Washington Terrace Affordable Housing, LLC

NCHFA Project No. 9190092

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

December 31, 2022 and 2021

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Independent Auditor's Report

Members
Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Washington Terrace Affordable Housing, 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 Washington Terrace Affordable Housing, 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 Washington Terrace Affordable Housing, 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 Washington Terrace Affordable Housing, 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 Washington Terrace Affordable Housing, LLC's ability to continue as a going concern for a reasonable period of time.

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

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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of 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
March 31, 2023

Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash, operating	$ 577,507	$ 631,821
Accounts receivable, tenants	34,718	89,349
Accounts receivable, other	90,000	90,000
Prepaid expenses	9,914	50,276
Total current assets	712,139	861,446
Restricted deposits and funded reserves:		
Cash, operating reserve	431,633	431,249
Cash, replacement reserve	160,463	118,748
Cash, tax and insurance escrow	84,509	-
Cash, social services reserve	8,314	-
Cash, private rental assistance reserve	358,044	424,421
Cash, tenant security deposits	104,130	100,130
	1,147,093	1,074,548
Rental property:		
Land	551,468	551,468
Land improvements	5,818,334	5,818,334
Buildings	20,225,996	20,225,996
Furnishings and equipment	644,302	644,302
	27,240,100	27,240,100
Less accumulated depreciation	(4,082,644)	(3,060,244)
	23,157,456	24,179,856
Other assets:		
Deferred tax credit fees, net of accumulated amortization of $81,390 in 2022 and $57,906 in 2021	270,872	294,356
	270,872	294,356
	$ 25,287,560	$ 26,410,206

See accompanying notes.

Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Current maturities of mortgages payable	**$ 129,659**	$ 123,188
Accounts payable, trade	**9,715**	2,995
Accounts payable, DHIC	**90,000**	90,000
Accounts payable, Wells Fargo	**-**	36,730
Accrued management fees	**6,595**	7,254
Accrued interest, developer fee	**9,028**	7,636
Accrued interest, notes payable	**173,092**	81,661
Development fee payable, current	**19,406**	59,864
Other accrued expenses	**11,348**	9,035
Total current liabilities	**448,843**	418,363
Deposits and prepayment liabilities:		
Tenant security deposits	**104,130**	100,128
Prepaid rent	**8,391**	13,078
	112,521	113,206
Long-term liabilities:		
Mortgage payable, net of unamortized debt issuance costs of $463,701 in 2022 and $494,275 in 2021	**9,792,926**	9,892,538
Other notes payable, net of unamortized debt issuance costs of $102,338 in 2022 and $105,181 in 2021	**10,197,662**	10,194,819
Development fee payable, deferred	**-**	27,042
Accrued interest, deferred	**-**	88,512
	19,990,588	20,202,911
Members' equity	**4,735,608**	5,675,726
	$ 25,287,560	$ 26,410,206

Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenue:		
Gross tenant rent potential	$ 1,062,435	$ 1,017,054
Subsidized tenant rent	513,039	527,846
Less:		
Vacancy loss	(21,869)	(6,414)
Concessions and loss to lease	(11,824)	(5,301)
Net rental income	1,541,781	1,533,185
Other income:		
Interest	1,200	406
Other	124,670	136,043
Total other income	125,870	136,449
Total income	1,667,651	1,669,634
Expenses:		
Administrative	186,586	182,935
Professional fees	13,992	8,595
Utilities	55,695	33,203
Management fees	72,637	69,705
Repairs and maintenance	304,579	275,565
Bad debt expense	41,454	10,118
Taxes and insurance	42,032	27,286
Resident services expenses	90,000	90,000
Private rental assistance expense	61,988	74,963
Total operating expenses	868,963	772,370
Income from operations	798,688	897,264
Nonoperating expenses:		
Interest expense	682,890	694,200
Company administration fee	-	53,074
Investor services fee	7,957	13,975
Depreciation	1,022,400	1,022,399
Amortization	23,484	23,484
Total nonoperating expenses	1,736,731	1,807,132
Net loss	$ (938,043)	$ (909,868)

Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Statements of Members' Equity (Deficit)
Years Ended December 31, 2022 and 2021

	Managing Member	Investor Member	Total
Balance (deficit), January 1, 2021	$ (1,869,140)	$ 8,454,734	$ 6,585,594
Net loss	(91)	(909,777)	(909,868)
Balance (deficit), December 31, 2021	(1,869,231)	7,544,957	5,675,726
Distributions	-	(2,075)	(2,075)
Net loss	(94)	(937,949)	(938,043)
Balance (deficit), December 31, 2022	$ (1,869,325)	$ 6,604,933	$ 4,735,608

Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Statements of Cash Flows
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Cash flows from operating activities:		
Net loss	$ **(938,043)**	$ (909,868)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	**1,022,400**	1,022,399
Amortization of deferred tax credit fees	**23,484**	23,484
Amortization of deferred financing costs	**33,417**	33,417
Change in assets and liabilities		
(Increase) decrease		
Account receivable, tenants	**54,631**	(23,411)
Accounts receivable, other	**-**	(90,000)
Prepaid expenses	**40,362**	(50,276)
Increase (decrease)		
Accounts payable, trade	**6,720**	1,254
Accounts payable, DHIC	**-**	90,000
Accounts payable, Wells Fargo	**(36,730)**	36,730
Accrued management fee	**(659)**	1,529
Other accrued expenses	**2,313**	(24,553)
Accrued interest	**4,311**	(71,082)
Tenant security deposits	**4,002**	1,777
Prepaid rent	**(4,687)**	5,787
Net cash provided by operating activities	**211,521**	47,187
Cash flows from financing activities:		
Distributions to investor members	**(2,075)**	-
Payment of deferred development fee	**(67,500)**	(134,000)
Principal payments on mortgage payable	**(123,715)**	(117,541)
Net cash used by financing activities	**(193,290)**	(251,541)
Net increase (decrease) in cash, restricted deposits and funded reserves	**18,231**	(204,354)
Cash, restricted deposits and funded reserves, beginning of year	**1,706,369**	1,910,723
Cash, restricted deposits and funded reserves, end of year	$ **1,724,600**	$ 1,706,369

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 645,162**	$ 731,865
Reconciliation of cash, restricted deposits and funded reserves to the balance sheet:		
Cash, operating	**$ 577,507**	$ 631,821
Restricted deposits and funded reserves	**1,147,093**	1,074,548
	$ 1,724,600	$ 1,706,369

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of Operations

Washington Terrace Affordable Housing, LLC (the "Company") was organized on January 28, 2016 for the purpose of acquiring, developing, constructing, leasing, managing, and operating a 162-unit low-income residential housing complex, a community center, and a child care center (the "project") for rental to families in Raleigh, North Carolina commonly known as "The Village at Washington Terrace". The major activities of the Company are governed by the operating agreement and the loan agreements. The buildings of the property were placed into service in various dates between November 2018 and February 2019.

In August 2017, the operating agreement was amended and restated to admit a new investor member and to permit the withdrawal of the original investor member, DHIC, Inc. ("DHIC"). As a result, the Company has one managing member - Washington Terrace Redevelopment, Inc.; and one investor member - NHT Equity, LLC. Effective September 29, 2017, NHT Equity, LLC assigned its investor member interest to NAHT Strong Families Fund 2015 Limited Partnership.

The ownership of the Company is as follows:

Washington Terrace Redevelopment, Inc.	0.01%
NAHT Strong Families Fund 2015 Limited Partnership	99.99%
	100.00%

The Company received an allocation of low-income housing tax credits from the North Carolina Housing Finance Agency under Section 42 of the Internal Revenue Code of 1986, as amended.

Basis of Accounting

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

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

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.

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.

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.

Restricted Cash

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

Rental Property

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

Land improvements	15 years
Building	40 years
Furnishings and equipment	5 years

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

Other Assets

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

Debt Issuance Costs

Debt issuance costs represent costs incurred in conjunction with acquiring debt facilities. In accordance with GAAP, the debt issuance costs are presented as an offset of the related debt instruments within the liabilities section of the Balance Sheets. Amortization expense is included in interest expense on the accompanying Statements of Operations. The costs are amortized over the terms of the related debt using a method that approximates the effective interest method.

Revenue Recognition

Rental revenue attributed to residential leases is recorded on a straight-line basis over the term of the lease. Leases are for periods of up to one year, with rental payments due monthly. Payments made in advance of scheduled due dates are deferred as Prepaid Rent and classified accordingly on the Balance Sheets until earned.

Other income includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned (when services are provided or when the tenant incurs the charge) and when collectability is reasonably assured. Advance receipts of revenue are deferred and classified as liabilities until earned.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2022, and 2021, and amounted to $0 and $56, respectively.

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.

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 2022 and 2021.

Concentrations of Credit Risk

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

Subsequent Events Evaluation

The Company evaluated the effect subsequent events would have on the financial statements through March 31, 2023, which is the date the financial statements were available to be issued.

2. Members' Capital Contributions

The managing member is required to make a capital contribution of $296,357, all of which has been contributed as of December 31, 2022 and 2021. The investor member is required to make capital contributions amounting to $10,455,720, net of a downward tax credit adjuster of $38,821, all of which has been contributed as of December 31, 2022 and 2021.

3. Long-term Debt

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

		2022		2021
The Company obtained a construction loan from Wells Fargo in the maximum amount of $17,000,000, bearing interest at the 30-day LIBOR rate plus 1.65% (variable), for the purposes of constructing the project. The construction loan had a maturity date of March 1, 2020. Upon satisfaction of the Conditions to Conversion as set forth in the Loan Agreement, the construction loan converted to a permanent first mortgage loan on March 12, 2020, and the maturity date was extended to March 1, 2038. Upon conversion, the loan bears interest at a rate of 5.13%, including a servicing fee of 0.2%. Monthly payments of principal and interest are due on the loan in the amount of $55,000, which commenced on April 1, 2020 and continue monthly through March 1, 2038, at which time all principal and interest are due in full, including an estimated balloon payment of $7,531,734. As of December 31, 2022 and 2021, the outstanding balance on the loan was $10,386,286 and $10,510,001, respectively, exclusive of unamortized debt issuance costs of $463,701 and $494,275, respectively. Interest expense for the years ended December 31, 2022 and 2021 amounted to $566,855 and $573,029, respectively, including deferred financing costs amortized to interest expense of $30,574 per year. There was no accrued interest as of December 31, 2022 and 2021. The note is secured by a first lien Deed of Trust on the property.	$	**10,386,286**	$	10,510,001
Note payable to the City of Raleigh in the amount of $6,800,000, funded from the City's General Obligation Bond Funds. The loan bears interest at 1.3% beginning on any date funds have been advanced. Beginning on April 1, 2020, and on each April 1 thereafter until the Note has been paid in full, the Company shall make annual payments to the City equal to fifty-nine percent (59%) of available cash flow as determined from the previous fiscal year (see Note 7). Total interest incurred under the loan for each of the years ended December 31, 2022 and 2021 amounted to $88,400. Interest expense amounted to $90,648 for each of the years ended December 31, 2022 and 2021, including amortization of debt issuance costs of $2,248 per year. Accrued interest as of December 31, 2022 and 2021 amounted to $129,858 and $127,111, respectively. Interest paid during 2022 and 2021 was $85,653 and $149,003, respectively. The note is secured by a second lien Deed of Trust on the property.		**6,800,000**		6,800,000

	2022	2021
Noninterest-bearing note payable to the North Carolina Housing Finance Agency ("NCHFA") in the amount of $1,700,000. Provided the Company is not in default under the agreement, there will be no payments of principal or interest due until the maturity date which is the later of eighteen (18) years after the conversion date or September 1, 2038. The loan is secured by a third lien Deed of Trust on the property.	**$ 1,700,000**	$ 1,700,000
Note payable to the City of Raleigh in the amount of $1,800,000 funded from the City's Designated Affordable Housing Funds. The loan bears interest at 1.3% beginning on any date funds have been advanced. Beginning on April 1, 2020, and on each April 1 thereafter until the Note has been paid in full, the Company shall make annual payments to the City equal to sixteen percent (16%) of available cash flow as determined from the previous fiscal year (see Note 7). Total interest incurred amounted to $23,400 for each of the years ended December 31, 2022 and 2021. Interest expense amounted $23,994 for each of the years ended December 31, 2022 and 2021, including amortization of debt issuance costs of $594 per year. Accrued interest as of December 31, 2022, and 2021 amounted to $43,234 and $43,062, respectively. Interest paid during 2022 and 2021 was $23,228 and $40,407, respectively. The note is secured by a fourth lien Deed of Trust on the property.	**1,800,000**	1,800,000
Less: unamortized debt issuance costs	**(566,039)**	(599,456)
	$ 20,120,247	$ 20,210,545

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

	Wells Fargo	City of Raleigh #1	City of Raleigh #2	NCHFA	Total
2023	$ 129,659	$ -	$ -	$ -	$ 129,659
2024	136,469	-	-	-	136,469
2025	143,637	-	-	-	143,637
2026	151,181	-	-	-	151,181
2027	156,121	-	-	-	156,121
Thereafter	9,669,219	-	-	1,700,000	11,369,219
*	-	6,800,000	1,800,000	-	8,600,000
	$ 10,386,286	$ 6,800,000	$ 1,800,000	$ 1,700,000	$ 20,686,286

**Future maturities cannot be reasonably determined at December 31, 2022.*

4. Related-Party Transactions

Development Fee

The Company incurred a development fee of $1,700,000 payable to DHIC, Inc., an affiliate of the managing member, for services rendered to the Company for overseeing the construction of the project. As of December 31, 2022, the total fee has been earned. As of December 31, 2022 and 2021, $19,406 and $86,906 remained payable, respectively. The deferred portion of the development fee, $19,406, shall be repaid out of available cash flow, as defined in the operating agreement (see Note 7), and shall accrue interest at a rate of 3%. Interest charges began to accrue in November, 2020, upon receipt of the final investor member contributions and the determination of the deferred development fee amount. Interest incurred for the years ended December 31, 2022 and 2021 amounted to $1,392 and $6,528, respectively. As of December 31, 2022 and 2021, accrued interest amounted to $9,028 and $7,636, respectively. Any unpaid development fee and accrued interest thereon shall be due in full on August 31, 2032.

Company Administration Fee

Beginning in 2019, the Company shall pay to DHIC, the administrator, over the term of the agreement, an annual company administration fee of $35,000. After 2019, the company administration fee shall increase at the rate of 3% per year. The company administration fee is cumulative, and paid out of the Company's available cash flow (see Note 7). No amount is deducted as an expense by the Company until such amount is paid. For the years ended December 31, 2022 and 2021, company administration fees of $0 and $53,074 were incurred and paid, respectively. Company administration fees of $62,700 are expected to be paid in 2023 from net cash flow available as of December 31, 2022.

Investor Service Fee

The Company is required to pay the investor member a cumulative, annual investor services fee of $7,500 to be increased annually by 3%. In the initial year of operations, the fee is to be prorated for the number of months remaining following the completion date of the project. This fee is compensation for property management oversight, tax credit compliance and monitoring and related services. The investor services fee is payable annually, out of the Company's available cash flow (see Note 7). No amount is deducted as an expense by the Company until such amount is paid. For the years ended December 31, 2022 and 2021, investor service fees of $7,957 and $13,975 were incurred and paid, respectively. Investor services fees of $8,195 are expected to be paid in 2023 from net cash flow available as of December 31, 2022.

Purchase of Land From Related Party

The Company purchased the land on which the project was built on August 31, 2017 for $2,430,000 from College Park Collaborative, LLC. The related net book value of the land to College Park Collaborative, LLC amounted to $264,703 at the date of the sale, resulting in a difference between the purchase price and net book value of $2,165,297. The Company and College Park Collaborative, LLC (the "entities") are commonly controlled by DHIC, Inc., whose subsidiaries are the managing members of each respective entity. As the entities are commonly controlled, no profit or loss should be recognized by the buyers or the seller in this related party transaction. The difference between the net book value of the land sold and the cumulative purchase price is instead viewed as a transfer of equity between affiliates. Accordingly, equity distributions totaling $2,165,297 have been recognized by the Company at the date of sale related to this purchase.

Child Care Center

The Company leased its childcare facility to DHIC. Pursuant to the operating agreement, DHIC will sub-lease the child care center to a third party who will operate a licensed day care center for approximately 75 children from the project and the surrounding community. The child care will constitute a community service facility within the meaning of Section 42(d)(40(C)(iii) of the Internal Revenue Code of 1986, as amended, and will be used to provide services designed to improve the quality of life of the community residents, which services must be appropriate, helpful and affordable to individuals and families in the area of the project whose income is 60% or less of area median income. The term of the lease is eighteen (18) years commencing in March 2019. The annual rent of the child care center is $1.00.

Strong Families Fund Program

In accordance with a memorandum of understanding dated August 31, 2017, the Company receives funding under the Strong Families Fund Program (“SFF Program”) from the Corporation for Supportive Housing. An affiliate of the investor member, NAHT, is a resource provider of the Strong Families Fund. Under the SFF Program, the Company receives funding in the annual amount of the lesser of $90,000, or the actual costs incurred for resident services coordination. Funding for the first two years of the grant (2018 and 2019) was made through equity contributions from the investor member that were released through the Social Service Reserve (see Note 5). Thereafter, annual payments will be made in whole, or in part, based on satisfactory performance of the SFF Program, and the incurrence of the related resident services coordination expenses. The personnel in charge of performing the resident services coordination role is an employee of DHIC and, accordingly, payments are made to DHIC as reimbursement for personnel costs related to resident services coordination activity that is eligible under the SFF Program. For each of the years ended December 31, 2022 and 2021, eligible resident services coordination expenses of $90,000 were incurred. As of December 31, 2022 and 2021, $90,000 remained payable to DHIC.

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 $2,075 and $0, respectively.

5. Reserves

Replacement Reserve

The operating agreement and Wells Fargo and NCHFA loan agreements require the Company to fund a replacement reserve account in the amount of $250 per unit per year, increasing at 4% annually, commencing on the completion date, which is on February 28, 2019. This reserve is utilized to fund major repairs, capital expenditures and replacements of capital items in the project. In accordance with the operating agreement, the Company shall not utilize the replacement reserves for any capital expenditure which causes the total withdrawals from the replacement reserve during any calendar year to exceed $5,000 unless the Company has obtained consent of the investor member or if such expenditures are included in the annual budget. In addition, all withdrawals from the reserve require written approval from Wells Fargo and NCHFA. Upon the end of the fifteenth year of the compliance period, the entire replacement reserve may be released and distributed as cash flow, subject to the Lender and NCHFA’s approval.

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

	2022	2021
Balance, beginning	**$ 118,748**	$ 78,248
Funding	**41,715**	40,500
Balance, ending	**$ 160,463**	$ 118,748

Operating Reserve

The operating and NCHFA loan agreement require the Company to fund an operating reserve account in the amount of $430,905 from the investor member's fourth capital contribution. The Company shall replenish the operating reserve account from the available cash flow, as defined (see Note 7) and any withdrawal from the operating reserve account shall require the approval of the investor member and NCHFA. The operating reserve shall be maintained throughout the term of the company provided, however, upon the beginning of the fifteenth year of the compliance period, 50% of the operating reserve may be released and distributed as cash flow, subject to approval by NCHFA. The operating reserve account was funded during the year ended December 31, 2020, upon receipt of the investor member's fourth capital contribution. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 431,249**	$ 431,071
Interest earned	**384**	178
Balance, ending	**$ 431,633**	$ 431,249

Social Service Reserve

The operating agreement requires the Company to establish a social service reserve of $215,453, with $90,000 funded at closing, $45,000 funded from the second installment and $80,453 funded from the third installment of the investor member's capital contributions. This reserve is funded from the equity released as a result of the Kresge Guaranty Agreement dated July 1, 2015 and was established for the express purpose of providing the Corporation for Supportive Housing ("CSH") approved social services to the project. All withdrawals and uses of the social service reserve fund may be made only with the approval of CSH with notice to the investor member. The account was fully funded in accordance with the operating agreement as of December 31, 2020 and was also closed in 2020. The account was reopened in 2022. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ -**	$ -
Funding	**8,300**	-
Interest earned	**14**	-
Balance, ending	**$ 8,314**	**$ -**

Private Rental Assistance Reserve

The operating agreement requires the Company to establish a private rental assistance reserve of $601,000, with $100,000 funded from the third installment, $359,969 from fourth installment and the balance of $141,031 from the fifth installment of the investor member's capital contributions. The funds in the private rental assistance reserve will be used to provide rental assistance for the tenants of the project. All withdrawals of the reserve account require prior written notice to the investor member. As of December 31, 2022 and 2021, a total of $701,000 was deposited to the account. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 424,421**	$ 482,437
Interest earned, net	**628**	187
Withdrawals	**(67,005)**	(58,203)
Balance, ending	**$ 358,044**	$ 424,421

6. Property Management Agreement

The Company has entered into a management agreement with Community Management Corporation ("CMC"), an unaffiliated management company, to provide property management services to the project. The management agent will be compensated an amount equal to 4.588% of gross operating revenues received from the preceding month, as defined in the agreement. Such fee shall be paid out of the general operating account on a monthly basis. The term of the agreement is from April 26, 2017 until April 25, 2020, but shall be automatically renewed for periods of one year unless, on or before 60 days prior to the expiration, either party hereto shall notify the other in writing of an intention to terminate this agreement. The management fee expense for the years ended December 31, 2022 and 2021 amounted to $72,637 and $69,705, respectively. Accrued property management fees were $6,595 and $7,254, respectively, as of December 31, 2022 and 2021.

7. Distribution of Cash Flow

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

1. To the investor member, an amount equal to the Credit Deficiency;
2. To the investor member, an amount sufficient to pay federal income taxes on taxable income allocated to the investor member for such fiscal year by the Company, assuming the highest marginal tax rates applicable to corporations;
3. To pay the investor services fee until its termination as set forth in the investor services agreement;
4. To fund the operating reserve should the balance be less than $430,905;
5. To pay the CSH servicing fee through December 21, 2028;
6. Up to $67,500 annually to pay the deferred development fee and accrued interest thereon, if any;
7. 75% of available cash flow to make payments on the City of Loan (GOBF) and the City Loan (DAHF), in accordance with the City Loan agreement;
8. To the managing member as payment of the Company Administration Fee;
9. 80% of the available cash flow to be deposited to the social service reserve;
10. To the managing member to repay any operating deficit contributions;
11. To the managing member to repay additional advances, credit adjusted advances, development advances or an amount equal to any recaptured credits for the loss of which the investor member was compensated from the year 10 Performance Contribution; and
12. The balance, if any, shall be distributed to and among the members, within 75 days after the close of the fiscal year, 0.01% to the managing member, and 99.99% to the investor member.

As of December 31, 2022 and 2021, there was $289,927 and $186,839, respectively, of net cash flow available for distribution in 2023 and 2022, respectively.

8. Contingencies, Risks and Uncertainties

The Company's sole asset is its 162-unit housing complex located in the City of 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

9. Operating Deficit Guarantee

Pursuant to the guaranty agreement, DHIC has agreed to advance funds to the Company to the extent needed to make operating deficit contributions, make indemnity payments, credit adjuster or additional advances, and purchase the interest of the investor member as required by the operating agreement. The guarantees are subject to the limitations stated in the guaranty agreement with operating deficit guaranty limit of $646,358. The guaranty will terminate when the managing member and the guarantor have satisfied in full their obligations with respect to the specific guarantees given. Any operating deficit contributions made by the managing member are repayable solely from available cash flow (see Note 7).

Supplementary Information

Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(3 pages)**

	2022	2021
Rental income:		
Residential income	**$ 1,541,781**	$ 1,533,185
Other income:		
Application fees	**$ 375**	$ 920
Late fees	**12,312**	4,009
Damages and cleaning fees	**20,230**	8,911
Grant Revenue - PPP Funds	**-**	25,632
Grant Revenue - SFF Funds	**90,000**	90,000
Other	**1,753**	6,571
	$ 124,670	$ 136,043
Interest income:		
Interest	**$ 1,200**	$ 406
Administrative:		
Office payroll and related expenses	**$ 155,178**	$ 164,467
Office supplies and expenses	**21,885**	9,927
Telephone, internet and cable	**5,108**	5,479
Advertising/marketing	**-**	56
Tenant screening and eviction expenses	**1,415**	6
Miscellaneous	**3,000**	3,000
	$ 186,586	$ 182,935
Professional fees:		
Legal fees	**$ 650**	$ 1,185
Auditing and accounting	**13,342**	7,410
	$ 13,992	$ 8,595
Utilities:		
Electricity	**$ 25,093**	$ 21,557
Water and sewer	**30,602**	11,646
	$ 55,695	$ 33,203

Washington Terrace Affordable Housing, LLC
NCHFA Project No. 9190092
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(3 pages)**

	2022	2021
Management fees:		
Property management fees	**$ 72,637**	$ 69,705
Repairs and maintenance:		
Repairs supplies	**$ 68,797**	$ 56,339
Repairs and maintenance payroll	**63,547**	72,591
Janitorial cleaning	**9,770**	5,045
Fire protection	**19,491**	22,374
HVAC repairs	**19,875**	15,066
Garbage and trash	**42,308**	37,465
Grounds maintenance	**26,120**	25,175
Security	**408**	-
Repairs contracts	**45,176**	25,956
Exterminating	**9,087**	15,554
	$ 304,579	$ 275,565
Bad debt expense:		
Bad debts	**$ 41,454**	$ 10,118
Taxes and insurance:		
Property and liability insurance	**41,932**	26,984
Other taxes, licenses and fees	**100**	302
	$ 42,032	$ 27,286
Resident services expense:		
Resident services	**$ 90,000**	$ 90,000
Private rental assistance expense:		
Private rental assistance	**$ 61,988**	$ 74,963
Depreciation expense:		
Depreciation	**$ 1,022,400**	$ 1,022,399
Amortization expense:		
Amortization	**$ 23,484**	$ 23,484

	2022	2021
Company administration fee:		
Company administration fee	$ -	$ 53,074
Investor services fees:		
Investor services fees	$ 7,957	$ 13,975
Interest expense - mortgage loans:		
Interest expense - Wells Fargo	$ 536,281	$ 542,455
Interest expense - City of Raleigh	111,800	111,800
Interest expense - DHIC	1,392	6,528
Amortization of deferred financing costs	33,417	33,417
	$ 682,890	$ 694,200