Creston Commons II, LLC

NCHFA Project No. 9001006

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

December 31, 2022 and 2021

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Independent Auditor's Report

Member
Creston Commons II, LLC
NCHFA Project No. 9001006
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Creston Commons II, LLC, which comprise the balance sheet as of December 31, 2022, and the related statement of operations, member's equity, and cash flows for the year 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 Creston Commons II, LLC as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion
We conducted our audit 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 Creston Commons II, 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 GAAP, 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 Creston Commons II, 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 Creston Commons II, 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 Creston Commons II, 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.

Prior Period Financial Statements
The financial statements of Creston Commons II, LLC, as of December 31, 2021, were audited by other auditors whose report dated February 21, 2022, expressed an unmodified opinion on those statements.

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Report on Supplementary Information

Our audit was 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. 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 26, 2023

Creston Commons II, LLC
NCHFA Project No. 9001006
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash, operating	$ 81,005	$ 54,231
Accounts receivable, other	1,483	848
Accounts receivable, tenants	354	4,438
Prepaid expenses	2,010	10,050
Total current assets	84,852	69,567
Restricted deposits and funded reserves:		
Cash, operating reserve	81,207	81,023
Cash, replacement reserve	100,857	86,278
Cash, tax and insurance escrow	10,885	2,915
Cash, tenant security deposits	14,955	17,241
	207,904	187,457
Rental property:		
Land and land improvements	741,354	741,354
Buildings and improvements	2,615,189	2,615,189
Furniture and fixtures	35,757	35,757
	3,392,300	3,392,300
Less accumulated depreciation	(1,483,321)	(1,397,528)
	1,908,979	1,994,772
	$ 2,201,735	$ 2,251,796

Creston Commons II, LLC
NCHFA Project No. 9001006
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current maturities of notes payable	**$ 28,026**	$ 23,134
Accounts payable and accrued expenses	**891**	1,294
Accrued management fees	**1,388**	1,741
Accrued wages payable	**1,436**	1,379
Accrued interest	**457**	496
Accrued interest, affiliate	**194,625**	-
Notes payable-affiliate, current	**200,000**	-
Total current liabilities	**426,823**	28,044
Deposits and prepayment liabilities:		
Tenant security deposits	**14,955**	17,241
Prepaid rent	**1,201**	2,243
	16,156	19,484
Long-term liabilities:		
Mortgage payable, net of unamortized debt issuance costs of $0 in 2022 and $228 in 2021, net of current maturities	**738,904**	766,836
Notes payable, affiliate	**351,000**	551,000
Accrued interest, affiliate	**161,547**	336,493
	1,251,451	1,654,329
Member's equity	**507,305**	549,939
	$ 2,201,735	$ 2,251,796

Creston Commons II, LLC
NCHFA Project No. 9001006
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rental income	$ 230,632	$ 225,664
Less:		
Vacancies	(5,450)	(1,835)
Concessions	(38)	-
Loss to lease	(356)	(471)
Plus:		
Excess rent	7,099	6,983
Net rental income	231,887	230,341
Other income:		
Interest income	468	220
Other income	5,945	11,707
Total other income	6,413	11,927
Total income	238,300	242,268
Expenses:		
Administrative	31,406	31,669
Property management fees	19,112	19,028
Professional fees	6,802	7,557
Repairs and maintenance	65,332	58,927
Taxes and insurance	9,048	9,005
Utilities	27,834	23,382
Total operating expense	159,534	149,568
Income from operations	78,766	92,700
Nonoperating expenses:		
Interest expense	25,607	26,256
Depreciation	85,793	85,263
Management services fee	10,000	20,000
Loss on disposal of fixed assets	-	2,825
Total nonoperating expenses	121,400	134,344
Net loss	$ (42,634)	$ (41,644)

See accompanying notes.

Creston Commons II, LLC
NCHFA Project No. 9001006
Statements of Member's Equity
Years Ended December 31, 2022 and 2021

Balance, December 31, 2020	$ 591,583
Net loss	(41,644)
Balance, December 31, 2021	549,939
Net loss	**(42,634)**
Balance, December 31, 2022	**$ 507,305**

Creston Commons II, LLC
NCHFA Project No. 9001006
Statements of Cash Flows
Years Ended December 31, 2022 and 2021 **(2 pages)**

		2022		2021
Cash flows from operating activities:				
Net loss	**$**	**(42,634)**	$	(41,644)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation		**85,793**		85,263
Loss on disposal of fixed assets		**-**		2,825
Amortization of debt issuance costs		**228**		405
Change in assets and liabilities				
(Increase) decrease:				
Accounts receivable, tenants		**4,084**		1,655
Accounts receivable, other		**(635)**		(848)
Prepaid expenses		**8,040**		(4,426)
Increase (decrease):				
Accounts payable		**(403)**		(12,794)
Accrued management fees		**(353)**		-
Accrued wages payable		**57**		-
Accrued interest		**19,640**		19,639
Tenant security deposits liability		**(2,286)**		798
Prepaid rent		**(1,042)**		916
Net cash provided by operating activities		**70,489**		51,789
Cash flows from investing activities:				
Investment in rental property		**-**		(11,135)
Net cash used by investing activities		**-**		(11,135)
Cash flows from financing activities:				
Repayment of notes payable		**(23,268)**		(24,119)
Net cash used by financing activities		**(23,268)**		(24,119)
Net increase in cash, restricted deposits and funded reserves		**47,221**		16,535
Cash, restricted deposits and funded reserves, beginning		**241,688**		225,153
Cash, restricted deposits and funded reserves, ending	**$**	**288,909**	$	241,688

Creston Commons II, LLC
NCHFA Project No. 9001006
Statements of Cash Flows
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 5,739**	$ 6,212
Reconciliation of cash, restricted deposits and funded reserves to balance sheet:		
Cash, operating	**$ 81,005**	$ 54,231
Cash, operating reserve	**81,207**	81,023
Cash, replacement reserve	**100,857**	86,278
Cash, tax and insurance escrow	**10,885**	2,915
Cash, tenant security deposits	**14,955**	17,241
	$ 288,909	$ 241,688

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Creston Commons II, LLC (the "Company") was formed as a Limited Liability Company under the laws of the State of North Carolina on September 24, 2002, for the purpose of constructing, owning, and operating a low income rental housing property (the "Property"). The term of the Company shall extend until December 31, 2051, unless sooner terminated as provided in the Operating Agreement. The Property consists of 32 multifamily residential rental units located in Southern Pines, North Carolina.

On October 14, 2005, the Operating Agreement was amended to admit the investor member, NEF Assignment Corporation ("NEF"). The resulting ownership of the Company was as follows:

Creston Commons Development Corporation	0.01%
NEF Assignment Corporation	99.99%
	100.00%

Effective December 31, 2020, NEF Assignment Corporation assigned 100% of its respective interest in the Company to Company Revitalization and Preservation Corporation ("CRPC"), a North Carolina nonprofit corporation. Effective December 31, 2020, Creston Commons Development Corporation assigned 100% of its respective interest in the Company to CRPC. Pursuant to the Second Amended and Restated Operating Agreement dated December 31, 2020, the Sole Member of the Company is CRPC.

The Company has received an annual allocation of low income housing tax credits from the State of North Carolina. To qualify for the tax credits, the Company must meet certain requirements, including attaining a qualified eligible basis sufficient to support the allocation.

Each unit in the property has qualified and was allocated low income housing credits pursuant to Internal Revenue Code Section 42 ("Section 42") which regulates the sue of the Property as to occupant eligibility and unit gross rent, among other requirements. Each unit in the Property must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the credits.

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 (GAAP).

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 GAAP 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.

Restricted cash

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

Accounts receivable and bad debts

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

Rental property

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

Building and improvements	40 years
Land improvements	15 to 20 years
Furnishings and equipment	5 to 7 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 the years ended December 31, 2022 and 2021.

Debt issuance costs

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

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 tenants of the property are operating leases.

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 expense for the years ended December 31, 2022 and 2021 amounted to $65 and $127, respectively.

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.

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.

Reclassifications

Certain amounts presented in the 2021 financial statements have been reclassified to conform to the 2022 presentation.

Subsequent events

The Company evaluated the effect subsequent events would have on the financial statements through April 26, 2023, which is the date the financial statements were available to be issued.

2. Notes Payable

An analysis of the notes payable at December 31, 2022 and 2021 is as follows:

	2022	2021
The Company has a first mortgage loan with the North Carolina Housing Finance Agency ("NCHFA") with an original principal amount of $640,000. The loan has a term of 20 years with a 2% annual interest rate. The terms of the loan provide for monthly installments of principal and interest. In 2022, monthly payments were $2,449.83 for January through July and $2,371.58 for August through December. All unpaid principal and interest are due July 2027. The note is secured by a deed of trust on the Property. During the years ended December 31, 2022 and 2021, interest expense on the mortgage totaled $5,700 and $6,172, and interest paid totaled $5,739 and $6,212, all respectively. Accrued interest as of December 31, 2022 and 2021 totaled $457 and $496, respectively.	**$ 278,808**	$ 302,076
The Company has a second outstanding note payable to DHIC, Inc., an affiliate of the Managing Member. The original principal amount of then note is $255,000, due on or before January 18, 2026. The interest rate of the note is 2% annually. During each of the years ended December 31, 2022 and 2021, interest expense was $5,100. No payments were made during 2022 or 2021. At December 31, 2022 and 2021, accrued interest totaled $88,779 and $83,679, respectively.	**255,000**	255,000
The Company has a third outstanding note payable to DHIC, Inc., an affiliate of the Managing Member. The third note has an original principal amount of $200,000, due on or before December 31, 2023. The interest rate of the note is 5.12% annually. During each of the years ended December 31, 2022 and 2021, interest expense was $10,240. No payments were made during 2022 or 2021. At December 31, 2022 and 2021, accrued interest totaled $194,625 and $184,385, respectively.	**200,000**	200,000
The Company has a fourth outstanding note payable to DHIC, Inc., an affiliate of the Managing Member. The fourth note has an original principal amount of $96,000, due on or before September 9, 2025. The interest rate of the note is 4.52% annually. During each of the years ended December 31, 2022 and 2021, interest expense was $4,339. No payments were made during 2022 or 2021. At December 31, 2022 and 2021, accrued interest totaled $72,768 and $68,429, respectively.	**96,000**	96,000

	2022	2021
The Company has a fifth noninterest-bearing note payable to the NCHFA. The original amount of the loan is $488,122; however, payment of principal is deferred until March 1, 2036. At that time, all outstanding principal is due.		
	$ 488,122	$ 488,122
	1,317,930	1,341,198
Less: unamortized debt issuance costs	**-**	(228)
Less: current maturities	**(228,026)**	(23,134)
	$ 1,089,904	$ 1,317,836

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

2023	$ 228,026
2024	26,941
2025	121,747
2026	279,437
2027	173,657
Thereafter	488,122
	$ 1,317,930

3. Related-Party Transactions

Management services fee

In accordance with the management services fee agreement and for its services in managing the Company, DHIC, Inc., an affiliate of the Sole Member, shall earn an annual, non-cumulative management services fee equal to 100% of the net income available for distribution by the Company at the end of its fiscal year, as determined by the Sole Member. The Company may make interim disbursements of available cash flow to DHIC, Inc. during any given fiscal year as determined by the Sole Member. During the years ended December 31, 2022 and 2021, management services fees of $10,000 and $20,000 were earned and paid, respectively.

4. Reserves

Replacement reserve

In accordance with the NCHFA loan agreement, the Company is required to establish a reserve for replacements. The reserve is to be funded using cash flows from operations in the amount of $250 per unit per year in the first year, with an annual 4% increase. The Company must receive the NCHFA's prior written approval for any withdrawals, which may only be used to cover capital improvements at the lender’s discretion.

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

	2022	2021
Balance, beginning	$ **86,278**	$ 75,739
Deposits	**14,408**	13,854
Interest, net of fees	**171**	33
Withdrawals	**-**	(3,348)
Balance, ending	$ **100,857**	$ 86,278

Operating reserve

In accordance with the NCHFA loan agreement, the Company is required to maintain an operating reserve in the minimum amount of $80,000. The Company must receive the NCHFA's prior written approval for any withdrawals, which may only be used to cover operating deficits. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	$ **81,023**	$ 80,848
Interest	**184**	175
Balance, ending	$ **81,207**	$ 81,023

5. Property Management Agreement

The Company has entered into a management agreement with Community Management Corporation, an unaffiliated management company, to provide property management services to the project. The management agent will be compensated an amount equal to 8% of gross operating revenues received from the preceding month. Such fee shall be paid out of the general operating account on a monthly basis. The term of the agreement is from May 1, 2003 to April 30, 2006, but shall be automatically renewed and shall continue thereafter on a year-to-year basis until 30 days from when either party notifies the other in writing of an intention to terminate the agreement. The management fee expense for the years ended December 31, 2022, and 2021 amounted to $19,112 and $19,028, respectively.

6. Contingencies, Risks and Uncertainties

The Company's sole asset is its 32-unit housing complex located in Southern Pines, 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

Creston Commons II, LLC
NCHFA Project No. 9001006
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Rental income:		
Residential income	**$ 231,887**	$ 230,341
Interest income:		
Interest income	**$ 468**	$ 220
Other income:		
Grant income	**$ -**	$ 5,674
Application fees	**240**	340
Laundry and vending	**350**	600
Damages and cleaning fees	**2,548**	1,947
Legal fees	**307**	-
Late fees	**1,514**	1,468
Other revenue	**986**	1,678
	$ 5,945	$ 11,707
Administrative expenses:		
Administrative payroll	**$ 11,069**	$ 12,867
Health insurance and other benefits	**3,623**	3,369
Payroll taxes	**1,818**	2,095
Workers compensation	**401**	559
Other payroll related	**4,309**	4,059
Bad debt expense (recoveries)	**679**	(581)
Advertising	**65**	127
Telephone, internet and cable	**4,487**	4,522
Office supplies and expenses	**2,255**	2,770
Criminal background and credit checks	**301**	334
Other administrative expenses	**2,399**	1,548
	$ 31,406	$ 31,669
Property management fees:		
Property management fee	**$ 19,112**	$ 19,028
Professional fees:		
Auditing and accounting	**$ 4,965**	$ 6,695
Legal fees	**1,837**	-
Management consultants	**-**	862
	$ 6,802	$ 7,557

Creston Commons II, LLC
NCHFA Project No. 9001006
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Repairs and maintenance:		
Maintenance payroll	**$ 12,278**	$ 14,319
Repairs expense	**14,590**	15,921
Painting and decorating	**2,137**	2,614
Grounds maintenance	**9,433**	11,082
Cleaning expense	**78**	123
Exterminating	**2,920**	2,487
Fire alarm expense	**3,153**	2,912
Security	**120**	449
HVAC maintenance	**13,270**	1,931
Garbage removal	**5,629**	4,232
Other repairs and maintenance	**1,724**	2,857
	$ 65,332	$ 58,927
Taxes and insurance:		
Property and liability insurance	**$ 8,536**	$ 8,297
Other taxes, licenses, and fees	**412**	609
Other insurance	**100**	99
	$ 9,048	$ 9,005
Utilities:		
Electricity	**$ 4,809**	$ 4,650
Water	**9,369**	7,784
Sewer	**13,656**	10,948
	$ 27,834	$ 23,382
Interest:		
Interest expense - NCHFA	**$ 5,700**	$ 6,171
Interest expense - DHIC	**19,679**	19,679
Amortization of debt issuance costs	**228**	406
	$ 25,607	$ 26,256
Depreciation	**$ 85,793**	$ 85,263
Management services fee	**$ 10,000**	$ 20,000
Loss on disposal of fixed assets	**$ -**	$ 2,825