

# **ROG Preservation, LLC**

**HUD Project No. 053-36170**

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

**December 31, 2022 and 2021**



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# Independent Auditor's Report

Members  
ROG Preservation, LLC  
HUD Project No. 053-36170  
Raleigh, NC

## Report on the Audit of the Financial Statements

### ***Opinion***

We have audited the financial statements of ROG Preservation, LLC, HUD Project No. 053-36170, 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 ROG Preservation, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 ROG Preservation, 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 ROG Preservation, 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 and *Government Auditing Standards* 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 and Government Auditing Standards, 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 ROG Preservation, 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 ROG Preservation, 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.



### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The HUD-required financial data templates 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 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023, on our consideration of ROG Preservation, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ROG Preservation, LLC's internal control over financial reporting and compliance.

**FORVIS,LLP**

**High Point, NC  
March 23, 2023**

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Balance Sheets**  
**December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Current assets:		
Cash, operations	\$ 447,999	\$ 372,228
Tenant accounts receivable	11,943	12,723
Accounts receivable - HUD	5,060	10,264
Prepaid expenses	<u>16,512</u>	<u>40,892</u>
Total current assets	<u>481,514</u>	<u>436,107</u>
Deposits held in trust - funded:		
Tenant deposits held in trust	<u>29,487</u>	<u>24,485</u>
Restricted deposits and funded reserves:		
Mortgage escrow	300,204	246,408
Replacement reserve	351,376	330,689
Other reserves	<u>454,934</u>	<u>451,661</u>
Total restricted deposits and funded reserves	<u>1,106,514</u>	<u>1,028,758</u>
Fixed assets, at cost:		
Land and land improvements	1,451,730	1,451,730
Buildings	9,376,409	9,376,409
Building equipment, portable	<u>388,914</u>	<u>388,914</u>
	11,217,053	11,217,053
Accumulated depreciation	<u>(2,684,313)</u>	<u>(2,405,487)</u>
Total fixed assets, net	<u>8,532,740</u>	<u>8,811,566</u>
Other assets:		
Deferred tax credit fees, net of accumulated amortization of \$93,211 in 2022 and \$81,053 in 2021	<u>89,159</u>	<u>101,317</u>
Total other assets	<u>89,159</u>	<u>101,317</u>
Total assets	<u><u>\$ 10,239,414</u></u>	<u><u>\$ 10,402,233</u></u>

See accompanying notes.

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Balance Sheets**  
**December 31, 2022 and 2021**

(2 pages)

	<u>2022</u>	<u>2021</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Current liabilities:		
Accounts payable, operations	\$ 33,226	\$ 27,921
Accrued wages payable	5,607	6,646
Accrued management fees	7,397	6,908
Accrued interest payable, first mortgage	14,428	-
Mortgage payable, first mortgage (short-term)	49,374	43,109
Other mortgages payable (short-term)	12,500	12,500
Utility allowances	2,583	2,446
Miscellaneous current liabilities	317	317
Prepaid revenue	27,478	24,323
	<u>152,910</u>	<u>124,170</u>
Total current liabilities		
Tenant deposits held in trust (contra)	<u>24,423</u>	<u>22,763</u>
Long-term liabilities:		
Mortgage payable - first mortgage, net of unamortized debt issuance costs of \$92,242 in 2022 and \$95,324 in 2021, less short-term portion	3,259,800	3,306,092
Other mortgages payable, net of unamortized debt issuance costs of \$11,284 in 2021 and \$11,648 in 2022, less short-term portion	<u>1,573,746</u>	<u>1,585,882</u>
Total long-term liabilities	<u>4,833,546</u>	<u>4,891,974</u>
Members' equity	<u>5,228,535</u>	<u>5,363,326</u>
Total liabilities and members' equity	<u>\$ 10,239,414</u>	<u>\$ 10,402,233</u>

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Statements of Operations**  
**Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Revenues:		
Rent, net	\$ 1,238,845	\$ 1,230,280
Financial revenue	6,540	710
Other	4,167	6,836
	<u>1,249,552</u>	<u>1,237,826</u>
Expenses:		
Administrative	220,942	227,291
Utilities	70,740	85,477
Operating and maintenance	232,302	223,712
Taxes and insurance	73,197	76,984
Other financial	193,028	195,555
Depreciation	278,826	307,699
Amortization	12,158	12,158
Mortgagor entity expenses, net	273,453	256,970
	<u>1,354,646</u>	<u>1,385,846</u>
Net loss	<u>\$ (105,094)</u>	<u>\$ (148,020)</u>



**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Statements of Members' Equity (Deficit)**  
**Year Ended December 31, 2022 and 2021**

	<u>Managing Member</u>	<u>Investor Member</u>	<u>Special Investor Member</u>	<u>Total</u>
Balance (deficit), January 1, 2021	\$ (15)	\$ 5,539,260	\$ (13)	\$ 5,539,232
Distributions	-	(27,886)	-	(27,886)
Net loss	<u>(13)</u>	<u>(148,006)</u>	<u>(1)</u>	<u>(148,020)</u>
Balance (deficit), December 31, 2021	(28)	5,363,368	(14)	5,363,326
Distributions	-	(29,697)	-	(29,697)
Net loss	<u>(9)</u>	<u>(105,083)</u>	<u>(1)</u>	<u>(105,094)</u>
Balance (deficit), December 31, 2022	<u>\$ (37)</u>	<u>\$ 5,228,588</u>	<u>\$ (15)</u>	<u>\$ 5,228,535</u>

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

**(2 pages)**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Rental receipts	\$ 1,244,726	\$ 1,215,804
Interest	6,540	722
Other receipts	4,167	6,836
	<u>1,255,433</u>	<u>1,223,362</u>
Administrative	(65,422)	(61,861)
Management fees	(76,830)	(73,984)
Utilities	(73,103)	(84,344)
Salaries and wages	(139,247)	(145,744)
Operating and maintenance	(161,232)	(151,306)
Property insurance	(9,047)	(39,834)
Miscellaneous taxes and insurance	(39,882)	(51,903)
Tenant security deposits	1,660	284
Interest on mortgage	(159,809)	(191,387)
Mortgage insurance premiums	(15,233)	(15,449)
Entity/Construction disbursements	(273,453)	(256,970)
	<u>(1,011,598)</u>	<u>(1,072,498)</u>
Net cash provided by operating activities	<u>243,835</u>	<u>150,864</u>
Cash flows from financing activities:		
Repayment of mortgages payable	(55,609)	(53,905)
Distributions	(29,697)	(27,886)
Net cash used by financing activities	<u>(85,306)</u>	<u>(81,791)</u>
Net increase in cash, cash equivalents and restricted cash	158,529	69,073
Cash, cash equivalents, restricted deposits and funded reserves, beginning of year	<u>1,425,471</u>	<u>1,356,398</u>
Cash, cash equivalents, restricted deposits and funded reserves, end of year	<u>\$ 1,584,000</u>	<u>\$ 1,425,471</u>

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

**(2 pages)**

Cash flows from operating activities:		
Net loss	\$ (105,094)	\$ (148,020)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	278,826	307,699
Amortization	12,158	12,158
Amortization of debt issuance costs	3,446	3,446
Bad debt expense	3,258	19,931
Changes in assets and liabilities:		
Accounts receivable, tenants	2,726	(18,238)
Prepaid expenses	24,380	(14,652)
Accounts payable, operations	5,305	(3,007)
Accrued expenses	(413)	2,317
Accrued interest payable, first mortgage	14,428	(14,816)
Tenant deposits held in trust (contra)	1,660	284
Prepaid revenue	3,155	3,762
	<u>\$ 243,835</u>	<u>\$ 150,864</u>
Net cash provided by operating activities		

Reconciliation of cash, cash equivalents, restricted deposits and funded reserves to the balance sheet:

Cash, operations	\$ 447,999	\$ 372,228
Tenant deposits held in trust	29,487	24,485
Restricted deposits and funded reserves	<u>1,106,514</u>	<u>1,028,758</u>
	<u>\$ 1,584,000</u>	<u>\$ 1,425,471</u>

## Notes to Financial Statements

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

#### *Nature of operations*

ROG Preservation, LLC (the “Company”) was formed as a limited liability company under the laws of the state of North Carolina on October 4, 2012 for the purpose of developing, owning, rehabilitating, maintaining, and operating a 100-unit multifamily apartment complex for rent to persons of low income located in Kannapolis, North Carolina commonly known as “University Park Apartments” (the “Project”). The Project was purchased from a prior owner on October 23, 2013. The major activities of the Company are governed by the first amended and restated operating agreement and the loan agreements. The Project is subject to a Regulatory Agreement with the U.S. Department of Housing and Urban Development (HUD) dated February 1, 2014 pursuant to Section 221(d)(4) of the National Housing Act. The Regulatory Agreement requires certain operating restrictions and cash distributions are limited to the extent of “surplus cash” as defined by HUD. The Company assumed this regulatory agreement from the previous owner of the Project.

In addition, the Company has entered into a Project-based Housing Assistance Payments (“HAP”) Contract with the U.S. Department of Housing and Urban Development (“HUD”). The HAP contract is a rent assistance program for low-income families (or persons). The HAP contract is set to expire on February 28, 2034. In accordance with the HAP contract, increases in rental rates require prior approval from HUD. During the years ended December 31, 2022 and 2021, \$939,960 and \$955,651, respectively, of rental assistance was received under this contract.

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

#### *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.

#### *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.

#### *Capitalization and depreciation*

Land and buildings are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of operations. The estimated lives used in determining depreciation are as follows:

Land improvements	20 years
Buildings	40 years
Furniture and fixtures	7 years

***Rental income***

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

***Other assets***

Tax credit fees are being amortized using the straight-line method over the 15-year monitoring period.

***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.

***Mortgagor entity expenses***

Mortgagor entity expenses included in the statement of operations do not represent operating expenses of the project and, accordingly, cannot be paid and are not paid out of project operations. Rather, they are entity expenses, which can only be paid out of surplus cash or mortgagor entity funds. Such expenses have been segregated from project operations in the statement of operations for that reason. Unpaid mortgagor entity expenses included in the statement of operations represent accruals only, and are recorded only where required under accounting principles generally accepted in the United States of America. These accruals result only in increased liabilities in the balance sheet. The liability that results from any accrual is also subject to surplus cash restrictions and is payable only to the extent of surplus cash or mortgagor entity funds.

***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 loss was recognized during the years ended December 31, 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.

### ***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 lives of the related loans.

### ***Subsequent events***

The Company evaluated the effect subsequent events would have on the financial statements through March 23, 2023, which is the date the financial statements were available to be issued.

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

The Company has one managing member, ROG Redevelopment, Inc., which has a 0.009% interest. The managing member is required to make a contribution of \$100, all of which has been contributed as of December 31, 2022. The Company has one investor member, RBC Tax Credit Equity Fund-83, L.P., which has a 99.99% interest. The investor member's required contributions are \$6,878,551, of which \$6,878,452 has been contributed as of December 31, 2022. The Company has one special investor member, RBC Tax Credit Manager II, Inc., which has a 0.001% interest. The special investor member is required to make a contribution of \$10, all of which remains outstanding at December 31, 2022.

## **3. Notes Payable**

Note payable to Berkadia Commercial Mortgage LLC, in the maximum amount of \$3,867,400. The note is insured by HUD under Section 221(d)(4). The note bears a 5.09% interest rate. Interest only payments commenced on March 1, 2014, and continued up to and including June 1, 2015. Thereafter, payments of principal and interest beginning on July 1, 2015 and continuing on the first day of each calendar month thereafter were due in the amount of \$19,273. The loan was re-amortized during 2016 following final endorsement of the loan in June 2016. Payments of principal and interest in the amount of \$18,447 began on July 1, 2016 and will continue on the first day of each calendar month until the maturity date. The loan bears a mortgage insurance premium of 0.45% per year. The total mortgage insurance premium incurred for the years ended December 31, 2022 and 2021 amounted to \$15,345 and \$15,550, respectively. All remaining unpaid principal and interest balance shall be due December 1, 2052. For the years ended December 31, 2022 and 2021, interest was incurred under the note in the amount of \$174,237 and \$176,571, respectively, net of debt issuance costs amortized to interest expense in the amount of \$3,082 for each year. As of December 31, 2022 and 2021, accrued interest amounted to \$14,428 and \$0, respectively. As of December 31, 2022 and 2021, the outstanding principal balance was \$3,401,416 and \$3,444,525, respectively. The note is secured by first lien Deed of Trust on the property.

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Notes to Financial Statements**

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Noninterest-bearing note payable to North Carolina Housing Finance Agency (“NCHFA”) in the maximum amount of \$625,000. During the construction period, no payments of principal and interest were due under the note. On June 22, 2016, the conversion date, the loan was modified to change the maximum principal balance of the loan to \$468,750. The loan shall be repaid with annual payments due in May of each year, beginning in 2017, in an amount equal to the lesser of: i) \$12,500, ii) 75% of surplus cash as defined in the HUD Regulatory Agreement, or iii) an amount such that the debt service coverage ratio for the project is no less than 1.15. All outstanding principal and accrued interest, if any, shall be due and payable in full on January 1, 2054. Debt issuance costs amortized to interest expense amounted to \$213 during each of the years ended December 31, 2022 and 2021. During the years ended December 31, 2022 and 2021, the Company made a payment in the amount of \$12,500 and \$5,480, respectively. As of December 31, 2022 and 2021, the outstanding principal balance was \$413,270 and \$425,770, respectively. The note is secured by second lien Deed of Trust on the property.

Noninterest-bearing note payable to North Carolina Housing Finance Agency (“NCHFA”) in the amount of \$1,184,260. No payments are due on this loan until the loan matures on January 1, 2054, at which time all outstanding principal and accrued interest shall be due and payable. Debt issuance costs amortized to interest expense amounted to \$151 during each of the years ended December 31, 2022 and 2021. As of December 31, 2022 and 2021, the outstanding principal balance was \$1,184,260. The note is secured by third lien Deed of Trust on the property.

Aggregate maturities of the mortgage payable for each of the five years subsequent to December 31, 2022 are as follows:

2023	\$	61,874
2024		51,947
2025		54,653
2026		57,501
2027		60,497
Thereafter		4,311,704
*		<u>400,770</u>
	\$	<u>4,998,946</u>

*\*Future maturities cannot be reasonably estimated.*

#### **4. Transactions with Affiliates and Related Parties**

##### ***Development fee***

Pursuant to a development services agreement, the Company agreed to pay DHIC, Inc. (DHIC), an affiliate of the managing member, a development fee of up to \$1,000,000, all of which has been earned and paid as of December 31, 2022.

### ***Asset management fee***

Each year, the Company is required to pay the investor member a cumulative asset management fee in the amount of \$5,000, that increases 3% per annum and is payable quarterly as an operational expense of the Company. To the extent that this fee is not paid when due, the fee shall be paid from net cash flow, as defined by the operating agreement and is limited to surplus cash as defined in the HUD Regulatory Agreement. The fee shall commence upon the first anniversary of the Initial Closing, as defined by the operating agreement, which occurred on February 28, 2014. For the years ended December 31, 2022 and 2021, \$6,149 and \$5,970, respectively, of asset management fees were incurred. As of December 31, 2022 and 2021, no asset management fees remained payable.

### ***Incentive management fee***

The Company shall pay the managing member an annual incentive management fee equal to 90% of the Company's net cash flow remaining after payment of the priority payments set forth in the operating agreement. The incentive management fee is noncumulative. Incentive management fees of \$267,304 and \$251,000, respectively, were incurred and paid during the years ended December 31, 2022 and 2021.

### ***Equity distributions from net cash flow***

For the years ended December 31, 2022 and 2021, the investor member received equity distributions from available net cash flow at December 31, 2021 and 2020, totaling \$29,697 and \$27,886, respectively.

## **5. Reserves**

### ***Replacement reserve***

In accordance with the operating agreement and the loan agreements, the Company shall establish a replacement reserve in the year the project achieves qualified occupancy, as defined. The replacement reserve will be held in the replacement reserve account under control of the managing member or the project lender. The Company will maintain this account until the end of the compliance period. Withdrawals from replacement reserve in excess of \$5,000 in the aggregate in any given month will require the written approval of the managing member and the asset manager. The permanent lender requires approval of all disbursements. The reserve is to be funded on a cumulative basis, in the annual amount of \$350 per unit per year (to be increased annually by 4%) from project cash flow. As of December 31, 2022 and 2021, the balance in the reserve was \$351,376 and \$330,689, respectively.

### ***Working capital reserve***

In accordance with the operating agreement and the HUD loan agreement, the Company shall deposit concurrently with the making of the investor member's first capital contribution \$77,348 into a segregated reserve account, to be held by the project lender. Any withdrawals from the reserve must be approved by the special investor member and HUD. Upon the consent of HUD and upon the later of: (i) the making of the investor member's final capital contribution, (ii) twelve months following final endorsement of the HUD loan for insurance, and (iii) as such time as the project has achieved an average debt service coverage of not less than 1.0 to 1 for a period of six consecutive months, as determined by HUD, the first \$30,000 of any funds remaining in the working capital reserve shall first be deposited into the replacement reserve in the amount required by NCHFA, with any remainder of the \$30,000 to be deposited into the operating reserve, and thereafter, any additional funds shall first be used to pay deferred development fees, then to pay other development costs, and thereafter, any remaining funds shall be disbursed as net cash flow, as defined in the operating agreement. The Company has met the required minimum debt service coverage ratio for a period of six consecutive months of December 31, 2022. As of December 31, 2022 and 2021, the balance in the reserve was \$23,156.



***Operating deficit reserve***

In accordance with the operating agreement and the HUD loan agreement, the Company shall deposit concurrently with the investor member's first capital contribution \$116,022 into a segregated reserve account. The managing member shall be entitled to withdraw funds from the reserve, subject to the special investor member's approval. Upon the consent of HUD and upon the later of: (i) the making of the investor member's final capital contribution, (ii) 12 months following final endorsement of the HUD loan for insurance, and (iii) as such time as the project has achieved an average debt service coverage of not less than 1.0 to 1 for a period of six consecutive months, as determined by HUD, the first \$30,000 of any funds remaining in the operating deficit reserve shall first be deposited into the operating reserve until the operating reserve is funded to the amount required by the operating agreement, then used to pay deferred development fees, then to pay other development costs, and thereafter, any remaining funds shall be disbursed as net cash flow, as defined in the operating agreement. As of December 31, 2022 and 2021, the balance in the reserve was \$116,022.

***Operating reserve***

In accordance with the operating agreement and the loan agreements, the Company shall establish an operating reserve, no later than the making of the investor member's sixth capital contribution, in an initial amount of \$398,398, less any amounts on deposit in the operating deficit reserve as of such date. On June 22, 2016, the initial required deposit was increased to \$420,347 in accordance with the NCHFA Estoppel & Modification Agreement. If there are insufficient funds to fund the operating reserve from these sources, the managing member shall be required to fund the operating reserve. The managing member shall cause the Company to deposit into the reserve amounts sufficient to maintain a balance of \$420,347, using net cash flow, as defined in the operating agreement. Withdrawals from the operating reserve will require the approval of the special investor member. As of December 31, 2022 and 2021, the balance of the reserve was \$315,756 and \$312,483, respectively.

**6. Company Profits, Losses and Distributions**

Distributable 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 assumed investor member's tax liability for the current and all prior years;
2. To the investor member for any unpaid federal tax credit shortfalls, for any outstanding investor member loans, and for any other amount due and owing to the investor member;
3. To the special investor member for any asset management fees that have not been 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;
6. To the payment of any unpaid development fee until such fee has been paid in full;
7. To the pro rata payment of any outstanding operating deficit loans and managing member loans based upon the respective outstanding balances of each;

8. 90% of the balance to the payment of the incentive management fee; and
9. Thereafter, the balance to the members in accordance with their percentage interests.

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

The Company's sole asset is its 100-unit low-income housing complex located in Kannapolis, 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, HUD and 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 HUD or 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***

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Balance Sheet Data**  
**December 31, 2022**

(2 pages)

**ASSETS**

Current assets:

1120 Cash - operations	\$	447,999	
1130 Tenant accounts receivable		11,943	
1135 Accounts receivable - HUD		5,060	
1200 Prepaid expenses		16,512	
			<u>16,512</u>

1100T	Total current assets		\$	<u>481,514</u>
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Deposits held in trust - funded:

1191 Tenant deposits held in trust				<u>29,487</u>
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Restricted deposits and funded reserves:

1310 Mortgage escrow		300,204	
1320 Replacement reserve		351,376	
1330 Other reserves		454,934	
			<u>454,934</u>

1300T	Total restricted deposits and funded reserves			<u>1,106,514</u>
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Fixed assets, at cost:

1410 Land		1,451,730	
1420 Buildings		9,376,409	
1440 Building equipment - portable		388,914	
			<u>388,914</u>

1400T	Total fixed assets			11,217,053
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1495 Accumulated depreciation				<u>2,684,313</u>
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1400N	Net fixed assets			<u>8,532,740</u>
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Other fixed assets:

1590 Miscellaneous other assets		89,159	
			<u>89,159</u>

1500T	Total other assets			<u>89,159</u>
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1000T	Total assets		\$	<u><u>10,239,414</u></u>
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**LIABILITIES AND MEMBERS' EQUITY**

Current liabilities:

2110	Accounts payable - operations	\$	33,226
2120	Accrued wages payable		5,607
2123	Accrued management fees		7,397
2130	Accrued interest payable		14,428
2170	Mortgage payable - first mortgage (short-term)		49,374
2172	Other mortgages payable (short-term)		12,500
2180	Utility allowances		2,583
2190	Miscellaneous current liabilities		317
2210	Prepaid revenue		<u>27,478</u>

2122T Total current liabilities \$ 152,910

Deposits liability:

2191 Tenant deposits held in trust (contra) 24,423

Long-term liabilities:

2320	Mortgage payable - first mortgage (long-term)	3,259,800
2322	Other mortgage payable (long-term)	<u>1,573,746</u>

2300T Total long-term liabilities 4,833,546

2000T Total liabilities 5,010,879

Members' equity:

3130 Members' equity 5,228,535

2033T Total liabilities and members' equity \$ 10,239,414

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Profit and Loss Data**  
**Year Ended December 31, 2022**

**(3 pages)**

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**REVENUE**

Rent revenue:

5120 Rent revenue - gross potential	\$	332,939
5121 Tenant assistance payments		939,960
5193 Special claims revenue		<u>3,609</u>

5100T	Total rent revenue	<u>1,276,508</u>
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Vacancies:

5220 Apartments		37,661
5250 Rental concessions		<u>2</u>

5200T	Total vacancies	<u>37,663</u>
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5152N	Net rental revenue	<u>1,238,845</u>
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Financial revenue:

5410 Financial revenue - project operations		5,593
5440 Revenue from investments - replacements reserve		<u>947</u>

5400T	Total financial revenue	<u>6,540</u>
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Other revenue:

5910 Laundry and vending revenue		158
5920 Tenant charges		3,839
5990 Miscellaneous revenue		<u>170</u>

5900T	Total other revenue	<u>4,167</u>
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5000T	Total revenue	<u>1,249,552</u>
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**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Profit and Loss Data**  
**Year Ended December 31, 2022**

(3 pages)

**EXPENSES**

Administrative expenses:

6203 Conventions and meetings	\$ 2,380
6210 Advertising and Marketing	875
6250 Other renting expenses	951
6310 Office salaries	32,873
6311 Office expenses	12,215
6320 Management fees	77,319
6330 Manager or superintendent salaries	36,280
6350 Audit expense	20,630
6351 Bookkeeping fees/accounting services	16,547
6370 Bad debt	3,258
6390 Miscellaneous administrative expenses	<u>17,614</u>

6263T Total administrative expenses 220,942

Utilities expenses:

6450 Electricity	10,302
6451 Water	29,489
6452 Gas	29
6453 Sewer	<u>30,920</u>

6400T Total utilities expenses 70,740

Operating and maintenance expenses:

6510 Payroll	69,372
6515 Supplies	86,720
6520 Contracts	36,683
6525 Garbage and trash removal	16,116
6530 Security payroll/contract	1,149
6546 Heating/cooling repairs and maintenance	18,010
6548 Snow removal	1,172
6590 Miscellaneous operating and maintenance expenses	<u>3,080</u>

6500T Total operating and maintenance expenses 232,302

Taxes and insurance:

6711 Payroll taxes (Project's share)	10,896
6720 Property and liability insurance (hazard)	33,315
6721 Fidelity bond insurance	1,399
6722 Workmen's compensation insurance	5,902
6723 Health insurance/other employee benefits	18,682
6790 Miscellaneous taxes, licenses, permits and insurance	<u>3,003</u>

6700T Total taxes and insurance 73,197

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Profit and Loss Data**  
**Year Ended December 31, 2022**

(3 pages)

Financial expenses:		
6820	Interest on first mortgage/bonds payable	\$ 177,683
6850	Mortgage insurance premium/service charge	<u>15,345</u>
6800T	Total financial expenses	<u>193,028</u>
Total cost of operations before depreciation and amortization		
6000T		<u>790,209</u>
Profit before depreciation and amortization		
5060T		<u>459,343</u>
6600	Depreciation expense	278,826
6610	Amortization expense	<u>12,158</u>
5060N	Operating income	<u>168,359</u>
Corporate or mortgagor revenue and expenses:		
7190	Other expenses	<u>273,453</u>
7100T	Net entity expenses	<u>273,453</u>
3250	Net loss	<u><u>\$ (105,094)</u></u>
Total first mortgage principal payments required during the year		
S1000-010		<u><u>\$ 43,109</u></u>
Total monthly deposits during the year into the replacements reserve account, as required by the regulatory agreement		
S1000-020		<u><u>\$ 35,000</u></u>
Replacements reserve or residual receipts releases which are included as expense items on this profit and loss statement		
S1000-030		<u><u>\$ 23,359</u></u>
Project improvement reserve releases under the Flexible Subsidy Program that are included as expense items on this profit and loss statement		
S1000-040		<u><u>\$ -</u></u>



**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Statement of Cash Flows Data**  
**Year Ended December 31, 2022**

(2 pages)

Cash flows from operating activities:		
S1200-010	Rental receipts	\$ 1,244,726
S1200-020	Interest	6,540
S1200-030	Other operating receipts	<u>4,167</u>
S1200-040	Total receipts	\$ 1,255,433
S1200-050	Administrative	(65,422)
S1200-070	Management fees	(76,830)
S1200-090	Utilities	(73,103)
S1200-100	Salaries and wages	(139,247)
S1200-110	Operating and maintenance	(161,232)
S1200-140	Property insurance	(9,047)
S1200-150	Miscellaneous taxes and insurance	(39,882)
S1200-160	Tenant security deposits	(3,342)
S1200-180	Interest on first mortgage	(159,809)
S1200-210	Mortgage insurance premiums	(15,233)
S1200-225	Entity/Construction disbursements	<u>(273,453)</u>
S1200-230	Total disbursements	<u>(1,016,600)</u>
S1200-240	Net cash provided by operating activities	<u>238,833</u>
Cash flows from investing activities:		
S1200-245	Net change in escrow deposits	(53,796)
S1200-250	Net change in replacement reserve	(20,687)
S1200-255	Net change in other reserves	<u>(3,273)</u>
S1200-350	Net cash used by investing activities	<u>(77,756)</u>
Cash flows from financing activities:		
S1200-360	Principal payments, first mortgage	(43,109)
S1200-361	Principal payments, other mortgages	(12,500)
S1200-420	Distributions	<u>(29,697)</u>
S1200-460	Net cash used by financing activities	(85,306)
S1200-470	Net increase in cash	75,771
S1200-480	Cash, beginning of year	<u>372,228</u>
S1200T	Cash, end of year	<u>\$ 447,999</u>

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Statement of Cash Flows Data**  
**Year Ended December 31, 2022**

(2 pages)

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Cash flows from operating activities:		
3250	Net loss	\$ (105,094)
	Adjustments to reconcile net loss to net cash provided by operating activities:	
6600	Depreciation	278,826
6610	Amortization	12,158
S1200-486	Amortization of debt issuance costs	3,446
S1200-600	Bad debt expense	3,258
	Changes in assets and liabilities	
S1200-490	Tenant/member accounts receivable	2,726
S1200-520	Prepaid expenses	24,380
S1200-530	Tenant deposits held in trust	(5,002)
S1200-540	Accounts payable, operations	5,305
S1200-560	Accrued liabilities	(413)
S1200-570	Accrued interest payable, first mortgage	14,428
S1200-580	Tenant deposits held in trust (contra)	1,660
S1200-590	Prepaid revenue	<u>3,155</u>
S1200-610	Net cash provided by operating activities	<u>\$ 238,833</u>

**CHANGES IN FIXED ASSETS**

	Cost			Balance 12/31/22	
	Balance 12/31/21	Additions	Deletions		
1410 Land	\$ 1,451,730	\$ -	\$ -	\$ 1,451,730	
1420 Buildings	9,376,409	-	-	9,376,409	
1440 Building equipment - portable	388,914	-	-	388,914	
	<u>\$ 11,217,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,217,053</u>	
					<b>Accumulated Depreciation</b>
					<b>Balance</b>
	<b>Balance</b>	<b>Depreciation</b>	<b>Deletions</b>	<b>Balance</b>	<b>Net Book</b>
	<b>12/31/21</b>	<b>Expense</b>	<b>12/31/22</b>	<b>12/31/22</b>	<b>Value</b>
					<b>12/31/22</b>
1495 Accumulated depreciation	<u>\$ 2,405,487</u>	<u>\$ 278,826</u>	<u>\$ -</u>	<u>\$ 2,684,313</u>	<u>\$ 8,532,740</u>

**REPLACEMENT RESERVE**

In accordance with the provisions of the Regulatory Agreement, restricted cash is held by the mortgagee to be used for replacement of property with the approval of HUD. Monthly deposits of \$2,916.67 are required, unless a different rate or amount is established by HUD. An analysis of the reserve for the year ended December 31, 2022 is as follows:

Beginning balance	\$ 330,689
Deposits (\$2,916.67 x 12)	35,000
Other deposits	8,008
Interest, net	1,038
Approved withdrawals	<u>(23,359)</u>
Balance, ending, confirmed by mortgagee	<u>\$ 351,376</u>

**OTHER RESERVES - ACCOUNT 1330**

Operating reserve	\$ 315,756
Operating deficit reserve	116,022
Working capital reserve	<u>23,156</u>
	<u>\$ 454,934</u>

**MISCELLANEOUS OTHER ASSETS - ACCOUNT 1590**

Deferred tax credit fees, net of accumulated amortization	<u>\$ 89,159</u>
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**OTHER ENTITY EXPENSES - ACCOUNT 7190**

Asset management fee	\$ 6,149
Incentive management fee	<u>267,304</u>
	<u>\$ 273,453</u>

**ENTITY/CONSTRUCTION DISBURSEMENTS - ACCOUNT S1200-225**

Asset management fee	\$ (6,149)
Incentive management fee	<u>(267,304)</u>
	<u>\$ (273,453)</u>

**ADDITIONAL DISCLOSURES REGARDING INDEPENDENT ACCOUNTANTS REQUIRED BY HUD**

FORVIS, LLP  
1829 Eastchester Drive  
High Point, NC 27265  
EIN: 44-0160260  
Telephone Number: (336) 889-5156  
Audit Partner: Leslie Bates, CPA  
Leslie.Bates@forvis.com

**Computation of Surplus Cash,  
Distributions and Residual  
Receipts**

**U. S. Department of Housing  
and Urban Development**  
Office of Housing  
Federal Housing Commissioner

<b>Project Name:</b> ROG Preservation, LLC	<b>Fiscal Period Ended:</b> December 31, 2022	<b>Project Number:</b> 053-36170
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**Part A - Compute Surplus Cash**

<b>Cash</b>		
1. Cash (Accounts 1110,1120,1191,1192)	\$	477,486
2. Tenant subsidy vouchers due for period covered by financial statement	\$	5,060
3. Other (describe)	\$	-
(a) <b>Total Cash</b> (Add Lines 1, 2, and 3)	\$	482,546

**Current Obligations**

4. Accrued mortgage interest payable	\$	14,428
5. Delinquent mortgage principal payments	\$	-
6. Delinquent deposits to reserve for replacements	\$	-
7. Accounts payable (due within 30 days)	\$	36,126
8. Loans and notes payable (due within 30 days)	\$	-
9. Deficient tax insurance or MIP escrow deposits	\$	-
10. Accrued expenses (not escrowed)	\$	13,004
11. Prepaid rents (Account 2210)	\$	27,478
12. Tenant security deposits liability (Account 2191)	\$	24,423
13. Other: Next month's principal and R4R deposit	\$	7,009
(b) <b>Less Total Current Obligations</b> (Add Lines 4 through 13)	\$	122,468
(c) <b>Surplus Cash (Deficiency)</b> (Line (a) minus Line (b))	\$	360,078

**Part B - Compute Distributions to Owners and Required Deposit to Residual Receipts**

1. Surplus Cash	\$	360,078
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**Limited Dividend Projects**

2a. Annual Distribution Earned During Fiscal Period Covered by the Statement	\$	-
2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$	-
2c. Distributions Paid During Fiscal Period Covered by Statement	\$	-
3. Amount to be Carried on Balance Sheet as Distribution Earned by Unpaid (Line 2a plus 2b minus 2c)	\$	-
4. Amount Available for Distribution During Next Fiscal Period	\$	-
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period ends)	\$	-

<b>Prepared By</b>		<b>Reviewed By</b>	
Loan Technician	Date	Loan Servicer	Date

Form HUD-93486 (8/95)

See independent auditor's report.

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Members  
ROG Preservation, LLC  
HUD Project No. 053-36170  
Raleigh, NC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ROG Preservation, LLC, HUD Project No. 053-36170 (the "Project"), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, members' equity (deficit) and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2023.

### ***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered ROG Preservation, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ROG Preservation, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of ROG Preservation, LLC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Project's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

# FORVIS

## ***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether ROG Preservation, LLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ROG Preservation, LLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**FORVIS, LLP**

**High Point, NC  
March 23, 2023**

## Independent Auditor’s Report on Compliance for Each Major HUD Program and on Internal Control over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs*

Members  
 ROG Preservation, LLC  
 HUD Project No. 053-36170  
 Raleigh, NC

### Report on Compliance for Each Major HUD Program

#### **Opinion on Each Major Federal Program**

We have audited ROG Preservation, LLC’s compliance with the types of compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the “audit guide”) that could have a direct and material effect on each of ROG Preservation, LLC’s U.S. Department of Housing and Urban Development (“HUD”) programs for the year ended December 31, 2022. ROG Preservation, LLC’s major HUD programs and their related direct and material compliance requirements are as follows:

Name of Major HUD Programs	Direct and Material Compliance Requirements
Section 8 Housing Assistance Payments Program	Federal financial reports, equity skimming, tenant application, eligibility and recertification, units leased to extremely low-income families, tenant security deposits, management functions
Insured Loan – Section 221(d)(4)	Federal financial reports, mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant security deposits, management functions, unauthorized change in ownership/ acquisition of liabilities, and unauthorized loans of project funds.

In our opinion, ROG Preservation, LLC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2022.

#### **Basis for Opinion on Each Major HUD Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit guide. Our responsibilities under those standards and the audit guide are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.



We are required to be independent of ROG Preservation, LLC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major HUD program. Our audit does not provide a legal determination of ROG Preservation, LLC's compliance with the compliance requirements.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to ROG Preservation, LLC's HUD programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on ROG Preservation, LLC's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the audit guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about ROG Preservation, LLC's compliance with the requirements of each major HUD program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the audit guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 ROG Preservation, LLC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of ROG Preservation, LLC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the audit guide, but not for the purpose of expressing an opinion on the effectiveness of ROG Preservation, LLC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the audit guide. Accordingly, this report is not suitable for any other purpose.

**FORVIS,LLP**

**High Point, NC  
March 23, 2023**

## **Schedule of Audit Findings, Questioned Costs and Recommendations**

Our audit disclosed no findings that are required to be reported herein under the *HUD Consolidated Audit Guide*.

## **Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations**

1. The audit disclosed no findings that were required to be reported herein under the *HUD Consolidated Audit Guide*.
2. There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.
3. There were no letters or reports issued by HUD management during the period that covered this audit.

**ROG Preservation, LLC**  
**HUD Project No. 053-36170**  
**Mortgagor's Certification**  
**Year Ended December 31, 2022**

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## **Mortgagor's Certification**

I hereby certify that I have examined the accompanying financial statements and supplementary information of ROG Preservation, LLC, and, to the best of my knowledge and belief, the same are complete and accurate.

ROG PRESERVATION, LLC  
Federal Employer ID No. 41-1138821

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ROG Preservation, LLC Managing Member

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March 23, 2023  
Date

## Managing Agent's Certification

We hereby certify that we have examined the accompanying financial statements and supplementary information of ROG Preservation, LLC, HUD Project No. 053-36170, and, to the best of our knowledge and belief, the same are complete and accurate.

Managing Agent:

By: \_\_\_\_\_ March 23, 2023  
Mike Stephens, CFO \_\_\_\_\_  
Edgewood Management Corporation Date

Federal Employer ID Number - 52-1491854

## Independent Accountant's Report on Applying Agreed-Upon Procedure

Members  
ROG Preservation, LLC  
HUD Project No. 053-36170  
Raleigh, NC

We have performed the procedure described in the third paragraph of this report, on the electronically submitted information included with the related hard copy documents within the audit reporting package. ROG Preservation, LLC is responsible for the accuracy and completeness of the electronically submitted information.

ROG Preservation, LLC and the U.S. Department of Housing and Urban Development (HUD), Real Estate Assessment Center (REAC) have agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining whether the electronically submitted information agrees with the related hard copy documents within the audit reporting package. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are as follows:

We compared the electronically submitted items listed in the "UFRS Rule Information" column of the chart on page 3 of this report with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and hard copy documents as shown in the attached chart.

We were engaged by ROG Preservation, LLC to perform this agreed-upon procedures engagement and conducted our engagement in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on whether the electronically submitted information identified in the "UFRS Rule Information" column agrees with the related hard copy documents within the audit reporting package. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of ROG Preservation, LLC and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon-procedure engagement.

# FORVIS

We were engaged to perform an audit in accordance with the *Consolidated Audit Guide for Audits of HUD Programs* by ROG Preservation, LLC as of and for the year ended December 31, 2021, and have issued our reports thereon dated March 23, 2023. The information in the “Hard Copy Documents” column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplementary information dated March 23, 2023, was expressed in relation to the basic financial statements of ROG Preservation, LLC taken as a whole.

A copy of the reporting package required by the *Consolidated Audit Guide for Audits of HUD Programs*, which includes the auditor's reports, is available in its entirety from ROG Preservation, LLC. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of the Members and management of ROG Preservation, LLC, and HUD, and is not intended to be and should not be used by anyone other than those specified parties.

**FORVIS,LLP**

**High Point, NC  
March 23, 2023**



## Attachment to Independent Accountant’s Report on Applying Agreed-Upon Procedure

UFRS Rule Information	Hard Copy Document(s)	Findings
Balance Sheet, Revenue and Expense and Cash Flow Data (account numbers 1120 to 7100T and the S1200 series)	Supplemental Schedules with Financial Statement Data	Agrees
Surplus cash (S1300 series of accounts)	Computation of Surplus Cash, Distributions and Residual Receipts (Annual)	Agrees
Footnotes (S3100 series of accounts)	Notes to the audited Financial Statements	Agrees
Type of Opinion on the Financial Statements and Compliance (account numbers S2100-020, S2300-020)	Auditor’s Reports on the Financial Statements and Compliance, and Internal Control	Agrees
Type of Opinion on Supplemental Data (account number S2100-100)	Auditor’s Report on Supplemental Data	Agrees
Audit Findings Narrative (S2700 series of accounts)	Schedule of Findings, Questioned Costs, and Recommendations	Agrees

### ***Auditor’s Transmittal Letter***

<b>S3200-005</b>	<b>Audit Firm ID (UII)</b>	53370
<b>S3200-010</b>	<b>Audit Firm</b>	FORVIS, LLP
<b>S3200-020</b>	<b>Lead Auditor First Name</b>	Leslie
<b>S3200-040</b>	<b>Lead Auditor Last Name</b>	Bates
<b>S3200-050</b>	<b>Auditor Street Address Line 1</b>	1829 Eastchester Drive
<b>S3200-070</b>	<b>Auditor City</b>	High Point
<b>S3200-080</b>	<b>Auditor State</b>	NC
<b>S3200-090</b>	<b>Auditor Zip Code</b>	27265
<b>S3200-100</b>	<b>Auditor Zip Code Extension</b>	1402
<b>S3200-110</b>	<b>Telephone Number</b>	336-889-5156
<b>S3200-120</b>	<b>Audit Firm TIN</b>	44-0160260
<b>S3200-130</b>	<b>Date of Independent Auditor’s Report</b>	March 23, 2023