MacGregor Housing Development Corporation

NCHFA Project No. 11242

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

December 31, 2022 and 2021

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FORVIS

Independent Auditor's Report

Board of Directors
MacGregor Housing Development Corporation
NCHFA Project No. 11242
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of MacGregor Housing Development Corporation, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets 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 MacGregor Housing Development Corporation 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 MacGregor Housing Development Corporation 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.

Substantial Doubt About MacGregor Housing Development Corporation's Ability to Continue as a Going Concern
The accompanying financial statements have been prepared assuming that MacGregor Housing Development Corporation will continue as a going concern. As discussed in Note 1 to the financial statements, MacGregor Housing Development Corporation's first mortgages payable matures in April, 2023. As of December 31, 2022, MacGregor Housing Development Corporation's funds are insufficient to settle these balances. These conditions raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 MacGregor Housing Development Corporation'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 MacGregor Housing Development Corporation'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 MacGregor Housing Development Corporation'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
July 12, 2023

MacGregor Housing Development Corporation
NCHFA Project No. 11242
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
Investment in real estate:		
Land	**$ 147,030**	$ 147,030
Land improvements	**113,075**	113,075
Buildings	**1,909,080**	1,865,006
Furnishings and equipment	**85,644**	85,644
	2,254,829	2,210,755
Accumulated depreciation	**(1,156,041)**	(1,125,293)
Net investment in real estate	**1,098,788**	1,085,462
Other assets:		
Cash	**23,568**	62,672
Cash, operating reserve	**132,986**	131,958
Accounts receivable, tenants	**713**	476
Prepaid expenses	**1,959**	9,792
Cash restricted, tenant security deposits	**14,894**	15,072
Cash restricted, tax and insurance escrow	**10,777**	4,190
Cash restricted, replacement reserve	**80,941**	63,281
Total other assets	**265,838**	287,441
Total assets	**$ 1,364,626**	$ 1,372,903
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	**$ 91,025**	$ 7,294
Accrued interest - NCCDI	**-**	28,740
Tenant security deposits	**14,186**	14,521
Prepaid rent	**1,179**	6,499
Notes payable, affiliate	**136,000**	-
Mortgages payable, net of unamortized debt issuance costs of $1,821 in 2022 and $2,173 in 2021	**1,930,959**	2,084,313
Total liabilities	**2,173,349**	2,141,367
Net assets:		
Net assets without donor restrictions	**(808,723)**	(768,464)
Total liabilities and net assets	**$ 1,364,626**	$ 1,372,903

MacGregor Housing Development Corporation
NCHFA Project No. 11242
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	Without Donor Restrictions	
	2022	**2021**
Revenues:		
Gross rental income	**$ 199,705**	$ 195,964
Less:		
Vacancies	**(5,784)**	(3,363)
Concessions and loss to lease	**(1,393)**	(980)
Total rental income	**192,528**	191,621
Other income:		
Interest income	**1,209**	313
Other income	**7,156**	38,716
Total other income	**8,365**	39,029
Total income	**200,893**	230,650
Expenses:		
Administrative	**42,188**	49,275
Utilities	**4,340**	4,265
Professional fees	**10,054**	5,208
Management fees	**19,313**	20,868
Asset management fee - affiliate	**-**	5,000
Repairs and maintenance	**81,440**	76,614
Reserve expenses	**-**	12,488
Taxes and insurance	**9,371**	9,246
Total expenses	**166,706**	182,964
Income from operations	**34,187**	47,686
Nonoperating expenses:		
Interest expense	**4,271**	1,789
Depreciation	**50,964**	54,606
Loss on disposal of fixed assets	**19,211**	-
Total nonoperating expenses	**74,446**	56,395
Net change in net assets without donor restrictions	**(40,259)**	(8,709)
Net assets without donor restrictions, beginning of year	**(768,464)**	(759,755)
Net assets without donor restrictions, end of year	**$ (808,723)**	$ (768,464)

MacGregor Housing Development Corporation
NCHFA Project No. 11242
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (40,259)	$ (8,709)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of fixed assets	19,210	-
Amortization of deferred loan costs	352	353
Depreciation	50,964	54,606
Change in assets and liabilities:		
Accounts receivable, tenants	(237)	1,585
Prepaid expenses	7,833	(4,642)
Accounts payable	231	(5,319)
Accrued interest - NCCDI	(28,740)	1,436
Tenant security deposits	(335)	267
Prepaid rent	(5,320)	6,449
Net cash provided by operating activities	3,699	46,026
Cash flows from financing activities:		
Proceeds from notes payable, affiliate	176,266	-
Repayment of notes payable, affiliate	(40,266)	-
Payment of mortgages payable	(153,706)	(10,400)
Net cash used by financing activities	(17,706)	(10,400)
Net decrease in cash	(14,007)	35,626
Cash and restricted deposits and funded reserves, beginning of year	277,173	241,547
Cash and restricted deposits and funded reserves, end of year	$ 263,166	$ 277,173
Reconciliation of cash and restricted deposits and funded reserves to the balance sheet:		
Cash	$ 23,568	$ 62,672
Restricted deposits and funded reserves	239,598	214,501
	$ 263,166	$ 277,173
Supplemental disclosure of non-cash investing activities:		
Purchases of fixed assets included in accounts payable	$ 83,500	$ -

See accompanying notes.

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

MacGregor Housing Development Corporation (the “Corporation”) was incorporated on January 24, 2001 for the purpose of developing, constructing, owning and operating a 32-unit low-income housing complex (the “Project”) located in Pitt County, North Carolina. All of the units shall be occupied by households with incomes, adjusted for household size, of less than or equal to 60% of county- or state-wide non-metropolitan median family income, as published by HUD. Any increase in rents during the term of the loan with the North Carolina Housing Finance Agency (“NCHFA”) must be approved by the NCHFA. Development of the Project commenced in June 2001 and was completed in July 2002.

Basis of accounting

The financial statements of the Corporation 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.

Financial statement presentation

Under U.S. generally accepted accounting principles, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Rental property

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

Land improvements	15 to 20 years
Buildings	40 years
Furnishings and equipment	5 to 10 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 Corporation and the tenants of the property are operating leases.

Cash and cash equivalents

For purposes of the statements of cash flows, the Corporation 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 Corporation 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.

Concentrations of credit risk

The Corporation maintains its cash in financial institutions insured by Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. The Corporation 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 Corporation evaluated the effect subsequent events would have on the financial statements through July 12, 2023, which is the date the financial statements were available to be issued.

Debt issuance costs

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

Going concern considerations

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. The Company has a first mortgage payable that matures during 2023, for which the Company has insufficient funds to settle the debt as of December 31, 2022. This factor raises substantial doubt about the Company’s ability to continue as a going concern. As of July 12, 2023 a commitment for extending or refinancing the loan has not been obtained. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Mortgages Payable

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

	2022	2021
Note payable to the NCHFA in the original amount of $2,226,346. The note is noninterest-bearing, has a term of 20 years and is secured by a first deed of trust on the property. Monthly installments are due as follows: years one to three - $1,325; years four to six - $1,292; years seven to nine - $1,250; years 10 to 12 - $1,175; years 13 to 15 - $1,042; years 16 to 18 - $917; years 19 to 20 - $842. During 2022, monthly payments of $842 were made. All principal and unpaid interest are due April 1, 2023. Deferred loan costs amortized to interest expense amounted to $352 and $353 for the years ended December 31, 2022 and 2021, respectively.	**$ 1,932,780**	$ 1,942,880
Note payable to North Carolina Community Development Initiative, Inc. ("NCCDI"), a North Carolina non-profit corporation, payable in full, with 1% interest by November 2021. Effective May 20, 2021, the note was modified to increase the interest rate to 2% and extend the maturity date to July 1, 2022. The note was secured by a second deed of trust on the property. At December 31, 2022 and 2021, accrued interest on the note was $0 and $28,740, respectively. Interest expense was $3,919 and $1,436 for the years ended December 31, 2022 and 2021, respectively. Without the occurrence of an event of default, when the loan amount becomes due, 1/240 of the principal amount of the loan shall be forgiven and released for each full month during which the Corporation has established eligibility for NCCDI's Hurricane Recovery Housing Program or said apartments are occupied by low- or moderate-income tenants. The loan was paid in full on June 21, 2022.	**-**	143,606
Less: unamortized debt issuance costs	**(1,821)**	(2,173)
	$ 1,930,959	$ 2,084,313

Total future estimated principal maturities of long-term liabilities subsequent to December 31, 2022 are as follows:

2023	$ 1,932,780

3. Liquidity and Availability

The Corporation has working capital including restricted deposits, of $156,080 and $247,576 and average days cash on hand of 50 and 124, at December 31, 2022 and 2021, respectively.

Financial assets available for general expenditure within one year of the balance sheet, consist of the following at December 31:

	2022	2021
Cash, operations	**$ 23,568**	$ 62,672
Accounts receivable, tenants	**713**	476
	$ 24,281	$ 63,148

None of the financial assets are subject to donor or other contractual restrictions. Accordingly all such funds are available to meet the cash needs of the project in the next 12 months. In addition, the Corporation maintains funds in reserve accounts. These funds are used for the benefit of the Corporation and are required by the loan agreement with the NCHFA. The funds may be withdrawn only with the approval of the NCHFA. Such funds are not considered by the Corporation to have donor-restrictions. The Corporation also relies upon DHIC, Inc., a non-profit corporation related to the Corporation through common board members and officers, to provide financial support to meet liquidity needs as necessary.

The Corporation manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the Corporation are expected to be met on a monthly basis from the rents of project units. In general, the Corporation maintains sufficient financial assets on hand to meet normal operating expenses as they come due.

4. Related-Party Transactions

Asset management fee

The Corporation paid an asset management fee in the amount of $0 and $5,000, respectively, to DHIC, Inc. for the years ended December 31, 2022 and 2021.

Notes payable, affiliate

The Company entered into a demand note with DHIC, Inc., a North Carolina nonprofit corporation (“DHIC”), an affiliate of the member, in the amount of $136,000 on December 31, 2022. The demand note shall be due and payable within 10 days after receipt of written notice from DHIC. The note does not bear interest. As of December 31, 2022, $136,000, remained payable under the note.

5. Commitments and Contingencies

Replacement reserve funding

A loan agreement with the NCHFA requires the Corporation to fund a replacement reserve from the Project's operations in the amount of $250 per unit per year in the first year, increasing by 4% annually thereafter. The Corporation's requests for withdrawals from the replacement reserve account will be approved as needed to cover the Project's capital improvement needs throughout the term of the loan. NCHFA must approve any withdrawals from the replacement reserve account exceeding $2,000 in aggregate during any three-month period.

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

	2022	2021
Balance, beginning	**$ 63,281**	$ 58,887
Funding	**17,529**	16,855
Interest earned	**131**	27
Approved withdrawals	**-**	(12,488)
Balance, ending	**$ 80,941**	$ 63,281

At December 31, 2022, the reserve is in compliance with its funding requirements.

Operating reserve

In accordance with the loan agreement with the NCHFA, the Corporation shall fund an operating reserve in the amount of $100,000 no later than the close of the permanent loan with the NCHFA and be maintained for the term of the loan. Any withdrawals from the reserve exceeding $2,000 in aggregate during any three-month period must be approved by the NCHFA. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 131,958**	$ 131,689
Interest earned	**1,028**	269
Balance, ending	**$ 132,986**	$ 131,958

6. Property Management Agreement

The Corporation has entered into a management agreement with Community Management Corporation, an unaffiliated management company, to provide property management services to the Project. The management agent will be compensated at the rate of 10.18% of gross collections for the previous month. The term of the agreement is three years from January 24, 2001 and renews for successive terms automatically under certain conditions, as defined. Management fee expense for the years ended December 31, 2022 and 2021 was $19,313 and $20,868, respectively.

During 2020, CMC applied for and received a loan through the Paycheck Protection Program ("PPP") as authorized in the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Corporation reduced payroll and related reimbursements to CMC during the year ended December 31, 2020 in the total amount of $7,980, which was the portion of the PPP loan proceeds that the CMC contributed to the Partnership in 2021 upon approval of its PPP loan forgiveness application. On May 18, 2021, CMC received formal forgiveness of its PPP loan and contributed the funds to the Corporation. Accordingly, income of $7,980 was recognized by the Corporation for the year ended December 31, 2021.

7. Functional Expenses

Expenses incurred in connection with project operations are as follows:

	2022		
	Program Services	**Supporting Activities**	
	Rental Operations	**Management and General**	**Total**
Payroll and benefits	**$ 61,460**	**$ -**	**$ 61,460**
Administrative	**7,132**	**-**	**7,132**
Professional fees	**-**	**10,054**	**10,054**
Management fees	**-**	**19,313**	**19,313**
Utilities	**4,340**	**-**	**4,340**
Repairs and maintenance	**55,036**	**-**	**55,036**
Taxes and insurance	**9,371**	**-**	**9,371**
Interest	**4,271**	**-**	**4,271**
Depreciation	**50,964**	**-**	**50,964**
Loss on disposal of fixed assets	**19,211**	**-**	**19,211**
Total	**$ 211,785**	**$ 29,367**	**$ 241,152**

	2021		
	Program Services	**Supporting Activities**	
	Rental Operations	**Management and General**	**Total**
Payroll and benefits	$ 67,197	$ -	$ 67,197
Administrative	11,655	-	11,655
Professional fees	(564)	5,772	5,208
Management fees	-	20,868	20,868
Utilities	4,265	-	4,265
Repairs and maintenance	59,525	-	59,525
Taxes and insurance	9,246	-	9,246
Interest	1,789	-	1,789
Depreciation	54,606	-	54,606
Related-party fees	-	5,000	5,000
Total	$ 207,719	$ 31,640	$ 239,359

Supplementary Information

MacGregor Housing Development Corporation
NCHFA Project No. 11242
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Rental income:		
Residential income	$ 192,528	$ 191,621
Interest income:		
Interest income	$ 1,209	$ 313
Other income:		
Other	$ 7,156	$ 38,716
Administrative:		
Manager salaries	$ 23,322	$ 27,657
Advertising	16	10
Bad debts (recoveries)	427	4,600
Credit reports	-	193
Telephone	979	1,320
Office supplies	873	952
Payroll taxes	3,409	2,518
Employee health insurance	8,325	7,445
Miscellaneous	4,837	4,580
	$ 42,188	$ 49,275
Utilities:		
Electricity	$ 4,340	$ 4,265
Professional fees:		
Auditing	$ 10,054	$ 4,910
Eviction expense	-	(564)
Management consultants	-	862
	$ 10,054	$ 5,208

MacGregor Housing Development Corporation
NCHFA Project No. 11242
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Repairs and maintenance:		
Repairs and maintenance payroll	**$ 26,404**	$ 29,577
Grounds maintenance	**6,255**	9,824
Repairs supplies	**13,269**	4,866
Repairs contract	**12,319**	17,234
HVAC repairs and maintenance	**15,142**	866
Miscellaneous repairs	**464**	1,671
Security contract	**123**	123
Painting/decorating	**792**	428
Janitor/cleaning	**1,604**	1,388
Exterminating	**1,228**	6,797
Garbage and trash	**3,840**	3,840
	$ 81,440	$ 76,614
Taxes and insurance:		
Personal property taxes	**$ 347**	$ 348
Property insurance	**8,243**	7,859
Other insurance	**781**	1,039
	$ 9,371	$ 9,246