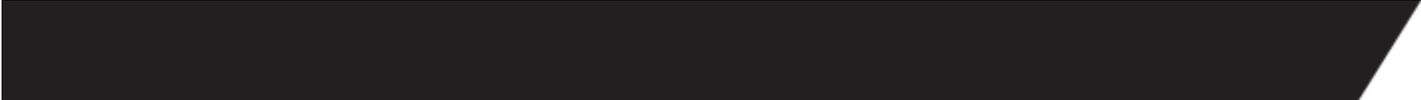


Beechridge, LLC
NCHFA Project No. 9000984



**Financial Statements and
Supplementary Information**

**Year Ended December 31, 2021 and
Period from March 11, 2020 through December 31, 2020**

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Independent Auditor's Report

Member
Beechridge, LLC
NCHFA Project No. 9000984
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Beechridge, LLC, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in member's equity, and cash flows for the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020, 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 Beechridge, LLC as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the year ended December 31, 2021 and the period from March 11, 2020 through December 31, 2020 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 Beechridge, 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 Beechridge, 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 Beechridge, 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 Beechridge, LLC's ability to continue as a going concern for a reasonable period of time.

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

FORVIS

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Income and Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

FORVIS, LLP

High Point, NC

July 2, 2022

Beechridge, LLC
NCHFA Project No. 9000984
Balance Sheets
December 31, 2021 and 2020

(2 pages)

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash, operating | \$ 240,305 | \$ 240,408 |
| Cash, construction | - | 170,585 |
| Accounts receivable, tenants | 36,258 | 15,111 |
| Prepaid expenses | <u>22,031</u> | <u>11,962</u> |
| Total current assets | <u>298,594</u> | <u>438,066</u> |
| Restricted deposits and funded reserves: | | |
| Cash, operating reserve | 78,465 | 78,433 |
| Cash, replacement reserve | 144,073 | 42,822 |
| Cash, debt service reserve | 98,188 | 98,148 |
| Cash, tax and insurance escrow | 5,877 | 5,981 |
| Tenant security deposits | <u>24,766</u> | <u>25,783</u> |
| | <u>351,369</u> | <u>251,167</u> |
| Rental property: | | |
| Land improvements | 330,404 | 311,429 |
| Buildings and improvements | 3,623,950 | 2,164,380 |
| Furniture and fixtures | 1,096 | 36,183 |
| Construction in progress | <u>-</u> | <u>506,050</u> |
| | <u>3,955,450</u> | <u>3,018,042</u> |
| Less accumulated depreciation | <u>(106,736)</u> | <u>(35,019)</u> |
| | <u>3,848,714</u> | <u>2,983,023</u> |
| | <u>\$ 4,498,677</u> | <u>\$ 3,672,256</u> |

Beechridge, LLC
NCHFA Project No. 9000984
Balance Sheets
December 31, 2021 and 2020

(2 pages)

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| LIABILITIES AND MEMBER'S EQUITY | | |
| Current liabilities: | | |
| Current maturities of notes payable | \$ 94,332 | \$ 31,179 |
| Accounts payable and accrued expenses | 12,600 | 6,335 |
| Accounts payable, construction | - | 100,748 |
| Developer fee payable | - | 37,400 |
| Accrued management fees | 2,833 | 2,637 |
| Accrued wages payable | 6,383 | 14,698 |
| Accrued interest | 11,863 | 6,512 |
| | <u>128,011</u> | <u>199,509</u> |
| Deposits and prepayment liabilities: | | |
| Tenant security deposits | 24,766 | 25,782 |
| Prepaid rent | 2,441 | 1,642 |
| | <u>27,207</u> | <u>27,424</u> |
| Long-term liabilities: | | |
| Construction loan payable, net of unamortized debt issuance costs of \$0 in 2021 and \$40,692 in 2020 | - | 1,046,836 |
| Notes payable, net of unamortized debt issuance costs of \$62,302 in 2021 and \$22,644 in 2020, net of current maturities | 3,493,448 | 1,153,809 |
| Accounts payable, affiliate | 161,923 | 161,923 |
| | <u>3,655,371</u> | <u>2,362,568</u> |
| Member's equity | <u>688,088</u> | <u>1,082,755</u> |
| | <u>\$ 4,498,677</u> | <u>\$ 3,672,256</u> |

See accompanying notes.

Beechridge, LLC
NCHFA Project No. 9000984
Statements of Operations
Year Ended December 31, 2021 and period from March 11, 2020 through December 31, 2020

| | 2021 | 2020 |
|----------------------------------|---------------------|------------------|
| Revenues: | | |
| Gross rental income | \$ 616,812 | \$ 327,314 |
| Less: Vacancies | (16,496) | (9,582) |
| Less: Concessions | - | (35) |
| Less: Loss to lease | (13,515) | (9,100) |
| Plus: Excess rent | 308 | 1,399 |
| | <u>587,109</u> | <u>309,996</u> |
| Net rental income | | |
| | <u>587,109</u> | <u>309,996</u> |
| Other income: | | |
| Interest income | 193 | 145 |
| Other income | 18,026 | 2,038 |
| | <u>18,219</u> | <u>2,183</u> |
| Total other income | | |
| | <u>18,219</u> | <u>2,183</u> |
| Total income | <u>605,328</u> | <u>312,179</u> |
| Expenses: | | |
| Administrative | 112,574 | 57,425 |
| Property management fees | 32,692 | 17,558 |
| Professional fees | 11,332 | 1,199 |
| Repairs and maintenance | 203,395 | 75,698 |
| Taxes and insurance | 25,778 | 12,521 |
| Utilities | 22,099 | 14,583 |
| | <u>407,870</u> | <u>178,984</u> |
| Total operating expense | | |
| | <u>407,870</u> | <u>178,984</u> |
| Income from operations | <u>197,458</u> | <u>133,195</u> |
| Nonoperating expenses: | | |
| Interest expense | 92,107 | 24,327 |
| Depreciation | 95,240 | 35,019 |
| Loss on disposal of fixed assets | 404,878 | - |
| Other non-operating expenses | - | 12,944 |
| | <u>592,225</u> | <u>72,290</u> |
| Total nonoperating expenses | | |
| | <u>592,225</u> | <u>72,290</u> |
| Net income (loss) | <u>\$ (394,767)</u> | <u>\$ 60,905</u> |

Beechridge, LLC
NCHFA Project No. 9000984
Statements of Member's Equity
Year Ended December 31, 2021 and period from March 11, 2020 through December 31, 2020

| | |
|-----------------------------------|---------------------------------|
| Balance, Marcy 11, 2020 | \$ - |
| Contributions | 1,021,850 |
| Net income | <u>60,905</u> |
| Balance, December 31, 2020 | 1,082,755 |
| Contributions | 100 |
| Net loss | <u>(394,767)</u> |
| Balance, December 31, 2021 | <u><u>\$ 688,088</u></u> |

Beechridge, LLC
NCHFA Project No. 9000984
Statements of Cash Flows
Year Ended December 31, 2021 and
Period from March 11, 2020 through December 31, 2020

(2 pages)

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|-------------------|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (394,767) | \$ 60,905 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 95,240 | 35,019 |
| Loss on disposal of fixed assets | 404,878 | - |
| Amortization of debt issuance costs | 6,173 | 3,076 |
| Change in assets and liabilities | | |
| (Increase) decrease: | | |
| Accounts receivable, tenants | (21,147) | (10,693) |
| Prepaid expenses | (10,069) | (11,962) |
| Increase (decrease): | | |
| Accounts payable and accrued expenses | 6,265 | 6,335 |
| Accrued management fees | 196 | (2,854) |
| Accrued wages payable | (8,315) | 5,484 |
| Accrued interest | 5,351 | 6,512 |
| Tenant security deposits liability | (1,016) | 2,416 |
| Prepaid rent | 799 | (1,024) |
| Net cash provided by operating activities | <u>83,588</u> | <u>93,214</u> |
| Cash flows from investing activities: | | |
| Acquisition of cash and restricted cash | - | 750,422 |
| Investment in rental property | (1,503,957) | (1,197,355) |
| Net cash used by investing activities | <u>(1,503,957)</u> | <u>(446,933)</u> |
| Cash flows from financing activities: | | |
| Payment of debt issuance costs | (5,139) | (66,412) |
| Repayment of notes payable | (37,550) | (5,237) |
| Proceeds from construction loans payable | 1,392,472 | 1,087,528 |
| Capital contributions | 100 | - |
| Net cash provided by financing activities | <u>1,349,883</u> | <u>1,015,879</u> |
| Net increase (decrease) in cash, restricted deposits and funded reserves | (70,486) | 662,160 |
| Cash, restricted deposits and funded reserves, beginning | <u>662,160</u> | <u>-</u> |
| Cash, restricted deposits and funded reserves, ending | <u>\$ 591,674</u> | <u>\$ 662,160</u> |

See accompanying notes.

Beechridge, LLC
NCHFA Project No. 9000984
Statements of Cash Flows
Year Ended December 31, 2021 and
Period from March 11, 2020 through December 31, 2020

(2 pages)

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | <u>\$ 80,583</u> | <u>\$ 14,739</u> |
| Supplemental disclosures of noncash investing and financing activities: | | |
| Equity contribution through transfer of net assets at acquisition, exclusive of cash and restricted cash transferred | \$ - | \$ 271,428 |
| Purchases of property and equipment, included in developer fee payable | - | 37,400 |
| Purchases of property and equipment, included in accounts payable, construction | - | 100,748 |
| Accounts payable and other accrued expenses acquired | - | 176,628 |
| Assumption of long-term debt | - | 1,212,869 |
| Tenant security deposits acquired | - | 23,366 |
| Prepaid rents acquired | - | 2,666 |
| Accounts receivable acquired | - | (4,418) |
| Noncash additions to property and equipment | - | (1,820,687) |
| | <u>\$ -</u> | <u>\$ -</u> |
| Reconciliation of cash, restricted deposits and funded reserves to balance sheet: | | |
| Cash, operating | \$ 240,305 | \$ 240,408 |
| Cash, construction | - | 170,585 |
| Cash, operating reserve | 78,465 | 78,433 |
| Cash, replacement reserve | 144,073 | 42,822 |
| Cash, debt service reserve | 98,188 | 98,148 |
| Cash, tax and insurance escrow | 5,877 | 5,981 |
| Tenant security deposits | 24,766 | 25,783 |
| | <u>\$ 591,674</u> | <u>\$ 662,160</u> |

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Beechridge, LLC (the “Company”) was organized on March 11, 2020 for the purpose of acquiring, rehabilitating, owning, maintaining and operating a 72-unit apartment complex (the “project”) for rental to low-income individuals and families in Apex, North Carolina commonly known as “Beechridge Apartments.” The major activities of the Company are governed by the operating agreement and the loan agreements. Community Revitalization and Preservation Corporation (“CRPC”) is the sole member of the Company.

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.

Restricted cash

Restricted cash consists of tenant security deposits and deposits held in segregated accounts for property taxes, insurance, operating deficits, replacement reserves, and debt service. 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

The Company purchased the project on June 16, 2020 from Beechridge Housing, LLC and Beechridge II, L.L.C., affiliates of CRPC, through the assumption of all assets and liabilities of Beechridge Housing, LLC and Beechridge II, L.L.C., including mortgage loans on the project totaling \$2,046,664. The related net book value of the rental property to Beechridge Housing, LLC and Beechridge II, L.L.C. amounted to \$2,511,992 at the date of the sale. The Company, Beechridge Housing, LLC and Beechridge II, L.L.C. (the “entities”) are commonly controlled by DHIC, Inc. (“DHIC”), whose subsidiary, CRPC, is the sole member 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 contributions totaling \$1,021,850 have been recognized by the Company at the date of sale related to this purchase, inclusive of other net assets transferred through the acquisition totaling \$556,522.

Following the acquisition, all additional 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:

| | |
|---------------------------|----------------|
| Building and improvements | 40 years |
| Land improvements | 15 to 20 years |
| Furnishings and equipment | 5 to 7 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 the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020.

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.

Rental Income

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

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 expense for the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020 amounted to \$0 and \$344, respectively.

Income taxes

As a limited liability company, the Company's taxable income or loss is allocated to the member 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 July 2, 2022, which is the date the financial statements were available to be issued.

2. Member's Capital Contributions

The member is required to make a capital contribution of \$100, all of which was contributed during the year ended December 31, 2021.

3. Notes Payable

An analysis of the notes payable at December 31, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|--|----------------------------|----------------------------|
| <p>Note payable to First Horizon Bank in the maximum amount of \$2,480,000, bearing interest at 3.724% for the purposes of acquiring and renovating the project. Interest only payments are due and payable, commencing July 10, 2020 and continuing through October 10, 2021. Commencing on November 10, 2021, the loan converted from the construction phase to a permanent loan. Monthly payments of principal and interest are due and payable, based on a 300-month amortization, subject to the total amount drawn on the loan at such time, commencing on November 10, 2021. The loan has a maturity date of June 10, 2030, at which time all outstanding principal and accrued interest shall be due and payable. Interest expense for the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020 amounted \$83,310 and \$20,374, respectively, including debt issuance costs amortized to interest expense in the amount of \$4,798 and \$2,331, respectively. Accrued interest at December 31, 2021 and 2020 amounted to \$7,692 and \$3,304, respectively. Interest paid during the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020 amounted to \$74,124 and \$14,739, respectively. The loan agreement requires a minimum debt service coverage ratio of 1.15 to 1. The loan is collateralized by a first lien Deed of Trust on the property. The Company has granted First Horizon a first priority security interest in the debt service reserve account to further secure the loan (see Note 5).</p> | <p>\$ 2,473,629</p> | <p>\$ 1,087,528</p> |

Beechridge, LLC
NCHFA Project No. 9000984
Notes to Financial Statements

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| <p>Note payable to Wake County in the amount of \$644,153, with interest accruing at 1%. Annual payments of principal and interest are due commencing May 1, 2021, and continuing through May 1, 2050, in the amount of \$24,963. The note matures on May 1, 2050, at which time all outstanding principal and interest, if any, shall be due and payable. Accrued interest as of December 31, 2021 and 2020 amounted to \$4,171 and \$3,208, respectively. Total interest incurred during the year ended December 31, 2021, and for the period from March 11, 2020 through December 31, 2020 amounted to \$7,903 and \$3,469, respectively, including debt issuance costs amortized to interest expense in the amount of \$481 and \$261, respectively. Interest paid during the year ended December 31, 2021, and for the period from March 11, 2020 through December 31, 2020 amounted to \$6,459 and \$0, respectively. The loan is collateralized by a second lien Deed of Trust on the property.</p> | \$ 625,631 | \$ 644,134 |
| <p>Noninterest-bearing note payable to the North Carolina Housing Finance Agency ("NCHFA") in the amount of \$468,735. All outstanding principal, if any, shall be due and payable July 1, 2030. The Company is required to make monthly payments ranging from \$1,048 to \$2,122. Monthly payments of \$1,048 were made, commencing in August 2020, and increasing to \$1,069 in August 2021. Debt issuance costs amortized to interest expense during the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020 amounted to \$894 and \$484, respectively. The note is secured by the third lien Deed of Trust on the property.</p> | 450,822 | 463,498 |
| <p>Non-interest-bearing note payable to DHIC, Inc., an affiliate of the member, in the amount of \$100,000. The note matures on December 1, 2025, at which time all outstanding principal shall be due and payable. The loan is collateralized by a fourth lien Deed of Trust on the property.</p> | <u>100,000</u> | <u>100,000</u> |
| | 3,650,082 | 2,295,160 |
| Less: current maturities | (94,332) | (31,179) |
| Less: unamortized debt issuance costs | (62,302) | (63,336) |
| | <u>\$ 3,493,448</u> | <u>\$ 2,200,645</u> |

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

| | |
|------------|----------------------------|
| 2022 | \$ 94,332 |
| 2023 | 97,000 |
| 2024 | 99,696 |
| 2025 | 202,370 |
| 2026 | 105,036 |
| Thereafter | <u>3,051,648</u> |
| | <u>\$ 3,650,082</u> |

4. Related-Party Transactions

Accounts payable, affiliate

Accounts payable, affiliate consists of various management fees due to DHIC for services provided to Beechridge Housing, LLC and Beechridge II, L.L.C., the affiliates from which the project was purchased, in prior years. As part of the acquisition of the project, all assets and liabilities of the affiliate entities were assumed, including these related party balances. As of December 31, 2021 and 2020, accounts payable, affiliate amounted to \$161,923.

Developer fee

In accordance with the construction loan agreement, the Company shall pay to DHIC a total of \$170,000 for services rendered to the Company for overseeing the renovation of the project. As of December 31, 2021 and 2020, \$170,000 and \$37,400 has been incurred under the agreement, respectively, all of which has been capitalized into the rental property. The development fee shall be repaid throughout the renovation process, in equal amounts of \$42,500 upon the completion of 25% of the projected renovations, 50% of the project renovations, 75% of the projected renovations, and 100% completion of all renovations and compliance with the lender's debt service coverage ratio requirement as of December 31, 2021 (see Note 3), as determined by the lender. As of December 31, 2021 and 2020, \$0 and \$37,400 remained payable, respectively.

Management services fee

Pursuant to a management services agreement dated March 11, 2020, the Company shall pay an annual management services fee to DHIC equal to 100% of net income available for distribution, as determined at the sole discretion of the manager (the sole member of the Company). For the year ended December 31, 2021 and for the period ended that from March 11, 2020 through December 31, 2020, no management services fees were incurred or paid.

5. Reserves

Replacement reserve

In accordance with the NCHFA loan agreement, the Company is required to establish a reserve for replacements. The reserve is to be funded using cash flows from operations in the amount of \$250 per unit per year in the first year, with an annual 4% increase. As of June 16, 2020, the date that the NCHFA loan was assumed by Beechridge, LLC, the required annual deposit was \$592 per unit per year. The Company must receive the NCHFA's prior written approval for any withdrawals in excess of \$2,000 during any three-month period.

Beechridge, LLC
NCHFA Project No. 9000984
Notes to Financial Statements

An analysis of the reserve for the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|------------------|
| Balance, beginning | \$ 42,822 | \$ - |
| Acquisition of existing reserves from affiliates | - | 101,021 |
| Refunding of prior year withdrawal | 75,000 | |
| Monthly deposits | 26,208 | 16,800 |
| Interest income, net of fees | 43 | 1 |
| Withdrawals | - | (75,000) |
| Balance, ending | <u>\$ 144,073</u> | <u>\$ 42,822</u> |

Operating reserve

In accordance with the NCHFA loan agreement, the Company is required to maintain an operating reserve in the minimum amount of \$77,901. The Company must receive the NCHFA's prior written approval for any withdrawals in excess of \$2,000 during any three-month period. An analysis of the reserve for the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|--|------------------|------------------|
| Balance, beginning | \$ 78,433 | \$ - |
| Acquisition of existing reserves from affiliates | - | 155,380 |
| Transfer to debt services reserve | - | (77,000) |
| Interest income | 32 | 53 |
| Balance, ending | <u>\$ 78,465</u> | <u>\$ 78,433</u> |

Debt service reserve

The First Horizon construction loan agreement requires the Company to establish a debt service reserve account at closing, which shall be maintained throughout the life of the loan at an amount equal to \$98,120. Disbursements from the debt service reserve shall only be made in the event of default in the minimum debt service coverage ratio (see Note 3), to permit the Company to pay contractually due debt service due to First Horizon, Wake County, or the NCHFA. Within 30 days of any withdrawal from the account, the account must be replenished through funds deposited by the member, or its affiliates. An analysis of the reserve for the year ended December 31, 2021 and for the period from March 11, 2020 through December 31, 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------|------------------|------------------|
| Balance, beginning | \$ 98,148 | \$ - |
| Funding | - | 98,120 |
| Interest income | 40 | 28 |
| Balance, ending | <u>\$ 98,188</u> | <u>\$ 98,148</u> |

6. 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 5.71% 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 16, 2020 until June 15, 2023, 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. The management fee expense for the year ended December 31, 2021, and for the period from March 11, 2020 through December 31, 2020 amounted to \$32,692 and \$17,558, 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 Company reduced payroll and related reimbursements to CMC during the period from March 11, 2020 through December 31, 2020 in the total amount of \$9,215, which is the portion of the PPP loan proceeds that CMC planned to contribute to the Company in 2021 upon approval of its PPP loan forgiveness application. As of December 31, 2020, the Company recognized a liability of \$9,215 for the unpaid payroll and related costs. On May 18, 2021, CMC received formal forgiveness of its PPP loan and contributed the funds to the Company. Accordingly, forgiveness income of \$9,215 has been recognized by the Company for the year ended December 31, 2021 in the statements of operations.

7. Contingencies, Risks and Uncertainties

The Company’s sole asset is its 72-unit housing complex located in Apex, 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 continuing increase in economic uncertainty.

Supplementary Information

Beechridge, LLC
NCHFA Project No. 9000984
Schedules of Income and Expenses
Year Ended December 31, 2021 and
Period from March 11, 2020 through December 31, 2020

(3 pages)

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|-------------------|-------------------|
| Rental income: | | |
| Residential income | <u>\$ 587,109</u> | <u>\$ 309,996</u> |
| Interest income: | | |
| Interest income | <u>\$ 193</u> | <u>\$ 145</u> |
| Other income: | | |
| Grant income | \$ 9,215 | \$ - |
| Application fees | 420 | 406 |
| Laundry and vending | 1,130 | 1,080 |
| Damages and cleaning fees | 5,010 | - |
| Late fees | <u>2,251</u> | <u>552</u> |
| | <u>\$ 18,026</u> | <u>\$ 2,038</u> |
| Administrative expenses: | | |
| Administrative payroll | \$ 61,931 | \$ 35,161 |
| Health insurance and other benefits | 9,766 | 4,696 |
| Payroll taxes | 9,613 | 4,612 |
| Workers compensation | 2,348 | 318 |
| Other payroll related | 9,132 | 4,425 |
| Bad debt expense (recoveries), net | (495) | 27 |
| Advertising | - | 344 |
| Telephone, internet and cable | 4,117 | 1,503 |
| Office supplies and expenses | 8,374 | 2,915 |
| Criminal background and credit checks | 920 | 516 |
| Other administrative expenses | <u>6,868</u> | <u>2,908</u> |
| | <u>\$ 112,574</u> | <u>\$ 57,425</u> |
| Property management fees: | | |
| Property management fee | <u>\$ 32,692</u> | <u>\$ 17,558</u> |
| Professional fees: | | |
| Auditing and accounting | \$ 8,000 | \$ 804 |
| Legal fees | 2,470 | 395 |
| Management consultants | <u>862</u> | <u>-</u> |
| | <u>\$ 11,332</u> | <u>\$ 1,199</u> |

Beechridge, LLC
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Schedules of Income and Expenses
Year Ended December 31, 2021 and
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(3 pages)

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-------------------|------------------|
| Repairs and maintenance: | | |
| Maintenance payroll | \$ 62,644 | \$ 27,991 |
| Repairs expense | 70,516 | 15,968 |
| Painting and decorating | 9,374 | 1,549 |
| Snow removal | - | 70 |
| Grounds maintenance | 25,035 | 6,816 |
| Cleaning expense | 325 | 462 |
| Exterminating | 3,073 | 2,139 |
| Fire alarm expense | 7,160 | 2,177 |
| Security | 755 | 261 |
| HVAC maintenance | 815 | 5,451 |
| Vehicle repairs and maintenance | 29 | 100 |
| Garbage removal | 12,267 | 4,141 |
| Other repairs and maintenance | 11,402 | 8,573 |
| | <u>\$ 203,395</u> | <u>\$ 75,698</u> |
| Taxes and insurance: | | |
| Property and liability insurance | \$ 18,946 | \$ 12,112 |
| Other taxes, licenses, and fees | 6,733 | 328 |
| Other insurance | 99 | 81 |
| | <u>\$ 25,778</u> | <u>\$ 12,521</u> |
| Utilities: | | |
| Electricity | \$ 7,408 | \$ 4,171 |
| Water | 5,452 | 3,813 |
| Sewer | 9,239 | 6,599 |
| | <u>\$ 22,099</u> | <u>\$ 14,583</u> |
| Interest: | | |
| Interest expense - First Horizon | \$ 78,512 | \$ 18,043 |
| Interest expense - Wake County | 7,422 | 3,208 |
| Amortization of debt issuance costs | 6,173 | 3,076 |
| | <u>\$ 92,107</u> | <u>\$ 24,327</u> |
| Depreciation | <u>\$ 95,240</u> | <u>\$ 35,019</u> |

Beechridge, LLC
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(3 pages)

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|------------------|
| Loss on disposal of fixed assets | <u>\$ 404,878</u> | <u>\$ -</u> |
| Other non-operating expense: | | |
| Organization expense | <u>\$ -</u> | <u>\$ 12,944</u> |