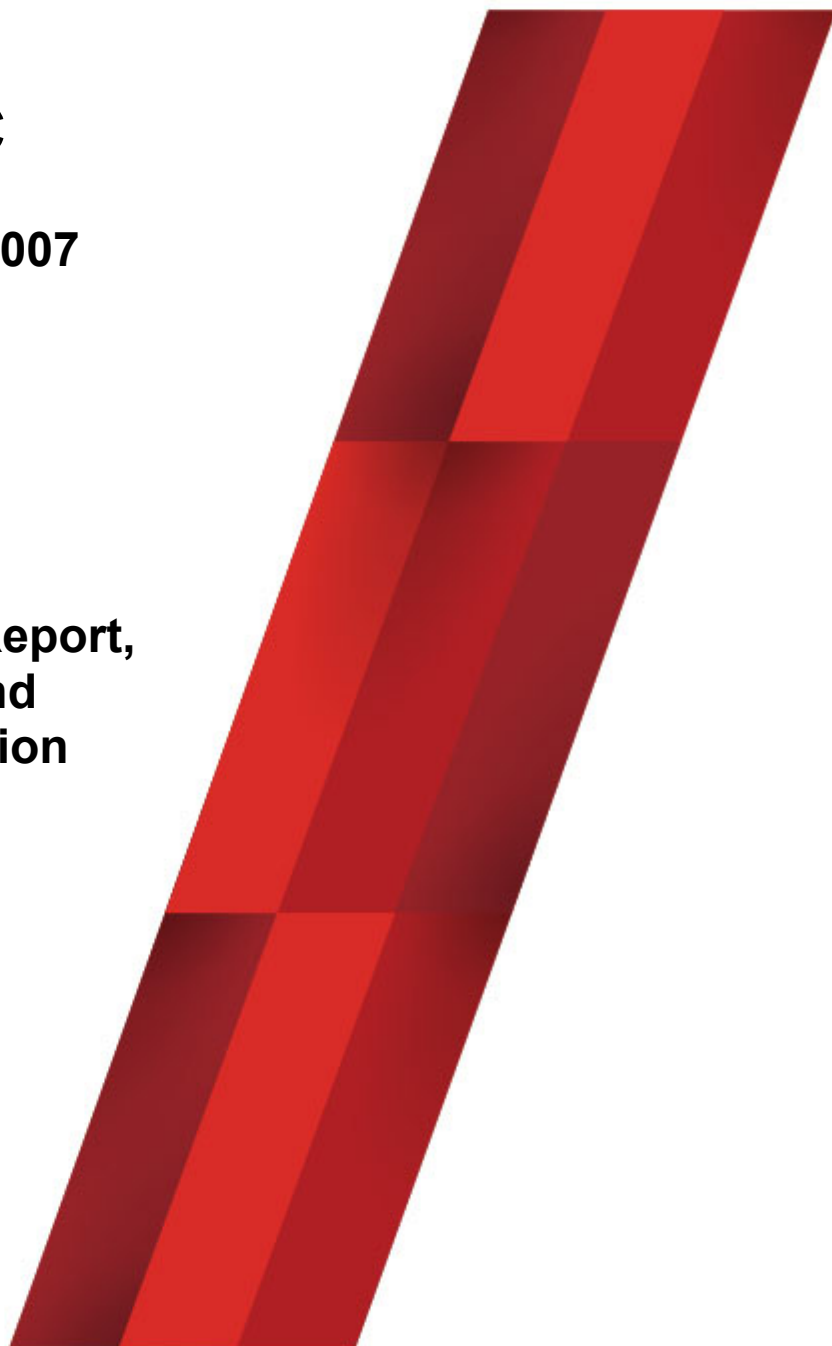


# **Cardinal Chase Development, LLC**

**NCHFA Project No. 9001007**

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

**December 31, 2022 and 2021**



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## Independent Auditor's Report

Member  
Cardinal Chase Development, LLC  
NCHFA Project No. 9001007  
Raleigh, NC

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the financial statements of Cardinal Chase Development LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in member's 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 Cardinal Chase Development 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 Cardinal Chase Development 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 Cardinal Chase Development 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 Cardinal Chase Development 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 Cardinal Chase Development 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  
April 7, 2023

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Balance Sheets**  
**December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 77,514	\$ 67,316
Accounts receivable, tenants	7,696	3,604
Prepaid property insurance	<u>2,938</u>	<u>14,687</u>
Total current assets	<u>88,148</u>	<u>85,607</u>
Restricted deposits and funded reserves:		
Cash, tenant security deposits	22,832	23,475
Cash, operating reserve	92,061	91,861
Cash, replacement reserve	<u>63,296</u>	<u>64,837</u>
	<u>178,189</u>	<u>180,173</u>
Rental property:		
Buildings and improvements	3,501,546	3,501,546
Furnishings and equipment	117,824	117,824
Land improvements	<u>497,533</u>	<u>497,533</u>
	4,116,903	4,116,903
Accumulated depreciation	<u>(2,051,692)</u>	<u>(1,938,016)</u>
	2,065,211	2,178,887
Land	<u>507,446</u>	<u>507,446</u>
	<u>2,572,657</u>	<u>2,686,333</u>
Total assets	<u>\$ 2,838,994</u>	<u>\$ 2,952,113</u>

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Balance Sheets**  
**December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
Current liabilities:		
Current maturities of notes payable	\$ 30,559	\$ 29,867
Accounts payable	6,776	5,109
Accounts payable, affiliate	50,513	50,513
Accrued interest	<u>3,428</u>	<u>3,560</u>
Total current liabilities	<u>91,276</u>	<u>89,049</u>
Deposits and prepayment liabilities:		
Tenant security deposits	22,832	23,475
Prepaid rent	<u>504</u>	<u>5,264</u>
	<u>23,336</u>	<u>28,739</u>
Long-term liabilities:		
Notes payable, net of unamortized debt issuance costs of \$16,373 in 2022 and \$17,589 in 2021, less current maturities	1,918,920	1,948,263
Accrued interest - DHIC	<u>318,003</u>	<u>300,729</u>
	<u>2,236,923</u>	<u>2,248,992</u>
Member's equity	<u>487,459</u>	<u>585,333</u>
Total liabilities and member's equity	<u>\$ 2,838,994</u>	<u>\$ 2,952,113</u>

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Statements of Operations**  
**Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Revenues:		
Gross rental income	\$ 387,600	\$ 378,924
Vacancy loss	(20,729)	(3,765)
Concessions	<u>(10,264)</u>	<u>(11,202)</u>
Net rental income	356,607	363,957
Interest income	427	239
Other income	<u>6,854</u>	<u>3,619</u>
Total revenues	<u>363,888</u>	<u>367,815</u>
Expenses:		
Administrative	78,745	72,543
Utilities	48,337	44,285
Management fees	25,198	26,688
Repairs and maintenance	112,480	108,158
Repairs and replacements paid from reserve	-	39,155
Taxes and insurance	<u>25,516</u>	<u>18,026</u>
Total expenses	<u>290,276</u>	<u>308,855</u>
Income from operations	<u>73,612</u>	<u>58,960</u>
Nonoperating expenses:		
Interest expense - Providence	40,536	42,069
Interest expense - DHIC	17,274	17,274
Depreciation	113,676	113,174
Loss on disposal	<u>-</u>	<u>3,791</u>
Total nonoperating expenses	<u>171,486</u>	<u>176,308</u>
Net loss	<u>\$ (97,874)</u>	<u>\$ (117,348)</u>

See accompanying notes.



**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Statements of Member's Equity (Deficit)**  
**Years Ended December 31, 2022 and 2021**

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Balance (deficit), December 31, 2020	\$ 702,681
Net loss	<u>(117,348)</u>
Balance (deficit), December 31, 2021	585,333
Net loss	<u>(97,874)</u>
Balance (deficit), December 31, 2022	<u><u>\$ 487,459</u></u>

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**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	\$ (97,874)	\$ (117,348)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	113,676	113,174
Amortization of deferred financing costs	1,216	1,216
Loss on disposal	-	3,791
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	(4,092)	5,348
Prepaid property insurance	11,749	(6,744)
Increase (decrease):		
Accounts payable	1,667	885
Accrued interest	17,142	17,151
Tenant security deposit liability	(643)	712
Prepaid rent	(4,760)	4,577
Net cash provided by operating activities	<u>38,081</u>	<u>22,762</u>
Cash flows from investing activities:		
Investment in rental property	-	(10,606)
Net cash used by investing activities	<u>-</u>	<u>(10,606)</u>
Cash flows from financing activities:		
Repayment of notes payable	(29,867)	(29,150)
Net cash used by financing activities	<u>(29,867)</u>	<u>(29,150)</u>
Net increase (decrease) in cash and restricted deposits and funded reserves	8,214	(16,994)
Cash and restricted deposits and funded reserves, beginning of year	<u>247,489</u>	<u>264,483</u>
Cash and restricted deposits and funded reserves, end of year	<u>\$ 255,703</u>	<u>\$ 247,489</u>

See accompanying notes.

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

**(2 pages)**

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	<u>2022</u>	<u>2021</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 39,452</u>	<u>\$ 40,976</u>
Reconciliation of cash, restricted deposits and funded reserves to the balance sheet:		
Cash	\$ 77,514	\$ 67,316
Restricted deposits and funded reserves	<u>178,189</u>	<u>180,173</u>
	<u>\$ 255,703</u>	<u>\$ 247,489</u>

## Notes to Financial Statements

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

#### ***Nature of operations***

Cardinal Chase Development, LLC (the “Company”) was organized on March 27, 2001 for the purpose of developing, constructing, owning and operating a 48-unit low-income housing complex (the “Project”) located in Siler City, North Carolina. Development of the Project commenced in March 2001 and was completed in October 2005.

Effective February 1, 2005, the operating agreement was amended to admit a new investor member, Enterprise Housing Partners XII Limited Partnership, and to permit the withdrawal of the original investor member, DHIC, Inc. (DHIC). The managing member is Cardinal Chase, Inc. Effective December 31, 2021, Enterprise Housing Partners XII Limited Partnership transferred its investor member interest to Community Revitalization and Preservation Corporation (“CRPC”), an affiliate of the managing member. On January 1, 2022, Cardinal Chase Development, Inc. assigned its 0.01% membership interest to CRPC. As a result, effective January 1, 2022, CRPC is the sole member of the Company.

#### ***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 member 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 by the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	20 years
Building	40 years
Furniture and equipment	3 to 10 years

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

#### ***Rental income***

Rental income is recognized as rentals become due. Rental payments secured in advance are deferred until earned. All leases between the Company and the tenants of the property are operating leases.

***Cash and cash equivalents***

For purposes of the statements 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 or 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.

***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.

***Debt issuance costs***

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

***Subsequent event evaluation***

The Company evaluated the effect subsequent events would have on the financial statements through April 7, 2023, which is the date the financial statements were available to be issued.

## 2. Notes Payable

Notes payable at December 31, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
<p>Note payable to Providence Bank (“Providence”) in the amount of \$748,792 with monthly payments of \$5,109 including interest at 7.25% starting October 1, 2006 through September 2024 then adjusted for loan years nineteen through thirty until maturity on September 1, 2036. The loan was originally funded from Centrant Community Capital (“Centrant”). The loan was sold to Providence Bank but continues to be serviced by Centrant. Accrued interest amounted to \$3,428 and \$3,560 at December 31, 2022 and 2021, respectively. Interest expense amounted to \$39,320 and \$40,853 for the years ended December 31, 2022 and 2021, respectively. Interest paid amounted to \$39,452 and \$40,976 for the years ended December 31, 2022 and 2021, respectively. Deferred loan costs amortized to interest expense amounted to \$1,216 for each of the years ended December 31, 2022 and 2021. The loan is secured by a first priority lien on the property.</p>	\$ 532,192	\$ 554,048
<p>Noninterest-bearing note payable to the North Carolina Housing Finance Agency (“NCHFA”) in the amount of \$692,865 with varying monthly payments ranging from \$306 to \$932 due beginning October 1, 2006. All outstanding principal and accrued interest (default) is due September 1, 2026. The loan is secured by a second priority lien on the property.</p>	526,568	534,579
<p>Note payable to DHIC, an affiliate of the managing member, in the maximum amount of \$296,398 with interest accruing at 2.0% per annum. The note shall be due and payable along with all the accrued interest on December 7, 2024. Accrued interest amounted to \$107,094 and \$101,166 at December 31, 2022 and 2021, respectively. Interest expense amounted to 5,928 for each of the years ended December 31, 2022 and 2021. The loan is secured by a third priority lien on the property.</p>	296,398	296,398
<p>Note payable to DHIC in the maximum amount of \$244,000 with interest accruing at 4.65% (applicable federal rate of the month the loan was closed and funded) per annum. The note shall be due and payable along with all the accrued interest on May 14, 2024. Accrued interest amounted to \$210,909 and \$199,563 at December 31, 2022 and 2021, respectively. Interest expense amounted to \$11,346 for each of the years ended December 31, 2022 and 2021. The loan is secured by a fourth priority lien on the property.</p>	244,000	244,000

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Notes to Financial Statements**

	<u>2022</u>	<u>2021</u>
Noninterest-bearing note payable to NCHFA in the amount of \$366,694. No principal payments are due on this loan until the loan matures on August 31, 2035, at which time all outstanding principal and accrued interest (default) shall be due and payable. The loan is secured by a fifth priority lien on the property.	\$ 366,694	\$ 366,694
Less: unamortized debt issuance costs	<u>(16,373)</u>	<u>(17,589)</u>
	<u>\$ 1,949,479</u>	<u>\$ 1,978,130</u>

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

	<u>NCHFA</u>	<u>DHIC</u>	<u>Providence</u>	<u>Total</u>
2023	\$ 7,064	\$ -	\$ 23,495	\$ 30,559
2024	5,966	540,398	25,256	571,620
2025	4,711	-	27,149	31,860
2026	508,827	-	29,184	538,011
2027	-	-	31,371	31,371
Future years	<u>366,694</u>	<u>-</u>	<u>395,737</u>	<u>762,431</u>
	<u>\$ 893,262</u>	<u>\$ 540,398</u>	<u>\$ 532,192</u>	<u>\$ 1,965,852</u>

### 3. Capital Contributions

Investor member contributions amounted to \$2,515,300, less a tax credit adjuster of \$6,800, all of which has been received as of December 31, 2022.

### 4. Related-Party Transactions

#### ***Accounts payable, affiliate***

Accounts payable, affiliate at December 31, 2022 and 2021 consists of \$50,513 in development costs paid by DHIC on behalf of the Company.

#### ***Management services fee***

Pursuant to a management services agreement dated December 31, 2021, the Company shall pay an annual management services fee to DHIC equal to 100% of net income available for distribution, as determined at the sole discretion of the manager (the sole member of the Company). For the years ended December 31, 2022 and 2021, no management services fees were paid.

## 5. Reserves

### *Operating reserve funding*

The operating agreement and loan agreements with Providence and NCHFA require the Company to fund an operating reserve account in an initial amount of \$131,000 from investor member capital contributions. Withdrawals must be approved by NCHFA and Providence. The Company must replenish the account from net cash flow to the initial funding amount prior to making any distributions to the member (see Note 7). An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 91,861	\$ 82,316
Transfer from rental account	-	9,365
Interest (services fees), net	<u>200</u>	<u>180</u>
Balance, ending	<u>\$ 92,061</u>	<u>\$ 91,861</u>

### *Replacement reserve funding*

The operating agreement and the loan agreements with Providence and NCHFA require that reserve for replacements be funded in the amount of \$250 per unit 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 Providence and NCHFA. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 64,837	\$ 92,945
Contributions	22,476	21,612
Interest (service fees), net	119	41
Approved withdrawals	<u>(24,136)</u>	<u>(49,761)</u>
Balance, ending	<u>\$ 63,296</u>	<u>\$ 64,837</u>

## 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 7.13% of gross collections, as defined. The term of the agreement is two years from the date of initial occupancy and renews for successive terms automatically under certain conditions, as defined. Management fee expense amounted to \$25,198 and \$26,688 for the years ended December 31, 2022 and 2021, respectively.



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

The Company's sole asset is its 48-unit low-income housing complex located in Siler City, 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***

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Schedules of Income and Expenses**  
**December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
Rental income:		
Residential income	<u>\$ 356,607</u>	<u>\$ 363,957</u>
Interest income:		
Interest income	<u>\$ 427</u>	<u>\$ 239</u>
Other income:		
NSF and late fees	\$ 2,304	\$ 1,509
Damages and cleaning fees	3,628	759
Application fees	640	440
Legal fees	282	181
Grant revenue	-	730
	<u>\$ 6,854</u>	<u>\$ 3,619</u>
Administrative:		
Advertising/marketing/renting expenses	\$ 354	\$ 294
Office payroll and related expenses	7,674	7,460
Office expense	5,216	5,507
Manager salaries	35,815	37,616
Accounting fees	10,864	6,070
Telephone	7,229	5,429
Office supplies	1,593	2,475
Payroll taxes	3,741	2,624
Legal	2,835	433
Bad debt expense	917	2,281
Miscellaneous	2,507	2,354
	<u>\$ 78,745</u>	<u>\$ 72,543</u>
Utilities:		
Water	\$ 21,736	\$ 20,436
Sewer	16,873	15,561
Electricity	9,728	8,288
	<u>\$ 48,337</u>	<u>\$ 44,285</u>

**Cardinal Chase Development, LLC**  
**NCHFA Project No. 9001007**  
**Schedules of Income and Expenses**  
**December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
Management fees:		
Property management	<u>\$ 25,198</u>	<u>\$ 26,688</u>
Repairs and maintenance:		
Repairs and maintenance payroll	\$ 11,335	\$ 4,904
Repairs supplies	16,565	28,252
Exterminating	2,902	1,628
Painting and decorating	11,766	6,159
Security equipment and maintenance	-	244
Repairs contracts	46,387	55,971
Grounds maintenance	13,975	2,842
Janitor and cleaning contract	326	467
Garbage and trash	9,224	7,691
	<u>\$ 112,480</u>	<u>\$ 108,158</u>
Repairs and replacements paid from reserve:		
Repairs and replacements	<u>\$ -</u>	<u>\$ 39,155</u>
Taxes and insurance:		
Real estate taxes	\$ 448	\$ 402
Property insurance	10,907	11,815
Other insurance	14,161	5,809
	<u>\$ 25,516</u>	<u>\$ 18,026</u>
Interest expense:		
Interest expense - Providence	\$ 40,536	\$ 42,069
Interest expense - DHIC	17,274	17,274
	<u>\$ 57,810</u>	<u>\$ 59,343</u>
Depreciation:		
Depreciation	<u>\$ 113,676</u>	<u>\$ 113,174</u>
Loss on disposal	<u>\$ -</u>	<u>\$ 3,791</u>