leases is recognized on a straight-line basis over the lives of the individual lease terms.

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.

#### ***Advertising***

The Company expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2022 and 2021 and amounted to \$2,320 and \$4,299, respectively.

#### ***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.

### ***Subsequent events***

The Company evaluated the effect subsequent events would have on the financial statements through May 5, 2023, which is the date the financial statements were available to be issued.

## **2. Members' Capital Contributions**

The managing member and special member are required to make a capital contributions of \$100 each, all of which has been contributed as of December 31, 2022 and 2021. The investor member is required to make capital contributions of \$11,330,612, net of a downward tax credit equity adjuster of \$423,638. As of December 31, 2022 and 2021, \$10,943,458 and \$7,786,496 has been contributed, respectively.

## **3. Bonds Payable**

### ***Series 2019B Bonds***

To finance a portion of the purchase of the Project and certain rehabilitation expenditures in order to qualify for federal tax credits, on June 1, 2019, the Raleigh Housing Authority (the "Housing Authority") issued Series 2019B Multifamily Housing Revenue Bonds in the amount of \$6,500,000. The bond bore interest at 5.75%, compounding annually. No payments were due until the maturity date of June 1, 2021 at which time all unpaid principal and interest was due. Substantially all of the Partnership's property is pledged under the fourth lien deed of trust collateralizing the note. Upon issuance, the Series 2019B Multifamily Housing Revenue Bonds were purchased by Capital Towers, Inc., the previous owner of the project. The Housing Authority then assigned the promissory note and deed of trust securing the bonds to Capital Towers, Inc. The total sales price of the project from Capital Towers, Inc. to the Company was \$10,650,000. Capital Towers, Inc. purchased the bonds for \$6,500,000 through simultaneously conveying the project to the Company. Of the \$6,500,000 bonds payable to Capital Towers, Inc., \$2,100,000 shall be deemed to be repaid in accordance with the Ground Lease (see Note 12).

Effective on the original maturity date, June 1, 2021, the Company entered into an amended and restated promissory note with Capital Towers, Inc. in the amount of \$7,239,348 (see Note 4), representing the original principal balance of \$6,500,000, and accrued interest through May 31, 2021, of \$239,348. Interest expense under the original Series 2019B bonds payable amounted to \$239,746 for the period from January 1, 2021 through May 31, 2021, inclusive of deferred financing fees amortized to interest expense of \$64,607.



**Series 2019A bonds**

To finance the rehabilitation of the project in order to qualify for federal tax credits, on June 1, 2019, the Raleigh Housing Authority (the "Housing Authority") issued Series 2019A Multifamily Housing Revenue Bonds in the amount of \$15,500,000. The bonds bear interest at an annual rate of 2.77%. Interest-only payments are due monthly commencing on July 25, 2019. All remaining principal and accrued interest are due in full on the maturity date of July 25, 2040. The bonds are evidenced by a bond loan note. The bond loan note shall be deemed paid if and when conversion to permanent financing occurs, whereby the project obtains the permanent first mortgage loan from Prudential Multifamily Mortgage, LLC (see Note 4). Accrued interest amounted to \$7,156 at both December 31, 2022 and 2021. Interest incurred for each of the years ended December 31, 2022 and 2021 totaled \$468,926, of which \$33,613 per year represents deferred financing fees amortized to interest expense. Of this amount, \$468,926 was expensed and \$0 was capitalized as a cost of construction during the year ended December 31, 2022, and \$456,638 was expensed and \$12,288 was capitalized as a cost of construction during the year ended December 31, 2021.

The Series 2019A and Series 2018B 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.

**Summary of bond obligations**

Balances payable under the bonds at December 31, 2022 are as follows:

	<u>Total Outstanding</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Series 2019A	\$ 15,500,000	\$ -	\$ 15,500,000
Less unamortized debt issuance costs	<u>(591,034)</u>	<u>-</u>	<u>(591,034)</u>
	<u>\$ 14,908,966</u>	<u>\$ -</u>	<u>\$ 14,908,966</u>

Balances payable under the bonds at December 31, 2021 are as follows:

	<u>Total Outstanding</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Series 2019A	\$ 15,500,000	\$ -	\$ 15,500,000
Less unamortized debt issuance costs	<u>(624,647)</u>	<u>-</u>	<u>(624,647)</u>
	<u>\$ 14,875,353</u>	<u>\$ -</u>	<u>\$ 14,875,353</u>

**4. Notes Payable**

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

	<b>2022</b>	<b>2021</b>
<p>Note payable to PGIM Real Estate Agency Financing, LLC in the maximum amount of \$15,500,000, with interest accruing at 3.82%, with all outstanding principal and interest due July 1, 2040. The note following a 35-year amortization schedule, and requires monthly payments of principal and interest in the amount of \$66,967, which commenced on July 1, 2022. On the maturity date, all outstanding principal and interest shall be due in a balloon payment, in the estimated amount of \$9,229,196. For the years ended December 31, 2022 and 2021, interest expense amounted to \$370,495 and \$0, respectively, including deferred financing costs amortized to interest expense of \$19,675 and \$0, respectively. Accrued interest as of December 31, 2022 and 2021 was \$50,652 and \$0, respectively. Interest paid for the years ended December 31, 2022 and 2021 amounted to \$300,168 and \$0, respectively. The note is secured by the first lien Deed of Trust on the property.</p>	<p><b>\$ 15,398,368</b></p>	<p><b>\$ -</b></p>
<p>Note payable to the City of Raleigh in the maximum amount of \$5,600,000, with interest accruing at 1%. During the construction period, no payments of principal and interest are due under the note. On December 1, 2021, the date that was the first day of the month following 180 days after the issuance of certificates of occupancy for the project, interest accruing during the construction period was due. This payment was made in April 2022, totaling \$78,748. During the permanent phase, the note shall be repaid from net cash flow (see Note 14), in annual amounts ranging from \$10,690 to \$28,679. During 2022, an annual payment from net cash flow was made in the amount of \$10,690. All outstanding principal and interest, if any, shall be due and payable on December 31, 2041. For the years ended December 31, 2022 and 2021, interest expense amounted to \$58,716 and \$49,897, respectively, including deferred financing costs amortized to interest expense of \$1,938 per year. Accrued interest as of December 31, 2022 and 2021 was \$45,008 and \$77,668, respectively. Interest paid for the years ended December 31, 2022 and 2021 amounted to \$89,438 and \$0, respectively. The note is secured by the second lien Deed of Trust on the property.</p>	<p><b>5,600,000</b></p>	<p><b>5,600,000</b></p>

**Capital Towers III, LLC**  
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	<u>2022</u>	<u>2021</u>
<p>Note payable to North Carolina Housing Finance Agency (“NCHFA”) in the maximum amount of \$2,000,000, with interest accruing at 2.00%. During the construction period, no payments of principal and interest are due under the note. Final disbursement of the loan occurred on June 1, 2022, at which time the loan converted to its permanent phase. Monthly payments of principal and interest are due under the loan, commencing August 1, 2023, in monthly amounts ranging from \$8,230 to \$51,891. All outstanding principal and interest, if any, shall be due and payable on July 1, 2042 (the maturity date). Accrued interest amounted to \$3,285 and \$0 as of December 31, 2022 and 2021. Interest expense amounted to \$20,413 and \$0 for the years ended December 31, 2022 and 2021, respectively, including deferred financing costs amortized to interest expense of \$558 and \$0, respectively. Interest paid for the years ended December 31, 2022 and 2021 amounted to \$16,570 and \$0, respectively. The note is secured by the third lien Deed of Trust on the property.</p>	\$ 1,970,919	\$ 1,500,000
<p>Note payable to Capital Towers, Inc. (the “Seller”), dated June 1, 2021, in the amount of \$7,239,348, with interest accruing at 5.75% per annum, compounding annually. The note shall be repaid from net cash flow (see Note 14). All outstanding principal and interest shall be due and payable on July 1, 2041, the maturity date. For the years ended December 31, 2022 and 2021, interest expense amounted to \$430,225 and \$242,820, respectively. Accrued interest as of December 31, 2022 and 2021 was \$673,045 and \$242,820, respectively. The loan is secured by a fourth lien Deed of Trust on the property.</p>	7,239,348	7,239,348
<p>Note payable to Capital Towers, Inc. (the “Seller”), in the amount of \$190,531, with interest accruing at 0% until June 30, 2022 at which time interest will begin to accrue at 4.5%, compounding annually. The note shall be repaid from net cash flow (see Note 14). All outstanding principal and interest shall be due and payable July 1, 2041, the maturity date. Interest expense amounted to \$5,298 and \$1,011 for the years ended December 31, 2022 and 2021, respectively, including deferred financing costs amortized to interest expense of \$1,011 per year. Accrued interest as of December 31, 2022 and 2021 was \$4,287 and \$0, respectively. The loan is secured by a co-fifth lien Deed of Trust on the property.</p>	190,531	190,531

**Capital Towers III, LLC**  
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	<u>2022</u>	<u>2021</u>
Noninterest-bearing note payable to Six Forks Seniors, Inc. (the Managing Member) in the amount of \$229,000. The note is considered to be a Development Advance, as defined in the operating agreement, and is payable from net cash flow (see Note 14). All outstanding principal shall be due and payable on December 31, 2041, the maturity date. The note was repaid during 2022 upon closing of the permanent first mortgage loan, and receipt of additional capital contributions from the investor member.	\$ -	\$ 229,000
	<b>30,399,166</b>	14,758,879
Less: current maturities	<b>(279,428)</b>	-
Less: unamortized debt issuance costs	<b>(661,516)</b>	(604,956)
	<b><u>\$ 29,458,222</u></b>	<b><u>\$ 14,153,923</u></b>

Total estimated principal maturities of the notes payable subsequent to December 31, 2022 are as follows:

2023	\$ 279,428
2024	284,379
2025	296,335
2026	306,938
2027	317,786
Thereafter	<u>28,914,300</u>
	<b><u>\$ 30,399,166</u></b>

## 5. Construction Loan Payable

The Company obtained a construction loan from Wells Fargo Bank in the maximum amount of \$22,000,000, bearing interest at the 30-day LIBOR rate plus 1.65% (variable), for the purposes of rehabilitating the project. As of December 31, 2021, the interest rate on the loan was 1.8125%. The construction loan had an original maturity date of June 28, 2021, but was extended to June 28, 2022. As of December 31, 2021, the outstanding balance on the loan was \$17,961,815. The loan was repaid in full on June 1, 2022, with proceeds from the permanent first mortgage loan, as well as additional proceeds received under the NCHFA loan, and investor member capital contributions. Total interest incurred under the loan during the years ended December 31, 2022 and 2021 amounted to \$154,690 and \$351,079, respectively, of which \$154,690 was expensed and \$0 was capitalized during 2022, and \$341,448 was expensed and \$9,631 was capitalized during 2021. During the years ended December 31, 2022 and 2021, interest paid amounted to \$182,724 and \$352,780 respectively. Accrued interest as of December 31, 2022 and 2021 was \$0 and \$28,034, respectively. For the years ended December 31, 2022 and 2021 deferred financing costs amortized to interest expense amounted to \$0 and \$49,686, respectively.

## 6. Construction Contract

The Company entered into a construction contract in September 2016 for services related to rehabilitation of the project. The total contract price under the construction contract amounted to \$26,682,799, including change orders of \$1,218,779, all of which has been capitalized to the rental property. During the year ended December 31, 2021, the balance remaining under the construction contract, including all retainage, was paid in full.

## 7. Related-Party Transactions

### *Accounts payable - affiliate*

As of December 31, 2022 and 2021, accounts payable, affiliate consisted of \$2,400 and \$155,521, respectively, in advances from DHIC, Inc., an affiliate of the managing member, for development and operational costs.

### *Development fee*

The Company incurred a development fee of \$1,900,000 payable to DHIC for services rendered to the Company for overseeing the construction of the project. As of December 31, 2022 and 2021, the entire fee has been earned. As of December 31, 2022 and 2021, \$439,981 and \$1,614,800, respectively, remained payable. The deferred portion of the development fee, as defined in the development services agreement, shall be repaid out of available cash flow, as defined in the operating agreement (see Note 14), and shall accrue interest at a rate of 6.75%. Any unpaid portion of the development fee that has not been paid in full before the end of the tax credit compliance period for the first building to start the credit shall be due in full no later than December 31, 2034. Interest incurred and paid under the development services agreement amounted to \$39,344 and \$0 for the years ended December 31, 2022 and 2021, respectively.

### *Investor services fee*

The Company is required to pay the investor member a cumulative, annual investor services fee of \$5,000 to be increased annually by 3%. In the initial year of operations, the fee is to be prorated for the number of months that the Company receives rental income. This fee is compensation for property management oversight, tax credit compliance and monitoring and related services. The investor services fee is payable annually, out of the Company's available cash flow (see Note 14). Investor services fees incurred for the years ended December 31, 2022 and 2021 amounted to \$5,464 and \$5,300, of which \$0 and \$5,300 remained payable as of December 31, 2022 and 2021, respectively.

### *Company administration fee*

Beginning in 2019, the Company shall pay to DHIC, Inc., the administrator, over the term of the agreement, an annual company administration fee of \$45,000. After 2019, 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 14). Company administration fees incurred for the years ended December 31, 2021 and 2020 amounted to \$49,173 and \$139,091, respectively. As of December 31, 2022 and 2021, \$188,264 and \$139,091, respectively, remained payable.

## 8. Reserves

### *Replacement reserve*

The operating agreement requires the Company to fund a replacement reserve using cash flow from operations, as defined. Reserve additions of \$350 per unit per year, increasing at 4% each year, are required to be made annually, commencing the second full month following substantial completion of the project. The PGIM loan agreement also requires the Company to fund a replacement reserve account in the amount of \$350 per unit per year, commencing July 1, 2022. The NCHFA loan agreement also requires the Company to fund a replacement reserve account in the amount of \$250 per unit per year, increasing by 4% each year, commencing on the conversion date, June 1, 2022. The 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 which causes total withdrawals from the replacement reserve account to exceed \$5,000 during any calendar year without written consent from the investor member and NCHFA. All replacement reserve withdrawals also require written approval from PGIM. An analysis of the replacement reserve for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 51,976	\$ -
Funding	103,956	51,975
Interest earned, net of fees	<u>10</u>	<u>1</u>
Balance, ending	<u>\$ 155,942</u>	<u>\$ 51,976</u>

### *Operating reserve*

The operating agreement and NCHFA loan agreement require the Company to fund an operating reserve account in the initial amount of \$802,420 upon the payment of the fifth installment of the investor member's capital contribution. Upon conversion of the NCHFA loan in 2022, this amount was increased to \$859,998. 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 and NCHFA. An analysis of the operating reserve for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ -	\$ -
Funding	859,998	-
Interest earned, net of fees	<u>18</u>	<u>-</u>
Balance, ending	<u>\$ 860,016</u>	<u>\$ -</u>

## 9. Investment Securities

All remaining available-for-sale securities were sold during the year ended December 31, 2021, for total proceeds of \$15,509,734. The gross realized losses on these sales totaled \$16,541 for the year ended December 31, 2021. For purpose of determining gross realized gains, the cost of securities sold is based on the first-in-first-out method. Net change in unrealized holding gains on available-for-sale securities in the amount of (\$136,271) has been included in accumulated other comprehensive income for the year ended December 31, 2021.

The Company has U.S. Government securities of \$15,398,368 and \$0, respectively, as of December 31, 2022 and 2021. These securities are investments held to maturity and are carried at amortized cost on the balance sheets.

## 10. Annual Cell Tower Revenue

The Company has entered into operating lease arrangements with thirteen wireless communication service providers. The lease contracts have staggering maturity dates, many of which contain extension options at the lessee's election. The Company has allowed these providers to place cellular antenna equipment on the roof of the project. The lessees are responsible for keeping in full force and effect comprehensive general liability insurance policies with respect to bodily injury (including death) and damage to property, the terms of which are defined within the individual lease agreements. The lessees agree that no part of the cellular equipment constructed, erected, or placed by the lessees on the building shall be considered as being affixed or part of the building, and will be removed by the lessee upon termination of the contractual agreement.

The lease revenue under these operating leases amounted to \$153,333 and \$170,098 for the years ended December 31, 2022 and 2021, respectively, and are included as a component of Other income on the Statements of Income and Comprehensive Income.

The expected annual cell tower revenues for which contracts are in place as of December 31, 2022 through each of the next five years are as follows:

2023	\$	185,121
2024		189,298
2025		193,593
2026		198,009
2027		203,081
Thereafter		<u>175,392</u>
	\$	<u>1,144,494</u>

## 11. Property Management Agreement

The Company has entered into a management agreement with Excel Property Management, an unaffiliated management company, to provide property management services to the project. The management agent will be compensated an amount equal \$46 per unit per month, converting to 5.78% of gross operating revenues received from the preceding month once 100% of the units are tax credit qualified, as defined in the agreement. Such fee shall be paid out of the general operating account on a monthly basis. The term of the agreement is from June 28, 2019 until June 30, 2024 but shall continue thereafter on a month-to-month basis until terminated by one of the parties in accordance with the conditions stated in the agreement. The management fee expense for the years ended December 31, 2022 and 2021 amounted to \$170,155 and \$178,045, respectively. In addition, the management agent charges a fee of \$5 per unit per month for bookkeeping services. Bookkeeping fees for the years ended December 31, 2022 and 2021 amounted to \$17,820 per year.

## 12. Finance Lease - Ground Lease

The Company entered into a finance lease agreement with Capital Towers, Inc., the previous owner of the project, on June 28, 2019, for the lease of the land of the project. The term of the lease is for a period of 75 years, through June 28, 2094. In accordance with the capital lease agreement, the Company agrees to pay Capital Towers, Inc. a total of \$6,250,000, of which \$4,150,000 is included in a rent payment promissory note, and the balance of which is included in the Series B bonds payable to Capital Towers, Inc. (see Note 3 for repayment details). In accordance with the rent payment promissory note, the note is payable to Capital Towers, Inc. (the "Seller"), in the amount of \$4,150,000. No interest shall accrue under the note until June 30, 2022, at which time interest shall accrue at 5.75%, compounding annually. The note shall be repaid from net cash flow (see Note 14). All outstanding principal and interest shall be due and payable July 1, 2041. The loan is secured by a co-fifth lien Deed of Trust on the property. All operating expenses, taxes and insurance are to be paid directly by the Company and are not included in the required lease payments. The cost of the land included in the balance sheet at December 31, 2021 amounted to \$5,810,696, and was determined by the present value of the minimum lease payments at the lease date, inclusive of the \$2,100,000 payable under the Series B bonds. This asset was reclassified to a ROU asset effective January 1, 2022, and is being amortized on a straight-line basis over the remaining lease term.



**Capital Towers III, LLC**  
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**Notes to Financial Statements**

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The future minimum lease payments required under the finance lease note, and the present value of the net minimum lease payments as of December 31, 2022 are as follows:

<u>Year Ending December 31,</u>	
2023	\$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	<u>12,695,670</u>
Net minimum undiscounted lease payments	12,695,670
Less: amount representing interest	<u>(8,178,832)</u>
Present value of net minimum lease payments	4,516,838
Less: current maturities of finance lease obligations	<u>-</u>
Long-term finance lease obligations	<u>\$ 4,516,838</u>

The components of lease expense were as follows for the year ended December 31, 2022:

Finance lease costs	
Amortization of ROU asset	\$ 80,151
Interest on lease liability	<u>245,237</u>
	<u>\$ 325,388</u>

### **13. Casualty Event**

In October 2022, one of the buildings at the Project suffered damages as a result of a burst pipe, which impacted 99 units on 10 floors of the building. As a result of the casualty event, the Partnership disposed of \$875,811 of property and equipment and the associated \$43,403 of accumulated depreciation associated with the disposed assets. Estimated insurance proceeds to be received as a result of the event amount to \$1,244,040, of which \$1,139,883 is included in accounts receivable, other on the Balance Sheet as of December 31, 2022. Of the total estimated insurance proceeds to be received, \$261,584 is related to business income and extra expense proceeds, due to tenant relocation costs incurred as a result of the event. The expenses related to tenant relocation totaled \$157,273 as of December 31, 2022, and have been offset by the related business income and extra expense proceeds receivable. The Company recognized a casualty gain related to this event in the amount of \$150,048. Repair and mitigation work commenced in October 2022. As of December 31, 2022, \$443,194 has been incurred and capitalized for the repair and mitigation work, with an estimated \$544,262 remaining to be completed in 2023.

#### **14. Distribution of Cash Flow**

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 loan in an amount that shall not exceed 75% of cash flow;
2. To the investor member, an amount equal to the credit deficiency;
3. To 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;
4. To pay the investor services fee in accordance with the investor services agreement;
5. To fund the operating reserve up to the operating reserve amount;
6. To pay the deferred development fee, including accrued interest;
7. To the managing member to repay any operating deficit contribution or other advances;
8. To pay the company administration fee in accordance with the company administration agreement;
9. To repay the Seller loans and then to repay the Reserves loan in an amount not to exceed 75% of cash flow; and
10. Any remaining cash flow shall constitute net cash flow which is distributable to the members in an amount of 89.9979% to the managing member; 0.0021% to the special member and 10% to the investor member.

#### **15. Contingencies, Risks and Uncertainties**

The Company's sole asset is its 297-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.

#### **16. Real Estate Tax Exemption**

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.

## 17. 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 \$1,605,000 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 \$802,420; 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.

***Supplementary Information***

**Capital Towers III, LLC**  
**NCHFA Project No. 9250672**  
**Schedules of Income and Expenses**  
**Years Ended December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
Rental income:		
Residential income	<u>\$ 2,700,757</u>	<u>\$ 1,972,985</u>
Interest income:		
Interest, tax and insurance escrow	\$ 1	\$ 4
Interest, reserves	60	1
Interest, tenant security deposits	52	46
Interest, investments	<u>235,317</u>	<u>162,794</u>
	<u>\$ 235,430</u>	<u>\$ 162,845</u>
Other income:		
Application fees	\$ 1,254	\$ 3,217
Late fees	4,990	2,762
Laundry and vending	13,872	10,807
Damages and cleaning	10,550	1,568
Cable TV fees	38,195	35,417
Antenna revenue	153,333	170,098
Other income	<u>7,965</u>	<u>51,863</u>
	<u>\$ 230,159</u>	<u>\$ 275,732</u>
Administrative:		
Advertising/marketing	\$ 2,320	\$ 4,299
Office payroll and related expenses	249,039	279,068
Office supplies	7,769	8,466
Office furnishings and equipment	26,203	31,386
Telephone	14,382	17,123
Bad debt	-	1,982
Cable TV expense	83,364	78,624
Resident services	3,365	987
Miscellaneous	<u>12,840</u>	<u>11,010</u>
	<u>\$ 399,282</u>	<u>\$ 432,945</u>
Professional fees:		
Auditing and accounting	\$ 17,124	\$ 12,500
Bookkeeping	17,820	17,820
Legal expense	<u>17,834</u>	<u>16,790</u>
	<u>\$ 52,778</u>	<u>\$ 47,110</u>

**Capital Towers III, LLC**  
**NCHFA Project No. 9250672**  
**Schedules of Income and Expenses**  
**Years Ended December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
Utilities:		
Electricity	\$ 224,481	\$ 208,107
Water and sewer	95,398	70,797
Gas	30,732	20,171
	<u>\$ 350,611</u>	<u>\$ 299,075</u>
Management fees:		
Property management	<u>\$ 170,155</u>	<u>\$ 178,045</u>
Repairs and maintenance:		
Repairs and maintenance payroll	\$ 159,231	\$ 159,895
Repairs supplies	64,443	55,782
Grounds maintenance	13,791	12,065
Security	108,142	144,439
Janitor and cleaning	60,513	29,754
Exterminating	15,606	8,066
Repairs contracts	78,497	51,767
HVAC repairs and maintenance	100,041	138,113
Garbage and trash	16,129	11,649
	<u>\$ 616,393</u>	<u>\$ 611,530</u>
Taxes and insurance:		
Property insurance	\$ 56,760	\$ 46,143
Real estate taxes	5,940	5,940
Other taxes and fees	1,869	1,230
	<u>\$ 64,569</u>	<u>\$ 53,313</u>
Depreciation expense:		
Depreciation	<u>\$ 937,778</u>	<u>\$ 932,402</u>
Amortization expense:		
Amortization	<u>\$ 115,639</u>	<u>\$ 17,668</u>
Interest expense:		
Interest expense - PGIM	\$ 350,820	\$ -
Interest expense - NCHFA	19,855	-
Interest expense - City of Raleigh	56,778	47,959
Interest expense - Capital Towers, Inc.	434,512	-
Interest expense - Bonds payable	435,313	840,984
Interest expense - construction loan	154,690	341,448
Interest expense - finance lease	245,237	232,262
Interest expense - Developer fee	39,344	-
Amortization of debt issuance costs	79,247	150,855
	<u>\$ 1,815,796</u>	<u>\$ 1,613,508</u>

See independent auditor's report.