Pennington Grove II, LLC

NCHFA Project No. 9250871

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

December 31, 2022 and 2021

Table of Contents

FORVIS

Independent Auditor's Report

Members
Pennington Grove II, LLC
NCHFA Project No. 9250871
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Pennington Grove II, LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, members' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pennington Grove II, 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 Pennington Grove 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 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 Pennington Grove 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.

FORVIS

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 Pennington Grove 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 Pennington Grove 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.

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 1, 2023

Pennington Grove II, LLC
NCHFA Project No. 9250871
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash, operating	**$ 177,391**	$ 37,666
Cash, construction	**15,083**	15,754
Accounts receivable, tenants	**3,221**	264
Prepaid expenses	**2,909**	-
Total current assets	**198,604**	53,684
Restricted deposits and funded reserves:		
Cash, tax and insurance escrow	**24,214**	-
Cash, tenant security deposits	**46,166**	26,909
Cash, replacement reserve	**46,427**	-
Cash, operating reserve	**245,570**	-
	362,377	26,909
Rental property:		
Land	**545,000**	545,000
Land improvements	**1,219,302**	1,219,302
Building	**8,624,859**	8,603,640
Furnishings and equipment	**289,857**	289,857
	10,679,018	10,657,799
Accumulated depreciation	**(467,918)**	(35,504)
	10,211,100	10,622,295
Other assets:		
Deferred tax credit fees, net of accumulated amortization of $11,446 in 2022 and $5,723 in 2021	**136,499**	80,122
	$ 10,908,580	$ 10,783,010

Pennington Grove II, LLC
NCHFA Project No. 9250871
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Current maturities of notes payable	**$ 37,324**	$ 11,003
Construction loan payable, net of unamortized debt issuance costs of $0 in 2022 and $20,926 in 2021	**-**	5,603,508
Accounts payable and accrued expenses	**15,418**	11,544
Accounts payable, construction	**-**	44,728
Accounts payable, affiliate	**112,885**	38,672
Accrued interest	**4,476**	17,486
Total current liabilities	**170,103**	5,726,941
Deposits and prepayment liabilities:		
Tenant security deposits	**46,078**	26,909
Prepaid rent	**53**	653
	46,131	27,562
Long-term liabilities:		
Notes payable, net of unamortized debt issuance costs of $79,210 in 2022 and $29,490 in 2021, less current portion	**4,271,463**	1,620,757
Developer fee payable	**186,416**	654,379
Total long-term liabilities	**4,457,879**	2,275,136
Members' equity	**6,234,467**	2,753,371
	$ 10,908,580	$ 10,783,010

See accompanying notes.

Pennington Grove II, LLC
NCHFA Project No. 9250871
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rental income	$ 548,269	$ 79,670
Less: Vacancies	(22,888)	(53,030)
Net rent revenue	525,381	26,640
Interest income	415	-
Other income	21,574	2,192
Total revenues	547,370	28,832
Operating expenses:		
Administrative	104,865	25,820
Utilities	30,065	744
Management fees	35,862	19,312
Repairs and maintenance	102,931	11,781
Taxes and insurance	16,054	18,419
Total operating expenses	289,777	76,076
Income from operations	257,593	(47,244)
Nonoperating expenses:		
Interest - mortgage loans	231,161	17,216
Rent-up expenses	-	2,863
Asset management fees	3,500	-
Organizational	-	47,356
Depreciation	432,414	35,504
Amortization	5,723	5,723
Total nonoperating expenses	672,798	108,662
Net loss	$ (415,205)	$ (155,906)

See accompanying notes.

Pennington Grove II, LLC
NCHFA Project No. 9250871
Statements of Members' Equity (Deficit)
Years Ended December 31, 2022 and 2021

	2022			
	Investor Members	**Managing Member**	**Total**	**2021**
Balance (deficit), beginning	**$ 2,893,285**	**$ (139,914)**	**$ 2,753,371**	$ 919,644
Contributions	**-**	**3,896,301**	**3,896,301**	2,039,633
Syndication costs	**-**	**-**	**-**	(50,000)
Net loss	**(415,168)**	**(37)**	**(415,205)**	(155,906)
Balance (deficit), ending	**$ 2,478,117**	**$ 3,756,350**	**$ 6,234,467**	$ 2,753,371

Pennington Grove II, LLC
NCHFA Project No. 9250871
Statements of Cash Flows
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Cash flows from operating activities:		
Net loss	**$ (415,205)**	$ (155,906)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	**432,414**	35,504
Amortization	**5,723**	5,723
Amortization of deferred financing costs	**21,108**	2,587
Change in assets and liabilities:		
Accounts receivable, tenants	**(2,957)**	(264)
Prepaid expenses	**(2,909)**	-
Accounts payable and accrued expenses	**3,874**	11,544
Accounts payable, affiliate	**12,113**	-
Accrued interest	**(13,010)**	14,404
Tenant security deposit	**19,169**	26,909
Prepaid rent	**(600)**	653
Net cash provided (used) by operating activities	**59,720**	(58,846)
Cash flows from investing activities:		
Investment in rental property	**(533,910)**	(8,237,575)
Payment of deferred tax credit fees	**(62,100)**	-
Proceeds from affiliate for payment of deferred tax credit fees	**62,100**	-
Net cash used by investing activities	**(533,910)**	(8,237,575)
Cash flows from financing activities:		
Member contributions	**3,896,301**	2,039,633
Payment of syndication costs	**-**	(50,000)
Proceeds from construction loan payable	**-**	5,752,254
Payments of construction loan payable	**(5,624,434)**	(1,022,437)
Proceeds from notes payable	**2,737,750**	1,661,250
Payments of notes payable	**(11,003)**	-
Payment of deferred financing costs	**(49,902)**	(5,500)
Net cash provided by financing activities	**948,712**	8,375,200
Net increase in cash and restricted deposits and funded reserves	**474,522**	78,779
Cash and restricted deposits and funded reserves, beginning of year	**80,329**	1,550
Cash and restricted deposits and funded reserves, end of year	**$ 554,851**	$ 80,329

Pennington Grove II, LLC
NCHFA Project No. 9250871
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, including capitalized interest of $0 in 2022 and $118,353 in 2021	**$ 223,063**	$ 118,578
Supplemental disclosure of noncash investing and financing activities:		
Construction costs, included in accounts payable, construction	**$ -**	$ 25,308
Construction costs, included in developer fee payable	**-**	617,996
Construction costs, included in accrued interest	**-**	3,082
	$ -	$ 646,386
Reconciliation of cash and restricted deposits and funded reserves to the balance sheet:		
Cash, operating	**$ 177,391**	$ 37,666
Cash, construction	**15,083**	15,754
Restricted deposits and funded reserves	**362,377**	26,909
	$ 554,851	$ 80,329

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Pennington Grove II, LLC (the "Company") was organized in August 2019, for the purpose of developing, constructing, owning, maintaining and operating a 69-unit apartment complex for rental to rental to seniors in Garner, North Carolina commonly known as "Pennington Grove Phase II Apartments." The major activities of the Company are governed by the operating agreement and the loan agreements. The building of the property was placed into service in November of 2021.

In December 2020, the operating agreement was amended to admit a new investor member and to permit the withdrawal of the original investor member, DHIC, Inc. ("DHIC"). As a result, the Company had one managing member - Pennington Grove Senior Housing II, Inc.; one investor member - RBC Tax Credit Equity, LLC; and one special investor member - RBC Tax Credit Manager II, Inc. Effective December 23, 2020, RBC Tax Credit Equity, LLC assigned its investor member interest to RBC Tax Credit Equity Fund-97 Limited Partnership.

The ownership of the Company is as follows:

Pennington Grove Senior Housing II, Inc.	0.009%
RBC Tax Credit Manager II, Inc.	0.001%
RBC Tax Credit Equity Fund-97 Limited Partnership	99.990%
	100.00%

The Company received 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.

Basis of accounting

The financial statements of the Company are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles.

The following is a summary of significant accounting policies consistently applied in the preparation of these financial statements.

Income taxes

As a limited liability company, the Company's taxable income or loss is allocated to the members in accordance with the operating agreement and is reflected in their income taxes; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Rental property

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

Land improvements	15 years
Building	30 years
Furnishings and equipment	5 years

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

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted cash

Restricted cash consists of tenant security deposits, escrow deposits held by lenders for property taxes and insurance, operating reserves and replacement reserves. The tenant security deposit account represents cash restricted for the purpose of refunding tenant's 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.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. No impairment losses were recognized during 2022 and 2021.

Accounts receivable and bad debts

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

Revenue recognition

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

Other assets

Deferred tax credit fees are being amortized over 15 years, the tax credit compliance period.

Advertising

The Company expenses advertising costs as they are incurred. No advertising expense was incurred during the years ended December 31, 2022 and 2021.

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 evaluation

The Company evaluated the effect subsequent events would have on the financial statements through May 1, 2023, which is the date the financial statements were available to be issued.

2. Members' Capital Contributions

The managing member is required to make a capital contribution of $100, all of which was contributed as of December 31, 2022 and 2021. The special investor member iS required to make a capital contribution of $10, which remains outstanding as of December 31, 2022 and 2021. The investor member is required to make capital contributions totaling $7,064,294, subject to tax credit equity adjusters. As of December 31, 2022 and 2021, the investor member has contributed $6,995,478 and $3,099,177, respectively.

3. Notes Payable

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

	2022	**2021**
Note payable to Centrant Community Capital, Inc. ("Centrant"), in the amount of $2,324,000, bearing interest at 4.99% and maturing on January 1, 2041. Monthly payments of principal and interest of $11,715 are due, beginning February 1, 2023, and shall continue until January 1, 2041 (the maturity date), at which time all outstanding principal and accrued interest shall be due and payable. No interest was accrued at December 31, 2022 and 2021. Interest expense amounted to $5,798 and $0 for the years ended December 31, 2022 and 2021, respectively. Interest paid amounted to $5,798 and $0 for the years ended December 31, 2022 and 2021, respectively. Deferred loan costs amortized to interest expense for the years ended December 31, 2022 and 2021 amounted to $171 and $0, respectively. The loan is secured by a first lien Deed of Trust on the property.	**$ 2,324,000**	$ -

	2022	2021
Note payable to the NCHFA, received under the rental production program ("RPP"), in the maximum amount of $1,375,000, with interest accruing at 1.50%. During the construction period, no payments of principal and interest are due under the note. Final disbursement of the loan occurred on December 14, 2022, at which time the loan converted to its permanent phase. Monthly payments of principal and interest are due under the loan, commencing February 1, 2023, in monthly amounts ranging from $2,724 to $3,064. All outstanding principal and interest, if any, shall be due and payable on January 1, 2043 (the maturity date). Accrued interest amounted to $1,031 and $0 as of December 31, 2022 and 2021. Interest expense amounted to $1,031 and $0 for the years ended December 31, 2022 and 2021, respectively. Deferred loan costs amortized to interest expense amounted to $11 and $0 for the years ended December 31, 2022 and 2021, respectively. The note is secured by the second lien Deed of Trust on the property.	**$ 1,375,000**	$ 1,031,250
Note payable to Wake County, North Carolina, in the amount of $700,000, bearing interest at 1%. Interest-only payments are due monthly through June 2022. Annual payments of principal and interest ranging from $11,113 to $5,830 are due beginning on July 1, 2022, and continuing annually until July 1, 2040, with a final balloon payment of all outstanding principal and interest due and payable on July 1, 2041 (the maturity date). Accrued interest amounted to $3,445 and $535 as of December 31, 2022 and 2021, respectively. Total interest incurred amounted to $6,070 and $5,022 for the years ended December 31, 2022 and 2021, respectively, of which $0 was capitalized and $6,070 was expensed for 2022, and $4,262 was capitalized and $760 was expensed for 2021. Interest paid amounted to $3,160 and $4,487 for the years ended December 31, 2022 and 2021, respectively. The loan is secured by a third lien Deed of Trust on the property.	**688,997**	630,000
	4,387,997	1,661,250
Less: unamortized debt issuance costs	**(79,210)**	(29,490)
Less: current maturities	**(37,324)**	(11,003)
	$ 4,271,463	$ 1,620,757

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

2023	$ 37,324
2024	43,491
2025	45,692
2026	47,874
2027	50,052
Thereafter	4,163,564
	$ 4,387,997

4. Construction Loan Payable

The Company obtained a construction loan from Fifth Third Bank on December 18, 2020, in the maximum amount of $5,822,270, bearing interest at the one-month LIBOR rate (variable), subject to a minimum amount of 1.0%, plus a margin of 2.5%, for the purposes of constructing the project. As of December 31, 2021, the outstanding balance on the loan was $5,603,508, net of unamortized debt issuance costs of $20,926. During the year ended December 31, 2022, the construction loan was repaid in full using proceeds from the permanent first mortgage, and investor member capital contributions. Total interest incurred under the loan during the year ended December 31, 2022 amounted to $197,154, all of which was expensed. Total interest incurred during the year ended December 31, 2021 amounted to $131,042, of which $117,173 was capitalized and $13,869 was expensed. For the years ended December 31, 2022 and 2021, deferred financing fees amortized to interest expense amounted to $20,926 and $22,745, respectively, of which $0 and $20,158, respectively, has been capitalized into the rental property. Accrued interest at December 31, 2022 and 2021 amounted to $0 and $16,951, respectively.

5. Construction Contract

The Company entered into a construction contract in September 2020 with Weaver Cooke Construction, LLC, for services related to construction of the project. Total construction costs under the construction contract amounted to $8,135,515, including change orders of $337,443. As of December 31, 2022 and 2021, the entire amount of the contract has been incurred, all of which has been capitalized to the rental property. As of December 31, 2022 and 2021, the entire balance due under the construction contract has been paid in full.

6. Related-Party Transactions

Accounts payable, affiliate

As of December 31, 2022 and 2021, accounts payable, affiliate consisted of $112,885 and $38,672, respectively, in advances from DHIC, Inc., an affiliate of the managing member, for development and operational costs.

Developer fee

The Company incurred a developer fee payable to DHIC, an affiliate of the managing member, in the amount of $897,000 for services rendered to the Company for overseeing the construction of the complex. As of December 31, 2022 and 2021, the total fee has been earned and capitalized into the rental property. As of December 31, 2022 and 2021, $186,416 and $654,379 remained payable. The deferred portion of the developer fee, as defined in the development agreement, shall be repaid out of available cash flow, as defined in the operating agreement (see Note 9). As of December 31, 2022 and 2021, the final investor member contributions have not been received and the deferred portion of the developer fee is not yet known. Interest shall accrue on the deferred portion of the developer fee at a rate of 1.31% per annum. Any unpaid developer fee shall be due in full by the end of the compliance period, as defined in the operating agreement.

Asset management fee

The Company is required to pay a cumulative, annual asset management fee equal to $3,500 to RBC Community Investments, LLC or its affiliate for an annual review of the operations of the Company. The asset management fee is to be paid quarterly in advance. Any unpaid fees shall accumulate and shall be payable out of available net cash flow, as defined in the operating agreement (see Note 9). The fee shall commence the first quarter following the date of substantial completion, as defined in the operating agreement. Asset management fees of $3,500 and $0 were incurred and paid during the years ended December 31, 2022 and 2021, respectively.

Managing member asset management fee

The Company is required to pay a cumulative, annual managing member asset management fee equal to $3,500 to the managing member for an annual review of the operations of the Company. The managing member asset management fee is payable annually from available net cash flow only, as defined in the amended and restated operating agreement (see Note 9). The fee shall commence upon the date of substantial completion, as defined. No managing member asset management fee was incurred or paid during the years ended December 31, 2022 and 2021.

Incentive management fee

The Company has entered into an incentive management fee agreement with the managing member for its services in managing the business. This management fee is based on net cash flow of the Company, as defined (see Note 9), and is not cumulative. The fee is equal to 90% of net cash flow available for distribution after payment of other items that precede the incentive management fee in the net cash flow priority as set forth in the amended and restated operating agreement. No incentive management fee was incurred or paid during the years ended December 31, 2022 and 2021.

Incentive leasing fee

In accordance with the operating agreement, upon the closing or conversion, as applicable, of the Project Loans that are Permanent Loans (as defined), the amount of any net cash flow achieved prior to such closing or conversion of the Project Loans shall be paid first to the managing member as reimbursement for any payments required by managing member with respect to the construction completion guaranty set forth in Section 8.10(a) of the operating agreement, and thereafter any remaining funds shall be paid to the managing member as an incentive leasing fee (“Incentive Leasing Fee”); provided that, in no event shall the Incentive Leasing Fee exceed $138,000 or $2,000 per unit. No incentive leasing fee was incurred or paid during the years ended December 31, 2022 and 2021.

Purchase of land from related party

The Company purchased the land on which the project was built on September 16, 2020, for $685,000 from Community Revitalization and Preservation Corporation (“CRPC”). The related net book value of the land to CRPC amounted to $545,000 at the date of the sale, resulting in a difference between the purchase price and net book value of $140,000. The Company and CRPC (the “entities”) are commonly controlled by DHIC, Inc., whose subsidiaries are the managing members of each respective entity. As the entities are commonly controlled, no profit or loss should be recognized by the buyers or the seller in this related party transaction. The difference between the net book value of the land sold and the cumulative purchase price is instead viewed as a transfer of equity between affiliates. Accordingly, equity distributions totaling $140,000 were recognized by the Company at the date of sale related to this purchase.

7. Reserves

Replacement reserve

The operating agreement and the NCHFA loan agreement require the Company to fund a replacement reserve using cash flow from operations, as defined. Reserve additions of $250 per unit per year, increasing at 4% each year, are required to be made annually. The operating agreement requires the monthly deposits to commence the month following substantial completion, as defined in the operating agreement, which occurred in November 2021. The NCHFA loan agreement requires payments to commence on the conversion date, December 14, 2022. This 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 without consent from the special investor member, and written approval from the NCHFA. In addition, written consent is required from Centrant for withdrawals exceeding $2,500 during any 12-month period. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ -**	$ -
Funding	**18,688**	-
Transfer from lease-up reserve	**27,600**	-
Interest, net of fees	**139**	-
Balance, ending	**$ 46,427**	$ -

As of December 31, 2022 the replacement reserve was underfunded by $57 and $1,438, respectively.

Operating reserve

The operating agreement and NCHFA loan agreement require the Company to fund an operating reserve account in the amount of $245,528 into a segregated reserve account to fund operating expenses in excess of operating revenues. Funding shall commence on the earlier of the loan conversion date, or upon receipt of the investor member’s fourth capital contribution. In addition, in accordance with the operating agreement, the Company shall deposit amounts sufficient to maintain a minimum balance of $245,528 using net cash flow, as defined in the operating agreement (see Note 9). The managing member shall not utilize the operating reserve without prior approval of the special investor member, and written consent from NCHFA. An analysis of the operating reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	**2021**
Balance, beginning	**$ -**	$ -
Funding	**245,528**	-
Interest, net of fees	**42**	-
Balance, ending	**$ 245,570**	**$ -**

Lease-up reserve

The operating agreement and the NCHFA loan agreement require the Company to establish a lease-up reserve fund of $27,600, no later than 60 days prior to the completion of construction. The Company shall utilize the lease-up reserve to pay operating expenses to the extent funds are not available from other sources until the project has obtained 93% qualified occupancy. Thereafter, the lease-up reserve account shall be closed and any balance remaining shall be transferred to the replacement reserve. The lease-up reserve was funded during the year ended December 31, 2022 using equity proceeds from the investor member, and subsequently transferred to the replacement reserve account.

8. 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 shall be compensated an amount equal to 6.03% of gross operating revenues received from the preceding month. Such fee shall be paid out of the general operating account on the first of each month. The term of the agreement is from November 1, 2020 until October 31, 2023, but shall be automatically renewed for a period of one year unless, on or before 30 days prior to the expiration, there is mutual consent of both parties to terminate this agreement. An additional one-time leasing and rent-up fee is to be paid to the management agent to cover the agent's staff costs, overhead, and travel time for the period prior to occupancy, in the amount of $300 per unit, to be earned throughout the process of initial occupancy. The total management fee expense for the years ended December 31, 2022 and 2021 amounted to $35,862 and $19,312, respectively, inclusive of rent-up fees of $3,150 and $17,550, respectively. Accrued property management fees totaled $2,735 and $5,424 as of December 31, 2022 and 2021, respectively.

9. Company Profits, Losses and Distributions

Distributable net cash flow is payable annually in the following order:

1. To the investor member until the aggregate amount of distributions made to the investor member for the current and all prior years equals the investor member's assumed tax liability for the current and all prior years;
2. To the investor member in an amount equal to any unpaid tax credit shortfall, for any outstanding investor member loans and for any other amounts due and owing to the investor member;
3. To the special investor member for any asset management fees that were not paid in full when due;
4. To the managing member until the aggregate amount of distributions made to the managing member for the current and all prior years equals the managing member's assumed tax liability for the current and all prior years;
5. To replenish the operating reserve to a minimum balance of $245,528;
6. To pay all amounts due under the development agreement;
7. To the managing member for any managing member asset management fees that were not paid in full when due;

8. To pay any outstanding operating deficit loans and managing member loans based on respective balances of each;
9. 90% of the remaining net cash flow to the payment of the incentive management fee;
10. Thereafter, the balance to the members in accordance with their percentage interests.

10. Contingencies, Risks and Uncertainties

The Company's sole asset is its 69-unit housing complex located in Garner, 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

Pennington Grove II, LLC
NCHFA Project No. 9250871
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Rental income:		
Residential income	**$ 525,381**	$ 26,640
Interest income:		
Interest income	**$ 415**	$ -
Other income:		
Application fees	**$ 1,240**	$ 2,192
Damages and cleaning	**645**	-
Late fees	**1,512**	-
Cable TV fees	**909**	-
Other	**17,268**	-
	$ 21,574	$ 2,192
Administrative expenses:		
Office payroll and related expenses	**$ 50,259**	$ 11,507
Payroll taxes	**3,325**	1,279
Audit and accounting	**14,002**	3,500
Office expenses	**4,696**	6,753
Telephone, internet and cable	**5,890**	606
Meetings	**692**	10
Resident services	**21,860**	-
Administrative supplies and expenses	**1,299**	1,762
Miscellaneous administrative	**2,842**	403
	$ 104,865	$ 25,820
Utilities:		
Electricity	**$ 12,643**	$ -
Water and sewer	**17,422**	744
	$ 30,065	$ 744
Management fees:		
Property management fees	**$ 32,712**	$ 1,762
Rent-up fees	**3,150**	17,550
	$ 35,862	$ 19,312

Pennington Grove II, LLC
NCHFA Project No. 9250871
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Repairs and maintenance:		
Repairs supplies	$ 43,836	$ 1,075
Repairs and maintenance payroll	18,216	6,507
Garbage and trash	7,443	966
Janitor and cleaning	14,366	2,133
Grounds maintenance	12,169	-
Painting and decorating	715	-
Exterminating	621	-
Fire protection	5,565	1,100
	$ 102,931	$ 11,781
Taxes and insurance:		
Property insurance	$ 14,464	$ 18,419
Other insurance	100	-
Property taxes	1,490	-
	$ 16,054	$ 18,419
Interest expense - mortgage loans:		
Interest expense - Fifth Third	$ 197,154	$ 13,869
Interest expense - Centrant	5,798	-
Interest expense - NCHFA	1,031	-
Interest expense - Wake County	6,070	760
Amortization of deferred financing costs	21,108	2,587
	$ 231,161	$ 17,216
Rent-up expenses	$ -	$ 2,863
Organizational	$ -	$ 47,356
Asset management fees	$ 3,500	$ -
Depreciation	$ 432,414	$ 35,504
Amortization	$ 5,723	$ 5,723