



**Beacon Ridge, LLC
NCHFA Project No. 9235554**



**Financial Statements and
Supplementary Information**

Years Ended December 31, 2021 and 2020



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Independent Auditors' Report

Members
Beacon Ridge, LLC
NCHFA Project No. 9235554
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Beacon Ridge, LLC, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, members' 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 Beacon Ridge, LLC as of December 31, 2021 and 2020, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Beacon Ridge, 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 Beacon Ridge, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



Auditors' 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 auditors' 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 Beacon Ridge, 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 Beacon Ridge, LLC's ability to continue as a going concern for a reasonable period of time.

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



Report on Supplementary Information

Our 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.

Dixon Hughes Goodman LLP

High Point, NC
April 26, 2022

Beacon Ridge, LLC
NCHFA Project No. 9235554
Balance Sheets
December 31, 2021 and 2020

(2 pages)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash, operating	\$ 827,633	\$ 234,624
Cash, construction	-	377,356
Investments in equity securities:		
Tax and insurance escrow	70,252	-
Replacement reserve	25,000	-
Operating reserve	517,481	-
Principal reserve	21,121	-
Bond proceeds reserve	26	447,408
Accounts receivable, tenants	<u>102,973</u>	<u>21,811</u>
Total current assets	<u>1,564,486</u>	<u>1,081,199</u>
Restricted deposits and funded reserves:		
Lease-up reserve	-	28,312
Cash, tenant security deposits	<u>98,606</u>	<u>92,222</u>
	<u>98,606</u>	<u>120,534</u>
Rental property:		
Land improvements	2,490,751	2,490,751
Buildings and improvements	16,621,113	16,617,823
Furniture and fixtures	<u>803,086</u>	<u>803,086</u>
	19,914,950	19,911,660
Less accumulated depreciation	<u>(878,829)</u>	<u>(258,454)</u>
	<u>19,036,121</u>	<u>19,653,206</u>
Other assets:		
Deferred rent asset	1,613,808	1,639,024
Deferred tax credit fees, net of accumulated amortization of \$33,843 in 2021 and \$13,401 in 2020	<u>272,778</u>	<u>187,620</u>
Total other assets	<u>1,886,586</u>	<u>1,826,644</u>
	<u>\$ 22,585,799</u>	<u>\$ 22,681,583</u>

LIABILITIES AND MEMBERS' EQUITY

Current liabilities:

Current maturities of bonds payable	\$ 80,000	\$ 5,264,105
Current maturities of mortgages payable	-	20,153
Accounts payable and accrued expenses	17,183	29,201
Accounts payable, construction	-	21,710
Accounts payable, affiliate	-	62,052
Accrued management fees	3,647	4,668
Accrued investor services fee	7,650	2,500
Accrued company administration fee	68,850	22,500
Accrued interest	104,348	96,406
Development fee payable, current	<u>148,414</u>	<u>655,040</u>
 Total current liabilities	 <u>430,092</u>	 <u>6,178,335</u>

Deposits and prepayment liabilities:

Tenant security deposits	98,606	92,219
Prepaid rent	<u>10,282</u>	<u>8,651</u>
	<u>108,888</u>	<u>100,870</u>

Long-term liabilities:

Bonds payable, net of unamortized debt issuance costs of \$514,109 in 2021 and \$545,581 in 2020, net of current maturities	8,155,891	8,190,314
Notes payable, net of unamortized debt issuance costs of \$24,589 in 2021 and \$25,439 in 2020, net of current maturities	7,050,734	7,031,408
Development fee payable, deferred	<u>268,546</u>	<u>416,960</u>
	<u>15,475,171</u>	<u>15,638,682</u>

Members' equity

	<u>6,571,648</u>	<u>763,696</u>
	<u>\$ 22,585,799</u>	<u>\$ 22,681,583</u>

Beacon Ridge, LLC
NCHFA Project No. 9235554
Statements of Operations
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Gross rental income	\$ 1,253,026	\$ 535,031
Less: Vacancies	(6,978)	(193,140)
Less: Concessions	(1,986)	-
Less: Loss to lease	(2,105)	(178)
Plus: Excess rent	1,552	301
	<u>1,243,509</u>	<u>342,014</u>
Net rental income		
Other income:		
Interest income	96	14,749
Other income	104,130	9,728
	<u>104,226</u>	<u>24,477</u>
Total other income		
Total income	<u>1,347,735</u>	<u>366,491</u>
Expenses:		
Administrative	110,596	57,043
Property management fees	51,621	50,619
Professional fees	15,228	549
Repairs and maintenance	171,302	47,199
Taxes and insurance	23,980	13,680
Utilities	73,678	28,808
	<u>446,405</u>	<u>197,898</u>
Total operating expense		
Income from operations	<u>901,330</u>	<u>168,593</u>
Nonoperating expenses:		
Interest expense	577,106	137,504
Depreciation	620,375	258,454
Amortization	45,658	38,617
Investor services fee	5,150	2,500
Company administration fee	46,350	22,500
Other non-operating expenses	-	147,734
	<u>1,294,639</u>	<u>607,309</u>
Total nonoperating expenses		
Net loss	<u>\$ (393,309)</u>	<u>\$ (438,716)</u>

Beacon Ridge, LLC
NCHFA Project No. 9235554
Statements of Members' Equity
Years Ended December 31, 2021 and 2020

	<u>Managing Member</u>	<u>Investor Member</u>	<u>Total</u>
Balance, December 31, 2019	\$ 99	\$ 1,160,313	\$ 1,160,412
Contributions	-	42,000	42,000
Net loss	<u>(44)</u>	<u>(438,672)</u>	<u>(438,716)</u>
Balance, December 31, 2020	55	763,641	763,696
Contributions	-	6,201,261	6,201,261
Net loss	<u>(39)</u>	<u>(393,270)</u>	<u>(393,309)</u>
Balance, December 31, 2021	<u>\$ 16</u>	<u>\$ 6,571,632</u>	<u>\$ 6,571,648</u>

Beacon Ridge, LLC
NCHFA Project No. 9235554
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

(2 pages)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net loss	\$ (393,309)	\$ (438,716)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	620,375	258,454
Amortization	45,658	38,617
Amortization of debt issuance costs	32,322	35,446
Bad debt expense	10,465	-
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	(91,627)	(21,811)
Increase (decrease):		
Accounts payable and accrued expenses	(12,018)	29,201
Accrued management fees	(1,021)	4,668
Accrued investor services fee	5,150	2,500
Accrued company administration fee	46,350	22,500
Accrued interest	27,455	76,893
Tenant security deposits	6,387	92,219
Prepaid rent	1,631	8,651
Net cash provided by operating activities	<u>297,818</u>	<u>108,622</u>
Cash flows from investing activities:		
Purchase of investments	(5,978,367)	(4,014,745)
Proceeds from sales of investments	5,791,895	7,845,090
Payment of deferred tax credit fees	(105,600)	-
Purchases of property and equipment	(761,605)	(12,046,960)
Net cash used by investing activities	<u>(1,053,677)</u>	<u>(8,216,615)</u>
Cash flows from financing activities:		
Member contributions	6,201,261	42,000
Proceeds from bonds payable	-	4,000,000
Proceeds from notes payable	-	3,556,607
Payment of bonds payable	(5,250,000)	-
Payment of notes payable	(1,677)	-
Net cash provided by financing activities	<u>949,584</u>	<u>7,598,607</u>
Net increase (decrease) in cash, restricted deposits and funded reserves	193,725	(509,386)
Cash, restricted deposits and funded reserves, beginning	<u>732,514</u>	<u>1,241,900</u>
Cash, restricted deposits and funded reserves, ending	<u>\$ 926,239</u>	<u>\$ 732,514</u>

See accompanying notes.

Beacon Ridge, LLC
 NCHFA Project No. 9235554
 Statements of Cash Flows
 Years Ended December 31, 2021 and 2020

(2 pages)

Supplemental disclosure of cash flow information:

Cash paid for interest, capitalized	<u>\$ 536,842</u>	<u>\$ 612,851</u>
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Supplemental disclosures of noncash investing and financing activities:

Purchases of property and equipment, included in development fee payable	\$ -	\$ 593,334
Purchases of property and equipment, included in accounts payable, construction	-	21,710
Purchases of property and equipment, included in accrued interest	-	19,513
	<u>\$ -</u>	<u>\$ 634,557</u>

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

Cash, operating	\$ 827,633	\$ 234,624
Cash, construction	-	377,356
Lease-up reserve	-	28,312
Tenant security deposits	<u>98,606</u>	<u>92,222</u>
	<u>\$ 926,239</u>	<u>\$ 732,514</u>

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Beacon Ridge, LLC (the “Company”) was organized on August 23, 2018 for the purpose of developing, owning, maintaining and operating a 120-unit apartment complex (the “project”) for rental to low-income individuals and families in Raleigh, North Carolina commonly known as “Beacon Ridge.” The major activities of the Company are governed by the operating agreement and the loan agreements. The property was placed into service in July of 2020.

In September of 2019, the operating agreement was amended to admit a new investor member and to permit the withdrawal of the original investor member, DHIC, Inc. (“DHIC”). As a result, the Company has one managing member - Beacon Ridge Development, Inc.; and one investor member - Wincopin Circle LLLP.

Effective September 26, 2019, Wincopin Circle LLLP transferred its investor member interest to Enterprise Housing Partners XXX Limited Partnership.

The ownership of the Company is as follows:

Beacon Ridge Development, Inc.	0.01%
Enterprise Housing Partners XXX Limited Partnership	<u>99.99%</u>
	<u>100.00%</u>

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.

Investments

The Company's investments consist of institutional class money market funds, which invest in short-term United States Treasury obligations. Management determines the classification of securities at the date individual investment securities are acquired and reassesses the appropriateness of such classification at each balance sheet date. The securities are stated at fair value, and unrealized holding gains and losses are reported as income or loss. For purposes of determining realized gains and losses, the cost of securities sold is based on the first-in-first-out method.

Restricted cash

Restricted cash consists of tenant security deposits and deposits held in segregated accounts for 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.

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.

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	20 years
Building	40 years
Furnishings and equipment	10 years

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

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 2021 and 2020.

Other assets

Deferred tax credit fees are being amortized using the straight-line method over 15 years, the tax credit compliance period.

Fair value measurements

The Company applies the guidance in Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements & Disclosures ("ASC 820"), which defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between unrelated market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to their fair value measurement. The three levels of valuation hierarchy are defined as follows:

- Level 1:** Quoted prices for identical assets or liabilities (in active markets).
- Level 2:** Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3:** Unobservable inputs that reflect the Company's own assumptions about the inputs used in pricing the assets or liabilities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the valuation methods are determined to be appropriate and consistent within the industry, the use of different methodologies or assumptions to determine the fair value of certain assets and liabilities could result in a different estimate of fair value at the reporting date.

The table below presents amounts at December 31, 2021 and 2020 for significant items measured at fair value on a recurring basis. The fair value of the Company's investments is based on "Level 1" inputs.

	December 31, 2021		
	Assets at Fair Value		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	<u>\$ 633,880</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 633,880</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2020 Assets at Fair Value		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 447,408	\$ -	\$ -
	<u>\$ 447,408</u>	<u>\$ -</u>	<u>\$ -</u>

Debt issuance costs

Debt issuance costs are reported in the balance sheet as a direct deduction from the face amount of the related debt and are amortized over the lives of the related debt. Amortization of debt issuance costs is presented as a component of interest expense.

Revenue recognition

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

Other 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.

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.

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

The Company evaluated the effect subsequent events would have on the financial statements through April 26, 2022, which is the date the financial statements were available to be issued.

2. Members' Capital Contributions

The managing member is required to make a capital contribution of \$100, all of which has been contributed as of December 31, 2021. The investor member is required to make capital contributions of \$7,816,993, in installments. The installments are subject to adjustment depending on certain conditions being met, primarily related to the amount and timing of low-income housing tax credits the Company is able to obtain. During 2021, the capital contribution requirement was reduced to \$7,415,761 as result of downward tax credit equity adjuster. As of December 31, 2021 and 2020, the investor member has contributed \$7,415,761 and \$1,214,500, respectively.

3. Bonds Payable

To finance the construction of the Beacon Ridge project in order to qualify for federal tax credits, on September 1, 2019, the Raleigh Housing Authority (the "Housing Authority") issued Series 2019 Multifamily Housing Revenue Bonds in the amount of \$14,000,000. The bonds bear interest at an annual rate of 4.85% through the stabilization date, and 4.25% thereafter. Interest only payments are due monthly commencing on November 1, 2019, through the stabilization date, as defined. In addition, a principal payment of \$5,250,000 was due following receipt of the third installment of the investor member's capital contributions, reducing the permanent loan balance to \$8,750,000. Commencing November 1, 2021 and thereafter, projected monthly amortizing payments of principal and interest are due in the amount of \$37,665 through the maturity on October 1, 2059. Substantially all of the Company's property is pledged under the first lien deed of trust collateralizing the note. As of December 31, 2021 and 2020, the outstanding principal on the note payable amounted to \$8,235,891 and \$13,454,419, respectively, net of unamortized debt issuance costs of \$514,109 and \$545,581, respectively. Interest expense for the years ended December 31, 2021 and 2020 was \$505,285 and \$108,855, respectively, inclusive of deferred financing fees amortized to interest expense of \$31,472 and \$35,385, respectively. In addition, during the years ended December 31, 2021 and 2020, capitalized interest was incurred in the amount of \$0 and \$655,979, respectively. Accrued interest as of December 31, 2021 and 2020 amounted to \$0 and \$56,583, respectively.

The Series 2019 bonds are governed by a Regulatory Agreement between the Company and Raleigh Housing Authority. In accordance with the Regulatory Agreement, the Company is required to operate the project as a qualified residential rental project in accordance with IRC Section 142 throughout the low-income housing tax credit compliance period. In addition, the Regulatory Agreement restricts the ability of the Company to sell, lease, exchange, assign, convey, transfer, or otherwise dispose of all or substantially all of the project without prior written consent of the Raleigh Housing Authority and the lender.

The aggregate annual estimated principal maturities for the years subsequent to December 31, 2021, are as follows:

2022	\$	80,000
2023		90,000
2024		85,000
2025		95,000
2026		100,000
Thereafter		<u>8,300,000</u>
	\$	<u>8,750,000</u>

4. Notes Payable

Details of the notes payable at December 31 are as follows:

	<u>2021</u>	<u>2020</u>
<p>Note payable to the City of Raleigh in the maximum amount of \$4,600,000, with interest accruing at 1%. During the construction period, no payments of principal and interest are due under the note. Upon conversion to the permanent phase, all accrued interest from the construction phase shall be due and annual payments of principal and interest shall begin, due on October 1st annually, subject to available cash flow. All outstanding principal and interest, if any, shall be due and payable on the maturity date, December 31, 2051. Accrued interest as of December 31, 2021 and 2020 amounted to \$83,720 and \$37,720, respectively. Total interest incurred for the years ended December 31, 2021 and 2020 amounted to \$46,000 and \$37,720, respectively, of which \$0 and \$19,513, respectively, was capitalized. The note is secured by the second lien Deed of Trust on the property.</p>	\$ 4,600,000	\$ 4,600,000
<p>Note payable to Wake County in the amount of \$2,477,000, with interest accruing at 1%. Annual payments of principal and interest are due commencing March 1, 2021 and continuing through October 1, 2050, ranging from \$1,881 on March 1, 2021 to \$36,229 on March 1, 2049. The note matures on March 1, 2050, at which time all outstanding principal and interest shall be due and payable in a balloon payment in the projected amount of \$2,531,561. Accrued interest as of December 31, 2021 and 2020 amounted to \$20,628 and \$2,103, respectively. Total interest incurred for the years ended December 31, 2021 and 2020 amounted to \$24,971 and \$25,678, of which \$0 and \$15,297 was capitalized, respectively. Interest paid during the years ended December 31, 2021 and 2020 amounted to \$6,446 and \$23,575, respectively. The loan is collateralized by a third lien Deed of Trust on the property.</p>	2,475,323	2,477,000
<p>Less: unamortized debt issuance costs</p>	<u>(24,589)</u>	<u>(25,439)</u>
	<u>\$ 7,050,734</u>	<u>\$ 7,051,561</u>

Estimated maturities of long-term debt subsequent to December 31, 2021 are as follows:

2022	\$	-
2023		-
2024		-
2025		-
2026		-
Thereafter		2,475,323
*		<u>4,600,000</u>
	<u>\$</u>	<u>7,075,323</u>

**Future maturities cannot be reasonably determined at this time.*

5. Ground Lease

The Company entered into an operating ground lease agreement with the YMCA of the Triangle Area, Inc. (the “YMCA”), on May 14, 2019 for the lease of the land of the project. The term of the lease is for a period of 65 years, through January 1, 2086. In accordance with the operating lease agreement, Beacon Ridge, LLC paid the YMCA a total of \$1,680,000 in advance for the lease of the premises. Beacon Ridge, LLC is to pay all operating costs, including property taxes, insurance and utilities for the premises throughout the term of the lease. Upon expiration of the lease term, the land and all improvements shall revert to the YMCA. The lease prepayment has been recorded as a deferred rent asset and is being amortized on a straight-line basis over the life of the lease. For each of the years ended December 31, 2021 and 2020, rental expense amounted to \$25,216.

6. Related-Party Transactions

Accounts payable, affiliate

As of December 31, 2021 and 2020, accounts payable, affiliate amounted to \$0 and \$62,052, respectively. This consisted of advances from DHIC, Inc. (“DHIC”), an affiliate of the managing member, for development and operational costs.

Development fee

The Company incurred a development fee of \$1,560,000 payable to DHIC for services rendered to the Company for overseeing the construction of the project. As of December 31, 2021 and 2020, the total fee has been earned. As of December 31, 2021 and 2020, \$416,960 and \$1,072,000, respectively, remained payable. The deferred portion of the development fee, as defined in the amended and restated development services agreement, shall be repaid out of available cash flow, as defined in the operating agreement (see Note 10), and shall accrue interest at a rate of 8%. The deferred portion of the developer fee, \$416,960, was determined during the year ended December 31, 2021, upon receipt of investor member’s final capital contributions. Deferred development fees in the amount of \$89,255 are to be repaid during 2022 from available cash flow as of December 31, 2021. Any unpaid development fee and accrued interest thereon shall be due in full on December 31, 2034.

Investor services fee

The Company is required to pay the investor member a cumulative, annual investor services fee of \$5,000, increasing by 3% annually. In the initial year of operations, the fee is to be prorated for the number of months that the Company receives rental income. The fee is compensation for property management oversight, tax credit compliance and monitoring and related services. The investor services fee is payable annually, with any unpaid balance to be paid out of the Company’s net cash flow (see Note 10). The investor services fee shall commence on the date in which the project is placed in service and shall be prorated based on the number of full months that the project was in operations. For the years ended December 31, 2021 and 2020, investor services fees in the amount of \$5,150 and \$2,500 were incurred, respectively. As of December 31, 2021 and 2020, \$7,650 and \$2,500, respectively, remained payable.

Company administration fee

Beginning in 2020, the Company shall pay to the managing member, over the term of the agreement, an annual company administration fee of \$45,000, to be prorated in the first year for the number of months the Company has rental income. After 2020, the company administration fee shall increase at the rate of 3% per year. The company administration fee is paid out of the Company’s available cash flow (see Note 10). Company administration fees of \$46,350 and \$22,500 were incurred for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, accrued company administration fees were \$68,850 and \$22,500, respectively.

7. Reserves

Replacement reserve

The operating agreement and the Raleigh Housing Authority loan agreement require the Company to fund a replacement reserve using cash flow from operations, as defined. Reserve additions of \$250 per unit per year, increasing at 4% each year, are required to be made annually. The operating agreement requires the reserve funding to commence the second full month after receipt of certificates of occupancy. The Raleigh Housing Authority loan agreement requires the reserve funding to commence the first business day of the month following the stabilization date, as defined in the replacement reserve and security agreement. This reserve is utilized to fund major repairs, capital expenditures and replacements of capital items in the project. The managing member shall not utilize the replacement reserve for any capital expenditure without written consent from the investor member, as well as Bellwether Real Estate Capital, LLC, the servicer of the Raleigh Housing Authority loan. Deposits to the replacement reserve were set to begin in September 2020, following completion in July 2020. As of December 31, 2021 and 2020, the account is underfunded by \$15,400 and \$10,000, respectively.

	<u>2021</u>	<u>2020</u>
Balance, beginning	\$ -	\$ -
Funding	25,000	-
Interest earned, net of fees	<u>-</u>	<u>-</u>
Balance, ending	<u>\$ 25,000</u>	<u>\$ -</u>

Operating reserve

The operating agreement requires the Company to fund an operating reserve account in the initial amount of \$258,737 upon the payment of the fourth installment of the investor member’s capital contribution, and in the

additional amount of \$258,733 upon the payment of the sixth installment of the investor member's capital contribution. The reserve shall be deposited into a segregated reserve account to fund operating expenses in excess of operating revenues. The managing member shall not utilize the operating reserve without written consent from the investor member. The operating reserve was funded in the amount of \$517,481 during the year ended December 31, 2021 upon receipt of the fourth and sixth capital contributions of the investor member. An analysis of the reserve for the year ended December 31, 2021 is as follows:

Balance, beginning	\$	-
Funding		517,470
Interest earned		<u>11</u>
Balance, ending	\$	<u>517,481</u>

Lease-up reserve

The operating agreement requires the Company to establish a lease-up reserve fund of \$42,000, no later than the date of the second installment of the investor member's capital contribution. The Company shall utilize the lease-up reserve to pay operating expenses to the extent funds are not available from other sources until the project has obtained 93% qualified occupancy, as defined in the operating agreement. Thereafter, the lease-up reserve account shall be closed and any balance remaining shall be transferred to the replacement reserve. The lease-up reserve was funded in the required amount of \$42,000 during the year ended December 31, 2020. An analysis of the reserve for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning	\$ 28,312	\$ -
Funding	-	42,000
Withdrawals	<u>(28,312)</u>	<u>(13,688)</u>
Balance, ending	<u>\$ -</u>	<u>\$ 28,312</u>

8. Investments

Investments consist of the following as of December 31, 2021:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Money Market Funds	\$ 633,880	\$ -	\$ -	\$ 633,880
	<u>\$ 633,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 633,880</u>

During the year ended December 31, 2021, securities were sold for total proceeds of \$5,791,895. There were no gross realized gains or losses on these sales. For purposes of determining realized gains or losses, the cost of securities sold is based on the first-in-first-out method. There is no unrealized gain or loss on the securities as of December 31, 2021.

Investments consist of the following as of December 31, 2020:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Money Market Funds	\$ 447,408	\$ -	\$ -	\$ 447,408
	<u>\$ 447,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 447,408</u>

During the year ended December 31, 2020, securities were sold for total proceeds of \$7,845,090. There were no gross realized gains or losses on these sales. For purposes of determining realized gains or losses, the cost of securities sold is based on the first-in-first-out method. There is no unrealized gain or loss on the securities as of December 31, 2020.

9. Property Management Agreement

The Company 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 an amount equal to 4.34% of gross operating revenues received from the preceding month. Such fee shall be paid out of the general operating account on a monthly basis. The term of the agreement is from June 11, 2019 until June 10, 2022 but shall be automatically renewed and shall continue thereafter on a year-to-year basis until 30 days from when either party notifies the other in writing of an intention to terminate the agreement. An additional one-time leasing and rent-up fee is to be paid to the management agent to cover the agent’s staff costs, overhead, and travel time for the period prior to occupancy, in the amount of \$300 per unit, to be earned throughout the process of initial occupancy. The management fee expense for the years ended December 31, 2021 and 2020 amounted to \$51,621 and \$50,619, respectively, inclusive of rent-up fees of \$0 and \$36,000, respectively.

10. Company Profits, Losses and Distributions

Payment of fees and other expenses contingent upon cash flow shall be made annually in the following order of priority:

1. To repay the City of Raleigh loan;
2. To repay the Wake County loan;
3. To repay the investor member in the amount of any credit deficiency;
4. To repay 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 investor member is subject to the maximum corporate federal income tax rate then in effect;
5. To pay the investor services fee in accordance with the investor services agreement;
6. To fund the operating reserve up to the operating reserve amount;
7. To pay the deferred development fee, including any accrued interest;

8. To the managing member to repay any operating deficit contribution or other advances;
9. To pay the company administration fee in accordance with the company administration agreement;
10. Any remaining cash flow shall constitute net cash flow which is distributable to the members in the amount of their respective interests.

As of December 31, 2021, there was cash flow of \$239,784 available for distribution.

11. Contingencies, Risks and Uncertainties

The Company's sole asset is its 120-unit 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.

In March 2020, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on the Company's future operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the project's customers, employees, and vendors, and governmental, regulatory and private sector responses. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

12. Operating Deficit Guarantee

In accordance with the First Amended and Restated Operating Agreement, an affiliate of the managing member guarantees to the investor member: the payment of any development advances required; to fund any operating deficit contributions not funded from the operating reserve up to a maximum of \$517,000 through achievement of operating at the required debt service coverage for a period of at least two consecutive years and the balance of the operating reserve totals at least \$517,470; the payment of any required credit adjuster advances and additional advances; the purchase of interest of the investor member and the indemnification of the Company and the investor member. As of December 31, 2021 and 2020, no amounts have been advanced under these guarantees.

13. Exemption from Real Estate Taxes

The managing member is wholly owned by a 501(c)(3) organization which qualifies the Company for full exemption for property taxes. The owner of the managing member is required to maintain in good standing its 501(c)(3) non-profit status. The tax-exemption is subject to change by an act of State Legislature. Such change may occur with little notice and would materially impact the rental operations of the project.



Supplementary Information

Beacon Ridge, LLC
NCHFA Project No. 9235554
Schedules of Income and Expenses
Years Ended December 31, 2021 and 2020

(3 pages)

	<u>2021</u>	<u>2020</u>
Rental income:		
Residential income	<u>\$ 1,243,509</u>	<u>\$ 342,014</u>
Interest income:		
Interest income	<u>\$ 96</u>	<u>\$ 14,749</u>
Other income:		
Application fees	\$ 1,200	\$ 3,694
Laundry and vending	2,061	152
Damages and cleaning fees	15,518	2,231
Late fees	15,427	1,917
Cable TV fees	25,864	-
Water and sewer recoveries	39,195	-
Other revenue	4,865	1,734
	<u>\$ 104,130</u>	<u>\$ 9,728</u>
Administrative expenses:		
Administrative payroll	\$ 69,846	\$ 29,342
Health insurance and other benefits	809	307
Payroll taxes	6,561	2,068
Workers compensation	1,006	707
Advertising	80	123
Bad debt expense	10,465	-
Management consultant	862	-
Telephone, internet and cable	5,406	1,843
Office supplies and expenses	1,909	7,312
Administrative training expenses	488	65
Other administrative expenses	13,164	15,276
	<u>\$ 110,596</u>	<u>\$ 57,043</u>
Property management fees:		
Base management fee	\$ 51,621	\$ 14,619
Pre-rent up management fee	-	36,000
	<u>\$ 51,621</u>	<u>\$ 50,619</u>

Beacon Ridge, LLC
NCHFA Project No. 9235554
Schedules of Income and Expenses
Years Ended December 31, 2021 and 2020

(3 pages)

	<u>2021</u>	<u>2020</u>
Professional fees:		
Auditing and accounting	\$ 12,500	\$ 500
Legal fees	2,728	49
	<u>\$ 15,228</u>	<u>\$ 549</u>
Repairs and maintenance:		
Maintenance payroll	\$ 34,692	\$ 136
Repairs expense	41,158	20,954
Painting and decorating	11,065	491
Snow removal	-	50
Grounds maintenance	26,460	3,472
Cleaning expense	14,248	3,982
Exterminating	5,701	1,089
Fire alarm expense	5,815	6,465
Elevator	3,450	550
HVAC maintenance	5,260	1,332
Vehicle repairs and maintenance	16	34
Garbage removal	17,479	6,465
Other repairs and maintenance	5,958	2,179
	<u>\$ 171,302</u>	<u>\$ 47,199</u>
Taxes and insurance:		
Personal property tax	\$ 59	\$ -
Property and liability insurance	23,722	13,580
Other insurance	199	100
	<u>\$ 23,980</u>	<u>\$ 13,680</u>
Utilities:		
Electricity	\$ 24,560	\$ 18,030
Water	24,028	4,959
Sewer	25,090	5,819
	<u>\$ 73,678</u>	<u>\$ 28,808</u>

Beacon Ridge, LLC
NCHFA Project No. 9235554
Schedules of Income and Expenses
Years Ended December 31, 2021 and 2020

(3 pages)

	<u>2021</u>	<u>2020</u>
Interest:		
Interest expense - Raleigh Housing Authority	\$ 473,813	\$ 73,470
Interest expense - City of Raleigh	46,000	18,207
Interest expense - Wake County	24,971	10,381
Amortization of debt issuance costs	<u>32,322</u>	<u>35,446</u>
	<u>\$ 577,106</u>	<u>\$ 137,504</u>
Depreciation	<u>\$ 620,375</u>	<u>\$ 258,454</u>
Amortization	<u>\$ 45,658</u>	<u>\$ 38,617</u>
Investor services fee	<u>\$ 5,150</u>	<u>\$ 2,500</u>
Company administration fee	<u>\$ 46,350</u>	<u>\$ 22,500</u>
Other non-operating expense:		
Organization expense	\$ -	\$ 119,171
Rent-up expense	<u>-</u>	<u>28,563</u>
	<u>\$ -</u>	<u>\$ 147,734</u>