

Tryon Grove, LLC

NCHFA Project #9000986

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

December 31, 2022 and 2021

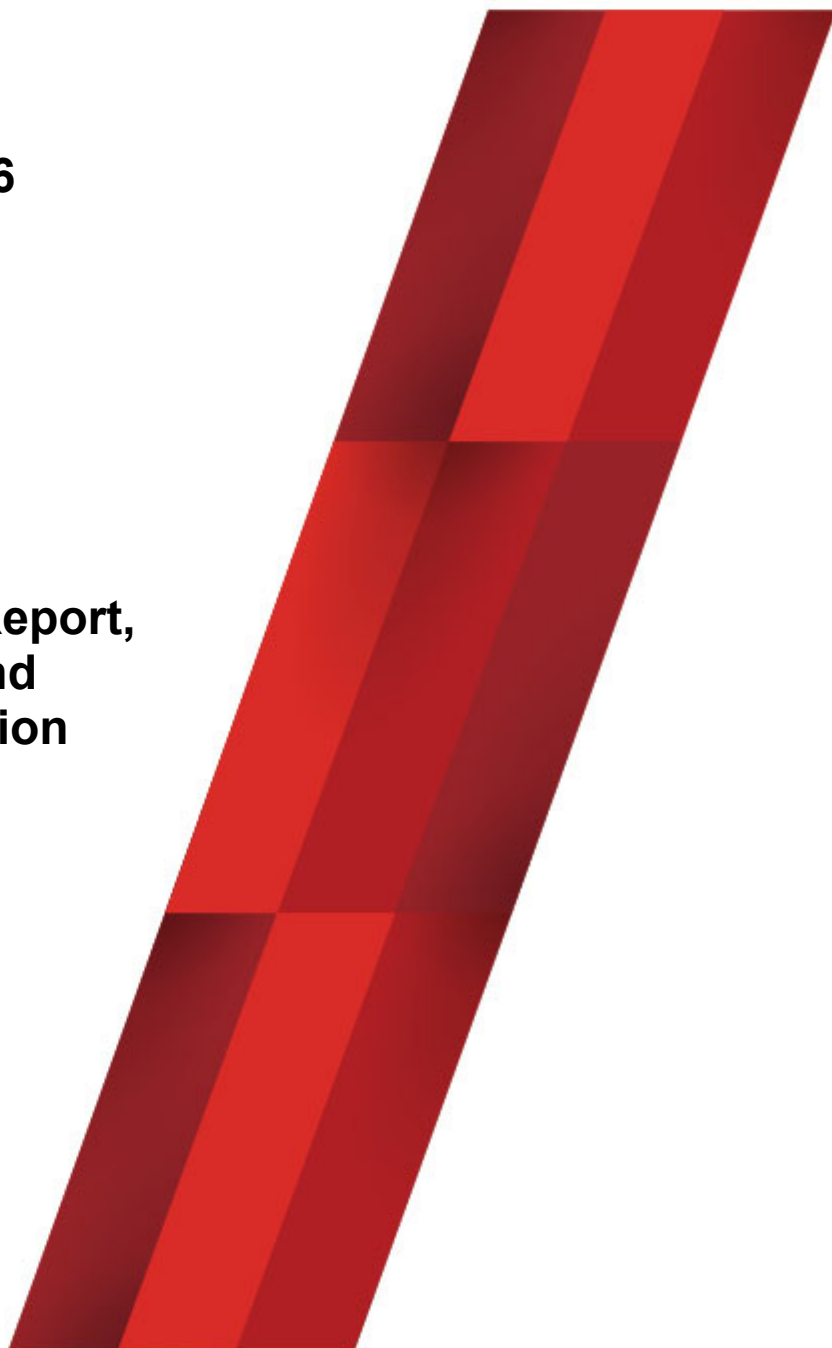


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Independent Auditor's Report

Member
Tryon Grove, LLC
NCHFA Project #9000986
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Tryon Grove, 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 Tryon Grove, 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
August 02, 2023

Tryon Grove, LLC
NCHFA Project #9000986
Balance Sheets
December 31, 2022 and 2021

(2 pages)

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash, operating	\$ 145,338	\$ 113,342
Accounts receivable, tenants	-	5,624
Accounts receivable, other	2,378	-
Prepaid expenses	<u>2,937</u>	<u>14,685</u>
Total current assets	<u>150,653</u>	<u>133,651</u>
Restricted deposits and funded reserves:		
Tenant security deposits	23,769	22,922
Real estate tax and insurance escrow	16,150	4,396
Replacement reserve	225,604	252,049
Special reserve	140,036	118,866
Operating reserve	<u>50,806</u>	<u>50,734</u>
	<u>456,365</u>	<u>448,967</u>
Rental property:		
Land	151,253	151,253
Land improvements	43,278	43,278
Buildings and improvements	2,502,794	2,476,518
Furnishings and equipment	<u>106,290</u>	<u>106,290</u>
	<u>2,803,615</u>	<u>2,777,339</u>
Accumulated depreciation	<u>(1,720,214)</u>	<u>(1,663,394)</u>
	<u>1,083,401</u>	<u>1,113,945</u>
	<u>\$ 1,690,419</u>	<u>\$ 1,696,563</u>

Tryon Grove, LLC
NCHFA Project #9000986
Balance Sheets
December 31, 2022 and 2021

(2 pages)

	<u>2022</u>	<u>2021</u>
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current maturities of notes payable	\$ 31,982	\$ 30,267
Accounts payable	11,223	8,799
Accrued interest	<u>2,554</u>	<u>2,696</u>
Total current liabilities	<u>45,759</u>	<u>41,762</u>
Deposits and prepaid liabilities:		
Tenant security deposits	23,769	22,922
Prepaid rent	<u>3,266</u>	<u>985</u>
	<u>27,035</u>	<u>23,907</u>
Long-term liabilities:		
Notes payable, net of unamortized debt issuance costs of \$3,976 in 2022 and \$5,743 in 2021, less current maturities	507,825	538,040
Note payable, affiliate	407,792	407,792
Accrued interest, affiliate	<u>90,409</u>	<u>82,253</u>
	<u>1,006,026</u>	<u>1,028,085</u>
Member's equity	<u>611,599</u>	<u>602,809</u>
	<u>\$ 1,690,419</u>	<u>\$ 1,696,563</u>

Tryon Grove, LLC
NCHFA Project #9000986
Statements of Operations
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues:		
Gross rental income	\$ 428,280	\$ 419,673
Less: Vacancies	(8,763)	(20,272)
Less: Loss to lease	(8,233)	(15,755)
Net rental income	411,284	383,646
Grant Income	-	7,021
Interest income	948	218
Other income	1,406	8,043
Total revenues	<u>413,638</u>	<u>398,928</u>
Operating expenses:		
Administrative	59,476	87,131
Utilities	9,889	11,127
Professional fees	12,137	8,026
Property management fees	29,457	27,149
Repairs and maintenance	117,834	123,644
Taxes and insurance	12,598	11,896
Total operating expenses	<u>241,391</u>	<u>268,973</u>
Income from operations	<u>172,247</u>	<u>129,955</u>
Nonoperating expenses:		
Interest expense	40,758	42,263
Depreciation expense	70,264	67,813
Loss on disposal	2,435	-
Management services fee	50,000	100,000
Total nonoperating expenses	<u>163,457</u>	<u>210,076</u>
Net income (loss)	<u>\$ 8,790</u>	<u>\$ (80,121)</u>

Tryon Grove, LLC
NCHFA Project #9000986
Statements of Member's Equity
Years Ended December 31, 2022 and 2021

Balance, December 31, 2020	\$ 682,930
Net loss	<u>(80,121)</u>
Balance, December 31, 2021	602,809
Net income	<u>8,790</u>
Balance, December 31, 2022	<u><u>\$ 611,599</u></u>

Tryon Grove, LLC
NCHFA Project #9000986
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net income (loss)	\$ 8,790	\$ (80,121)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	70,264	67,813
Loss on disposal	2,435	-
Amortization of debt issuance costs	1,767	1,767
Change in assets and liabilities		
Accounts receivable, tenants	3,246	6,422
Prepaid expenses	11,748	(7,056)
Accounts payable	2,424	(3,627)
Accounts payable, affiliate	-	(136)
Accrued interest payable	8,014	7,895
Tenant security deposits	847	4,819
Prepaid rent	2,281	(1,347)
Net cash provided (used) by operating activities	<u>111,816</u>	<u>(3,571)</u>
Cash flows from investing activities:		
Investment in rental property	<u>(42,155)</u>	<u>(5,000)</u>
Net cash used by investing activities	<u>(42,155)</u>	<u>(5,000)</u>
Cash flows from financing activities:		
Repayment of notes payable	<u>(30,267)</u>	<u>(28,644)</u>
Net cash used by financing activities	<u>(30,267)</u>	<u>(28,644)</u>
Net increase (decrease) in cash, deposits held in trust and restricted deposits and funded reserves	39,394	(37,215)
Cash and restricted deposits and funded reserves, beginning of year	<u>562,309</u>	<u>599,524</u>
Cash and restricted deposits and funded reserves, end of year	<u>\$ 601,703</u>	<u>\$ 562,309</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 30,977</u>	<u>\$ 32,601</u>
Reconciliation of cash and restricted deposits and funded reserves to the balance sheet:		
Cash, operating	\$ 145,338	\$ 113,342
Restricted deposits and funded reserves	<u>456,365</u>	<u>448,967</u>
	<u>\$ 601,703</u>	<u>\$ 562,309</u>

See accompanying notes.

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Tryon Grove Limited Partnership (the “Partnership”) was organized to develop, construct, own, maintain, and operate 48 multi-family residential units (the “Project”), located in Raleigh, North Carolina, for rental to low-income tenants. The Project was completed and began initial rental operations in 1992. The Partnership will continue in existence until December 31, 2031 unless otherwise modified in accordance with the operating agreement.

The Partnership was formed in North Carolina on October 10, 1991 as a limited partnership. Under the terms of the limited partnership agreement dated October 10, 1991, the general partner was Tryon Road Improvement Corporation and the limited partner was The Housing Outreach Fund Limited Partnership. Effective December 27, 2006, The Housing Outreach Fund Limited Partnership withdrew as limited partner and its limited partnership interest was transferred to Community Revitalization and Preservation Corporation, a North Carolina nonprofit corporation.

The Partnership was converted from a Limited Partnership to a Limited Liability Corporation under North Carolina state law. On December 20, 2021, Articles of Organization for Tryon Grove, LLC, (the “LLC”), were filed with the North Carolina Department of the Secretary of State. The LLC is governed by an operating agreement with Community Revitalization Preservation Corporation (“CRPC”), a North Carolina nonprofit corporation, signed December 22 2021. On December 21, 2021, Tryon Road Improvement Corporation, transferred 100% of its interest in the LLC to CRPC. On December 29, 2021, Articles of Dissolution of Tryon Grove Limited Partnership were filed.

Basis of accounting

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

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

Income taxes

As a limited liability company, the Company’s taxable income or loss is allocated to the member and is reflected in the member’s 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 provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives under the straight-line method. The estimated lives used in determining depreciation are:

Land improvements	20 years
Buildings and improvements	40 years
Furnishings and equipment	3 to 12 years

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

Rental income

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

Cash and cash equivalents

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

Use of estimates

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

Impairment of long-lived assets

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

Accounts receivable and bad debts

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

Debt issuance costs

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

Concentrations of credit risk

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

Subsequent events

The Company evaluated the effect subsequent events would have on the financial statements through August 02, 2023, which is the date the financial statements were available to be issued.

2. Mortgages and Notes Payable

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

	<u>2022</u>	<u>2021</u>
<p>First mortgage loan with First Citizens Bank in the original amount of \$740,000, payable in 59 monthly installments of \$5,070 including interest at 5.45% beginning January 11, 2010 with one final payment and any unpaid interest due at maturity on December 11, 2014. On March 20, 2015, a new loan agreement was entered into with First Citizens Bank to provide an additional loan up to a maximum principal balance of \$740,000 at an interest rate of 5.45%, in part for project renovations, and to pay off the previous first mortgage loan. Under the terms of the loan, monthly payments of principal and interest are to be made in the amount of \$5,104 beginning on April 20, 2015 and continuing through February 20, 2025, with a balloon payment at maturity on March 20, 2025 for all remaining principal and interest then due. The loan is guaranteed by DHIC, Inc. Interest paid during the years ended December 31, 2022 and 2021 amounted to \$30,977 and \$32,601, respectively. Deferred financing costs amortized to interest expense amounted to \$1,767 during each of the years ended December 31, 2022 and 2021. Accrued interest amounted to \$2,554 and \$2,696 at December 31, 2022 and 2021, respectively. Interest expense amounted to \$30,835 and \$32,340 for the years ended December 31, 2022 and 2021, respectively.</p>	\$ 543,783	\$ 574,050
<p>Note payable to DHIC, Inc. ("DHIC"), an affiliate of the member, in the amount of \$407,792 with interest accruing at 2% per annum. On March 20, 2015, the promissory note was amended to extend the maturity date to March 20, 2025. No payments are due until the maturity date. Interest expense amounted to \$8,156 for each of the years ended December 31, 2022 and 2021. Accrued interest amounted to \$90,409 and \$82,253 for the years ended December 31, 2022 and 2021, respectively.</p>	<u>407,792</u>	<u>407,792</u>
	951,575	981,842
Less: unamortized debt issuance costs	(3,976)	(5,743)
Less: current maturities	<u>(31,982)</u>	<u>(30,267)</u>
	<u>\$ 915,617</u>	<u>\$ 945,832</u>

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

	<u>First Citizens Bank</u>	<u>DHIC</u>	<u>Total</u>
2023	\$ 31,982	\$ -	\$ 31,982
2024	33,715	-	33,715
2025	<u>478,086</u>	<u>407,792</u>	<u>885,878</u>
	<u>\$ 543,783</u>	<u>\$ 407,792</u>	<u>\$ 951,575</u>

3. Transactions with Affiliates and Related Parties

Development fee

The Company incurred a development fee of \$40,779 payable to DHIC for services rendered to the LLC for overseeing renovations of the complex. As of December 31, 2022 and 2021, the total fee has been earned and paid.

Partnership management services fee

Prior to the conversion of the Company to a limited liability company on December 20, 2021, in accordance with the previous partnership agreement, the Company was required to pay DHIC an annual partnership management services fee not to exceed \$7,500. The fee was noncumulative. The partnership management expense fee amounted to \$0 in 2021 and there was no amount payable as of the end of 2021.

Management services fee

Pursuant to a management services agreement dated December 23, 2021, the Company shall pay an annual management services fee to DHIC equal to 100% of net income available for distribution, as determined at the sole discretion of the manager (the sole member of the Company). For the years ended December 31, 2022 and 2021, a management services fee of \$50,000 and \$100,000 was incurred and paid.

4. Property Management Fee

As defined, 7% of the monthly gross collections of the Project will be paid to Community Management Corporation, Inc. for managing the property. Management fee expense amounted to \$29,457 and \$27,149 for the years ended December 31, 2022 and 2021, respectively, of which \$3,050 and \$2,247 remained payable at December 31, 2022 and 2021, respectively.

5. Commitments and Contingencies

Land use restriction agreement

The Company entered into a land use restriction agreement with the North Carolina Federal Tax Reform Allocation Committee (NCFTRAC) in connection with its allocation of low-income housing tax credits. Under the agreement, the Company has agreed to use the property to rent to tenants whose income is 60% or less of the area median gross income as determined under Section 42 of the Internal Revenue Code. The agreement's original term expired December 13, 2006, at which time it was extended another 15 years until December 13, 2021.

Operating reserve

The Operating agreement requires the Company to fund an operating reserve account in the amount of \$29,072 using capital contributions received from the limited partner. The funds in the operating reserve account shall be used to pay the operating costs and expenses of the Company to the extent the Company's collected gross receipts (including government subsidies actually received) are insufficient for such purpose. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 50,734	\$ 50,716
Interest earned, net of service fees	<u>72</u>	<u>18</u>
Balance, ending	<u>\$ 50,806</u>	<u>\$ 50,734</u>

Replacement reserve

The Operating agreement requires the general partner to establish from Company funds a reserve for replacement of capital assets. Annual contributions to such reserve, which shall begin in 1992, shall be \$7,500, with the contribution amount increasing by 3% each year thereafter. The funds in the replacement reserve account shall be used solely for substantial repairs and/or replacement of the capital assets of the Company. An analysis of the replacement reserve for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 252,049	\$ 234,289
Annual funding	18,205	17,674
Interest, net of fees	399	86
Withdrawals	<u>(45,049)</u>	<u>-</u>
Balance, ending	<u>\$ 225,604</u>	<u>\$ 252,049</u>

Special reserve

The special reserve is an owner-designated reserve which was established in 2012 to pay for certain renovations over the next few years. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 118,866	\$ 97,419
Annual funding	20,939	21,403
Interest (fees), net	<u>231</u>	<u>44</u>
Balance, ending	<u>\$ 140,036</u>	<u>\$ 118,866</u>

6. Contingencies, Risks and Uncertainties

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

Tryon Grove, LLC
NCHFA Project #9000986
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021

(2 pages)

	<u>2022</u>	<u>2021</u>
Rental income:		
Residential income	<u>\$ 411,284</u>	<u>\$ 383,646</u>
Interest income:		
Interest income	<u>\$ 948</u>	<u>\$ 218</u>
Other income:		
Laundry and vending	\$ -	\$ 90
Late fees	1,166	3,203
Damages and cleaning fees	30	3,633
Application fees	195	804
Miscellaneous other charges	15	313
Other income	-	7,021
	<u>\$ 1,406</u>	<u>\$ 15,064</u>
Administrative:		
Advertising/marketing	\$ 168	\$ 72
Office payroll and related expenses	8,472	17,446
Manager salaries	26,324	29,141
Bad debts (recoveries), net	(237)	8,468
Telephone	1,228	1,825
Office supplies	6,941	9,435
Miscellaneous	3,474	2,026
Payroll taxes	3,856	4,679
Employee health insurance	9,250	13,177
Management consulting	-	862
	<u>\$ 59,476</u>	<u>\$ 87,131</u>
Utilities:		
Electricity	\$ 8,176	\$ 8,775
Water	1,088	1,296
Sewer	625	1,056
	<u>\$ 9,889</u>	<u>\$ 11,127</u>
Professional fees:		
Auditing	\$ 11,809	\$ 7,810
Legal	126	55
Bookkeeping	202	161
	<u>\$ 12,137</u>	<u>\$ 8,026</u>

See independent auditor's report.

Tryon Grove, LLC
NCHFA Project #9000986
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021

(2 pages)

	<u>2022</u>	<u>2021</u>
Property management fees	<u>\$ 29,457</u>	<u>\$ 27,149</u>
Repairs and maintenance:		
Repairs and maintenance payroll	\$ 25,529	\$ 25,580
Grounds maintenance	9,946	12,258
Repairs supplies	27,845	45,158
Repairs contract	5,915	9,482
HVAC repairs and maintenance	1,950	4,287
Miscellaneous repairs	3,635	3,721
Painting/decorating	32,894	12,781
Janitor salaries	280	1,408
Exterminating	2,637	1,648
Garbage and trash	7,203	7,321
	<u>\$ 117,834</u>	<u>\$ 123,644</u>
Taxes and insurance:		
Real estate taxes	\$ 285	\$ 250
Property insurance	12,213	11,547
Other insurance	100	99
	<u>\$ 12,598</u>	<u>\$ 11,896</u>
Interest expense:		
Interest expense - First Citizens Bank	\$ 30,835	\$ 32,340
Deferred interest expense - DHIC	8,156	8,156
Amortization of debt issuance costs	1,767	1,767
	<u>\$ 40,758</u>	<u>\$ 42,263</u>
Depreciation expense	<u>\$ 70,264</u>	<u>\$ 67,813</u>
Loss on disposal	<u>\$ 2,435</u>	<u>\$ -</u>
Management services fee	<u>\$ 50,000</u>	<u>\$ 100,000</u>