Murphey School, LLC

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

December 31, 2022 and 2021

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Independent Auditor's Report

Member
Murphey School, LLC
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Murphey School, LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, Member's 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 Murphey School, 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 Murphey School, 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 Murphey School, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 Murphey School, 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 Murphey School, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Project Operating 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 26, 2023

Murphey School, LLC
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash, operating	**$ 88,952**	$ 96,277
Accounts receivable, tenants	**1,451**	5,157
Accounts receivable, other	**5,204**	1,045
Prepaid expenses	**3,012**	15,060
Total current assets	**98,619**	117,539
Restricted deposits and funded reserves:		
Tenant security deposits	**27,872**	22,962
Real estate tax and insurance escrow	**16,324**	4,276
Replacement reserve	**199,118**	196,677
Operating reserve	**148,325**	148,325
	391,639	372,240
Rental property:		
Land improvements	**75,870**	75,870
Building and improvements	**3,538,308**	3,535,622
Furnishings and equipment	**74,202**	74,202
	3,688,380	3,685,694
Accumulated depreciation	**(2,861,035)**	(2,802,182)
	827,345	883,512
	$ 1,317,603	$ 1,373,291

Murphey School, LLC
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES LESS MEMBER'S DEFICIT		
Current liabilities:		
Current maturities of mortgages payable	**$ 28,914**	$ 26,898
Accounts payable	**4,475**	1,208
Accrued interest	**40,179**	39,333
Accrued management fees	**3,033**	2,780
Total current liabilities	**76,601**	70,219
Deposits and prepayment liabilities:		
Tenant security deposits	**27,872**	22,962
Prepaid rent	**448**	1,630
	28,320	24,592
Long-term liabilities:		
Mortgages payable, (net of unamortized debt issuance costs costs of $25,232 in 2022 and $27,025 in 2021), net of current portion	**1,830,560**	1,858,379
Note payable, affiliate	**475,000**	475,000
Accrued interest	**279,689**	319,831
Accrued interest, affiliate	**112,621**	103,121
	2,697,870	2,756,331
Member's deficit	**(1,485,188)**	(1,477,851)
	$ 1,317,603	$ 1,373,291

Murphey School, LLC
Statements of Operations
Years Ended December 31, 2022 and 2021

		2022		2021
Revenues:				
Gross rental income	$	**544,916**	$	538,685
Less: Vacancies		**(16,399)**		(26,167)
Less: Concessions		**(2,200)**		(2,000)
Less: Loss to lease		**(7,228)**		(8,240)
Net rental income		**519,089**		502,278
Interest income		**142**		25
Other income		**4,251**		9,149
		523,482		511,452
Expenses:				
Administrative		**64,496**		71,354
Utilities		**65,296**		61,710
Professional fees		**10,966**		6,151
Property management fees		**35,681**		35,793
Operating and maintenance		**106,532**		97,946
Taxes and insurance		**19,631**		17,857
Interest expense		**101,855**		103,950
Management services fee		**50,000**		50,000
Depreciation		**65,575**		63,493
Loss on disposal		**10,787**		-
		530,819		508,254
Net income (loss)	**$**	**(7,337)**	$	3,198

Murphey School, LLC
Statements of Member's Deficit
Years Ended December 31, 2022 and 2021

Deficit, December 31, 2020	$	(1,481,049)
Net income		3,198
Deficit, December 31, 2021		(1,477,851)
Net loss		(7,337)
Deficit, December 31, 2022	$	(1,485,188)

See accompanying notes.

Murphey School, LLC
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income (loss)	**$ (7,337)**	$ 3,198
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	**65,575**	63,493
Amortization of debt issuance costs	**1,793**	1,964
Loss on disposal of fixed assets	**10,787**	-
Change in assets and liabilities:		
Accounts receivable, tenants	**3,706**	26,308
Accounts receivable, other	**(4,159)**	9,429
Prepaid expenses	**12,048**	(7,675)
Accounts payable	**3,267**	(12,285)
Accrued interest	**(29,796)**	(25,699)
Accrued management fees	**253**	1,731
Tenant security deposits	**4,910**	593
Prepaid rent	**(1,182)**	(96)
Net cash provided by operating activities	**59,865**	60,961
Cash flows from investing activities:		
Purchase of fixed assets	**(20,195)**	(13,403)
Net cash used by investing activities	**(20,195)**	(13,403)
Cash flows from financing activities:		
Principal payments on mortgage loans	**(27,596)**	(25,445)
Net cash used by financing activities	**(27,596)**	(25,445)
Net increase in cash and restricted deposits and funded reserves	**12,074**	22,113
Cash and restricted deposits and funded reserves, beginning of year	**468,517**	446,404
Cash and restricted deposits and funded reserves, end of year	**$ 480,591**	$ 468,517
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 129,858**	$ 127,685
Reconciliation of cash and restricted deposits and funded reserves to balance sheet:		
Cash, operating	**$ 88,952**	$ 96,277
Restricted deposits and funded reserves	**391,639**	372,240
	$ 480,591	$ 468,517

See accompanying notes.

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Murphey School Limited Partnership was formed as a limited partnership under the laws of the state of North Carolina on July 7, 1989, for the purpose of constructing and operating an affordable rental housing project for low- and moderate-income residents. The project originally consisted of 52 multifamily residential rental units located in Wake County, North Carolina. In 2010, the property was rehabbed and now has 48 units.

Effective December 20, 2007, Murphey School Limited Partnership was converted to a North Carolina limited liability company and the name of the entity was changed to Murphey School, LLC (the "Company").

A summary of the Company's 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 its 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 recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives under the straight-line method. The useful lives used in determining depreciation are as follows:

Land improvements	15 years
Building and improvements	25 years
Furnishings and equipment	5 to 7 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 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.

Debt issuance costs

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

Concentrations of credit risk

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

Subsequent Events Evaluation

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

2. Member Capital Contributions

Effective January 31, 2006, the partnership agreement was amended to reflect the sale of the limited partner interest of National Equity Fund to DHIC, Inc. (“DHIC”). Effective December 20, 2007, Murphey Housing Investment Corporation transferred 100% of its general partner interest to DHIC, which in turn transferred 100% of its interest to Community Revitalization and Preservation Corporation (“CRPC” or the “Member”), which became the sole member subsequent to the transfer. CRPC is a non-profit affiliate of DHIC, with board members appointed by DHIC.

3. Mortgages and Note Payable

Mortgages and note payable as of December 31, 2022 and 2021 are as follows:

	2022	2021
First mortgage loan to Community Housing Capital ("CHC") in the amount of $1,225,000 with monthly payments of interest and principal of $8,357 commencing on September 1, 2010. The stated interest rate is 7.25%. Any remaining principal and interest shall be due and payable on August 1, 2040. Notwithstanding the foregoing, if the sublease under which the Company has been granted its leasehold interest in the property is not extended to August 1, 2040, or beyond, any remaining principal and interest shall become immediately due and payable on February 28, 2029. Payment and performance under the loan agreement is guaranteed by DHIC. Total payments for the years ended December 31, 2022 and 2021 amounted to $100,280 per year. Interest expense amounted to $72,762 and $74,681 for the years ended December 31, 2022 and 2021, respectively. Interest paid amounted to $72,928 and $74,835, respectively, for the years ended December 31, 2022 and 2021. Accrued interest amounted to $5,987 and $6,152 at December 31, 2022 and 2021, respectively.	**$ 994,710**	$ 1,022,062
Second mortgage with the City of Raleigh (the "City") in the original amount of $450,000. Effective July 15, 2010, the loan was modified to extend the maturity date to August 1, 2040, with an interest rate of 2% per annum. Notwithstanding the foregoing, if the sublease under which the Company has been granted its leasehold interest in the property is not extended to August 1, 2040, or beyond, any remaining principal and interest shall become immediately due and payable on February 28, 2029. Principal and accrued interest are to be paid annually until maturity, at an amount that includes a minimum annual payment of $8,333 within 60 days following year end, plus 50% of net cash flow as determined for the calendar year ending prior to each annual payment date. Net cash flow is defined as gross revenue collections less project operating expenses, debt service on the first mortgage, operating and replacement reserve payments, payment of company management fees and repayment of all owner advances to the project. The loan is secured by a second deed of trust on the property and its improvements. At December 31, 2022 and 2021, $32,784 and $30,984 of net cash flow was available for payment on the loan, respectively. For the years ended December 31, 2022 and 2021, payments of $47,575 and $43,250, respectively, were made to the City, all of which were applied to accrued interest. For each of the years ended December 31, 2022 and 2021, interest expense amounted to $8,333. Accrued interest amounted to $304,414 and $343,656 at December 31, 2022 and 2021, respectively.	**416,642**	416,642

	2022	2021
Third mortgage loan payable to the City of Raleigh in the amount of $480,000. Beginning January 1, 2012, and on the same day each year thereafter, an annual payment of $9,600 including interest at 2% is due until maturity on August 1, 2040. Notwithstanding the foregoing, if the sublease under which the Company has been granted its leasehold interest in the property is not extended to August 1, 2040, or beyond, any remaining principal and interest shall become immediately due and payable on February 28, 2029. Total payments for the years ended December 31, 2022 and 2021 amounted to $9,600 per year. Interest expense amounted to $9,467 and $9,472 for the years ended December 31, 2022 and 2021, respectively. Interest paid amounted to $9,356 and $9,600 for the years ended December 31, 2022 and 2021, respectively. Accrued interest amounted to $9,467 and $9,356 at December 31, 2022 and 2021, respectively.	**$ 473,354**	$ 473,598
Note payable to DHIC, in the amount of $475,000 with interest accruing at 2% starting in 2011. All principal and accrued interest shall be payable in one single payment on August 1, 2040. Notwithstanding the foregoing, if the sublease under which the Company has been granted its leasehold interest in the property is not extended to August 1, 2040, or beyond, any remaining principal and interest shall become immediately due and payable on February 28, 2029. No payments were made on the note during 2022 and 2021. For the years ended December 31, 2022 and 2021, interest expense amounted to $9,500 per year. Accrued interest amounted to $112,621 and $103,121 at December 31, 2022 and 2021, respectively.	**475,000**	475,000
	2,359,706	2,387,302
Less: unamortized debt issuance costs	**(25,232)**	(27,025)
Less: current maturities	**(28,914)**	(26,898)
	$ 2,305,560	$ 2,333,379

Estimated future principal maturities of the mortgages and note payable subsequent to December 31, 2022 are as follows:

2023	$ 28,914
2024	31,082
2025	33,411
2026	35,916
2027	38,608
Thereafter	2,191,775
	$ 2,359,706

4. Related-Party Transactions

Management services fee

Pursuant to a management services agreement dated January 1, 2009, the Company shall pay an annual management services fee to DHIC equal to one hundred percent of net income available for distribution, as defined. For the years ended December 31, 2022 and 2021, management services fees of $50,000 were paid.

5. Property Management Agreement

The Company has entered into an agreement with Community Management Corporation, an unaffiliated entity, in connection with the management of the rental operations of the project. The property management fee is calculated as 6.8% of gross operating revenues received. For the years ended December 31, 2022 and 2021, property management fees of $35,681 and $35,793, respectively, were charged to operations, of which $3,033 and $2,780, respectively, remained payable at December 31, 2022 and 2021.

6. Reserve Funds

Operating reserve

In accordance with the provisions of the loan agreement with CHC, borrower shall maintain an operating reserve in the amount of $148,325 with CHC for operating expenses with respect to the mortgaged property. Any interest generated by the reserve shall accrue to the CHC, and the reserve is pledged as collateral against the CHC loan. Individual withdrawals greater than $10,000, or reductions of the reserve below $50,000, shall require CHC approval. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	**2021**
Balance, beginning	**$ 148,325**	$ 148,325
Funding	**-**	-
Withdrawals	**-**	-
Balance, ending	**$ 148,325**	$ 148,325

Capital replacement reserve

In accordance with the provisions of the loan agreement with CHC, borrower shall fund a capital replacement reserve in the initial amount of $94,658 with annual funding of $350 per unit to the reserve, funded monthly. The reserve is pledged as collateral against the CHC loan. Individual withdrawals greater than $10,000, or reductions of the reserve below $50,000, shall require CHC approval.

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

	2022	2021
Balance, beginning	**$ 196,677**	$ 179,877
Funding	**16,800**	16,800
Withdrawals	**(14,359)**	-
Balance, ending	**$ 199,118**	$ 196,677

7. Ground Lease

The Murphey School property is owned by the state of North Carolina. The state of North Carolina leases the property to the City of Raleigh. The City of Raleigh subleases the property to DHIC. DHIC subleases the property to Murphey School, LLC. Pursuant to an amendment dated January 19, 2023, the term of the lease expires June 30, 2041. No annual payment is required per the lease and sublease documents.

8. HAP Contract

The Raleigh Housing Authority has contracted with the Company to make housing assistance payments on behalf of qualified residents. For 2022 and 2021, the Company received approximately $320,000 per year in assistance payments. The current contract expires December 4, 2023 and if not renewed, could substantially impact the rental income of the Company.

Supplementary Information

Murphey School, LLC
Schedules of Project Operating Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Administrative expenses:		
Office	$ 14,122	$ 14,303
Manager salaries	23,127	9,224
Advertising	56	9,731
Telephone	5,153	4,818
Service coordinator	17,731	17,384
Bad debt expense (recoveries), net	1,143	4,474
Other miscellaneous expenses	3,164	11,420
	$ 64,496	$ 71,354
Utilities expenses:		
Electricity	$ 33,576	$ 31,109
Water	11,233	10,714
Sewer	13,184	13,474
Gas	7,303	6,413
	$ 65,296	$ 61,710
Professional expenses:		
Audit fee	$ 10,764	$ 5,990
Bookkeeping costs	202	161
	$ 10,966	$ 6,151
Property management fees	$ 35,681	$ 35,793
Operating and maintenance expenses:		
Garbage and trash removal	$ 5,155	$ 6,105
Security	919	1,011
Contracts	40,761	21,128
Services	3,392	2,261
Maintenance payroll	8,591	18,534
Grounds maintenance	643	1,933
General maintenance and repairs	46,801	45,435
Painting and decorating	270	1,539
	$ 106,532	$ 97,946

Murphey School, LLC
Schedules of Project Operating Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Taxes and insurance expenses:		
Property and liability	$ 11,953	$ 11,130
Payroll taxes	2,511	2,329
Group insurance (refunds), net	459	717
Other insurance	4,708	3,681
	$ 19,631	$ 17,857
Interest expense:		
Community Housing Capital	$ 72,762	$ 74,681
City of Raleigh - 2nd mortgage	8,333	8,333
City of Raleigh - 3rd mortgage	9,467	9,472
DHIC/Neighborworks	9,500	9,500
Amortization of debt issuance costs	1,793	1,964
	$ 101,855	$ 103,950
Management services fee	$ 50,000	$ 50,000
Loss on disposal of fixed assets	$ 10,787	$ -
Depreciation	$ 65,575	$ 63,493

See independent auditor's report.