The Commons at Highland Village, LLC
NCHFA Project No. 9001004

Financial Statements and Supplementary Information

Years Ended December 31, 2021 and 2020

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Independent Auditors' Report

Member
The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of The Commons at Highland Village, LLC, NCHFA Project No. 9001004, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, member's equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Commons at Highland Village, 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 The Commons at Highland Village, 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 The Commons at Highland Village, 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 The Commons at Highland Village, 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 The Commons at Highland Village, 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
March 28, 2022

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Balance Sheets
December 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash	**$ 43,716**	$ 68,776
Accounts receivable, tenants	**130**	309
Prepaid insurance	**21,344**	10,400
Total current assets	**65,190**	79,485
Restricted deposits and funded reserves:		
Cash, replacement reserve	**226,699**	191,549
Cash, tax and insurance escrow	**105,138**	71,516
Cash, operating reserve	**198,128**	198,098
Cash, tenant security deposits	**39,407**	35,863
	569,372	497,026
Rental property, at cost:		
Land	**1,040,024**	1,040,024
Building	**5,100,193**	5,097,673
Furnishings and equipment	**242,712**	242,712
	6,382,929	6,380,409
Accumulated depreciation	**(2,800,070)**	(2,653,180)
	3,582,859	3,727,229
	$ 4,217,421	$ 4,303,740

	2021	2020
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current portion of mortgages payable	**$ 58,063**	$ 55,605
Accounts payable	**5,112**	10,748
Accrued asset management fee	**-**	5,400
Accrued interest	**5,716**	5,925
Total current liabilities	**68,891**	77,678
Deposits and prepayment liabilities:		
Tenant security deposits	**39,407**	35,842
Prepaid rent	**165**	5,626
	39,572	41,468
Long-term liabilities:		
Mortgages payable, net of unamortized debt issuance costs of $13,941 in 2021 and $17,040 in 2020, less current maturities	**1,850,814**	1,905,762
Accrued interest, affiliate	**525,064**	495,454
	2,375,878	2,401,216
Member's equity	**1,733,080**	1,783,378
	$ 4,217,421	$ 4,303,740

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Statements of Operations
Years Ended December 31, 2021 and 2020

	2021	2020
Revenues:		
Gross rent potential	$ 518,119	$ 510,872
Less: Vacancies	(8,751)	(11,012)
Less: Loss to lease	(2,280)	(1,907)
Less: Concessions	(1,200)	(1,212)
Net rent revenue	505,888	496,741
Interest income	55	72
Other income	10,917	4,606
Total revenues	516,860	501,419
Operating expenses:		
Administrative	104,236	102,330
Utilities	39,507	39,099
Management fees	33,326	33,404
Repairs and maintenance	115,241	75,117
Repairs and replacements paid from reserves	-	19,244
Taxes and insurance	16,458	15,972
Management services fee	7,200	-
Asset management fee	-	10,801
Incentive management fee	-	5,000
Total operating expenses	315,968	300,967
Income from operations	200,892	200,452
Nonoperating expenses:		
Interest - mortgage loans	71,610	74,191
Deferred interest	29,610	29,610
Depreciation	148,148	152,549
Amortization	-	339
Loss on disposal	1,822	1,915
Total nonoperating expenses	251,190	258,604
Net loss	$ (50,298)	$ (58,152)

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Statements of Member's Equity (Deficit)
Years Ended December 31, 2021 and 2020

Balance, December 31, 2019	$ 1,841,630
Equity distributions	(100)
Net loss	(58,152)
Balance, December 31, 2020	1,783,378
Net loss	(50,298)
Balance, December 31, 2021	$ 1,733,080

See accompanying notes.

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Net cash flows from operating activities:		
Net loss	$ (50,298)	$ (58,152)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	148,148	152,549
Amortization of intangible assets	-	339
Amortization of deferred financing costs	3,099	3,099
Deferred interest expense	29,610	29,610
Loss on disposal	1,822	1,915
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	179	437
Prepaid insurance	(10,944)	(1)
Increase (decrease):		
Accounts payable	(5,636)	4,034
Accrued asset management fee	(5,400)	(1,523)
Accrued interest	(209)	(196)
Accounts payable, other	-	352
Tenant security deposits	3,565	1,180
Prepaid rent	(5,461)	5,237
Net cash provided by operating activities	108,475	138,880
Net cash flows from financing activities:		
Purchase of fixed asset	(5,600)	(5,600)
Principal payments on mortgages payable	(55,589)	(52,981)
Distribution to investor member	-	(100)
Net cash used by financing activities	(61,189)	(58,681)
Net increase in cash	47,286	80,199
Cash and restricted deposits and funded reserves, beginning of year	565,802	485,603
Cash and restricted deposits and funded reserves, end of year	$ 613,088	$ 565,802
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 68,720	$ 71,288
Reconciliation of cash and restricted deposits and funded reserves to the balance sheet:		
Cash	$ 43,716	$ 68,776
Restricted deposits and funded reserves	569,372	497,026
	$ 613,088	$ 565,802

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Highland Seniors Limited Partnership (the “Partnership”) was organized for the purpose of developing, constructing, owning, maintaining, and operating a 68-unit apartment complex for rent to elderly persons of low income located in Cary, North Carolina, commonly known as “The Commons at Highland Village.” The property was placed into service in December of 2004.

Effective September 14, 2011, Nationwide Affordable Housing Fund IX - Apollo Tax Credit Fund XXI Limited Partnership transferred its investor limited partner and investor state limited partner ownership interest to Nationwide Affordable Housing Fund IX - Apollo Tax Credit Fund - XXXI Limited Partnership. The Partnership had one general partner: Highland Seniors Development, Inc., and three limited partners: RBC Tax Credit Manager II, Inc., formerly known as Apollo Housing Manager II, Inc., (special limited partner); Nationwide Affordable Housing Fund IX - Apollo Tax Credit Fund - XXXI Limited Partnership (investor limited partner); and Nationwide Affordable Housing Fund IX - Apollo Tax Credit Fund - XXXI Limited Partnership (investor state limited partner).

Effective July 15, 2020, the three limited partners: RBC Tax Credit Manager II, Inc. (special limited partner); Nationwide Affordable Housing Fund IX - Apollo Tax Credit Fund - XXXI Limited Partnership (investor limited partner); and Nationwide Affordable Housing Fund IX - Apollo Tax Credit Fund - XXXI Limited Partnership (investor state limited partner) transferred their respective partnership interests to Community Revitalization and Preservation Corporation (“CRPC”). On July 20, 2020, the Partnership converted to a limited liability company, The Commons at Highland Village, LLC, (the “Company”), and the former general partner, Highland Seniors Development, Inc., Inc., assigned its 0.01% membership interest to CRPC. As a result, effective July 20, 2020, CPRC 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.

Income taxes

As a limited liability company, the Company’s taxable income or loss is allocated to the member and is reflected in the member’s income taxes; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Rental property

Rental property is stated at cost. Depreciation is 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	5 to 10 years

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

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.

Use of estimates

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

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. No impairment losses were recognized during 2021 or 2020.

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.

Other assets

Deferred tax credit fees were amortized over 15 years.

Concentrations of credit risk

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

Debt issuance costs

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

Reclassification

Certain items in the 2020 financial statements have been reclassified to conform to the 2021 financial statement presentation.

2. Members' Capital Contributions

In accordance with the operating agreement, the sole member of the Company, CRPC, is not required to make any additional capital contributions.

3. Mortgages Payable

Details of the mortgages payable at December 31, 2021 and 2020 are as follows:

	2021	2020
First mortgage loan with Mechanics and Farmers Bank, bearing interest at 7.25%, with all outstanding principal and accrued interest due June 1, 2024. The outstanding principal balance will be repaid with 215 consecutive monthly principal and interest payments of $8,100 beginning July 1, 2006 and continuing on the first day of each month and every month thereafter, and one final payment of $781,478 due June 1, 2024. Accrued interest amounted to $5,441 and $5,639 for the years ended December 31, 2021 and 2020, respectively. Interest expense amounted to $65,149 and $67,594 for the years ended December 31, 2021 and 2020, respectively. Interest paid amounted to $65,348 and $67,778 for the years ended December 31, 2021 and 2020, respectively. Deferred loan costs amortized to interest expense amounted to $3,099 for each of the years ended December 31, 2021 and 2020, respectively. The loan is secured by a deed of trust on the property.	**$ 871,466**	$ 903,323
Second mortgage loan payable to North Carolina Housing Finance Agency, with payments increasing every year, including interest at 1% due monthly through July 1, 2026, at which time all outstanding principal and interest is due. In 2021, monthly payments were $1,426 for January through July and $1,424 for August through December. Accrued interest amounted to $275 and $286 at December 31, 2021 and 2020, respectively. Interest expense amounted to $3,362 and $3,498 for the years ended December 31, 2021 and 2020, respectively. Interest paid amounted to $3,373 and $3,510 for the years ended December 31, 2021 and 2020, respectively. The loan is secured by a deed of trust on the property.	**329,852**	343,584
Third mortgage loan with Wake County, non-interest-bearing, with payments of $7,500 in years one through ten and $10,000 in years 11 through 19 beginning January 15, 2006. All outstanding principal is due January 1, 2025. The loan is secured by a deed of trust on the property.	**157,500**	167,500

	2021	2020
Fourth mortgage loan payable to DHIC, Inc. ("DHIC"), an affiliate of the sole member, bearing interest at 5.25%, with all outstanding principal and accrued interest due November 17, 2023. The loan is secured by a deed of trust on the property. Accrued interest amounted to $525,064 and $495,454 at December 31, 2021 and 2020, respectively. Interest expense amounted to $29,610 for each of the years ended December 31, 2021 and 2020.	**$ 564,000**	564,000
Less: unamortized debt issuance costs	**(13,941)**	(17,040)
	1,908,877	1,961,367
Less current maturities	**(58,063)**	(55,605)
	$ 1,850,814	$ 1,905,762

Total estimated principal maturities of the mortgages payable subsequent to December 31, 2021 are as follows:

2022	$ 58,063
2023	624,550
2024	823,617
2025	140,669
2026	275,919
	$ 1,922,818

4. Related-Party Transactions

Development fee

Prior to the conversion of the Company to a limited liability company on July 20, 2020, the Company incurred a development fee of $603,000 payable to DHIC for services rendered to the Company for overseeing the construction of the complex. As of December 31, 2021 and 2020, the total fee has been earned, paid and capitalized into the basis of the building.

Asset management fees

Prior to the conversion of the Company to a limited liability company on July 20, 2020, in accordance with the previous partnership agreement, the Company was required to an annual asset management fee totaling $8,000 to be paid from operations beginning in January 2005 ($4,000 to the former limited partner and $4,000 to the former general partner after payment to the limited partner), increasing 4% each year. The fee was cumulative to the extent not paid in full for any year. For the years ended December 31, 2021 and 2020, asset management fees of $0 and $10,801, respectively, were incurred. As of December 31, 2021 and 2020, $0 and $5,400, respectively, remained payable.

Incentive management fee

Prior to the conversion of the Company to a limited liability company on July 20, 2020, the Company entered into an incentive management fee agreement with the former general partner for its services in managing the business. This management fee was based on net cash payable as defined in the previous partnership agreement, and is not cumulative. Incentive management fees in the amount of $0 and $5,000 were incurred and paid for the years ended December 31, 2021 and 2020, respectively.

Management services fee

Pursuant to a management services agreement dated August 1, 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 years ended December 31, 2021 and 2020, management services fees of $7,200 and $0, respectively, were incurred and paid.

5. Property Management Agreement

The Company has entered into a management agreement with Community Management Corporation to provide property management services to the project. The management agent will be compensated at the rate of 6.63% of gross operating revenues received from the preceding month. The term of the agreement is three years from the date of initial occupancy and renews for successive terms automatically under certain conditions, as defined. Management fee expense for the years ended December 31, 2021 and 2020 was $33,326 and $33,404, respectively, of which $2,778 and $2,973, respectively, remained payable.

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 year ended December 31, 2020 in the total amount of $4,850, 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 $4,850 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 $4,850 has been recognized by the Company for the year ended December 31, 2021 in the statement of operations.

6. Commitments and Contingencies

Replacement reserve

The NCHFA loan agreement requires the Company to fund a replacement reserve using cash flow from operations, as defined. Reserve additions of $17,000 ($250 per unit per year), increasing by 4% each year, are required to be made annually, commencing at substantial completion of the complex. No funds will be withdrawn unless the amounts have been previously approved by the NCHFA.

An analysis of the replacement reserve for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance, beginning	**$ 191,549**	$ 186,243
Funding	**35,160**	33,808
Interest earned, net of fees	**(10)**	(4)
Withdrawals	**-**	(28,498)
Balance, ending	**$ 226,699**	$ 191,549

Operating reserve

The NCHFA loan agreement requires the Company to fund an operating reserve from contributions or permanent loan proceeds in the amount of $185,000 into a segregated reserve account to fund operating expenses and debt service in excess of operating revenues. Any withdrawals that would reduce the operating reserve below $185,000 are subject to NCHFA approval. An analysis of the reserve for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance, beginning	**$ 198,098**	$ 198,056
Interest earned, net of fees	**30**	42
Balance, ending	**$ 198,128**	$ 198,098

7. Current Vulnerability Due to Certain Concentrations

The Company's sole asset is its 68-unit low-income housing complex located in Cary, 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 Project'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.

8. Subsequent Events

The Company evaluated the effect subsequent events would have on the financial statements through March 28, 2022, which is the date the financial statements were available to be issued.

Supplementary Information

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Schedules of Income and Expenses
Years Ended December 31, 2021 and 2020 **(2 pages)**

	2021	2020
Rental income:		
Residential income	$ 505,888	$ 496,741
Interest income:		
Interest income	$ 55	$ 72
Other income:		
Laundry and vending	$ 299	$ 257
Late fees	315	206
Application fees	580	40
Damages and cleaning fees	1,456	1,100
Grant revenue	4,850	-
Other income	3,417	3,003
	$ 10,917	$ 4,606
Administrative:		
Advertising/marketing/renting expenses	$ 1,965	$ 810
Office payroll and related expense	57,412	49,171
Office supplies	4,617	4,799
Accounting fees	8,500	8,310
Telephone	2,277	2,255
Payroll taxes	3,648	1,686
Bad debt expense	599	158
Attorney Fees	-	8,042
HOA/amenities	16,077	16,077
Miscellaneous	9,141	11,022
	$ 104,236	$ 102,330
Utilities:		
Water	$ 11,026	$ 9,807
Sewer	13,127	13,870
Electricity	15,354	15,422
	$ 39,507	$ 39,099
Management fees:		
Property management	$ 33,326	$ 33,404

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Schedules of Income and Expenses
Years Ended December 31, 2021 and 2020 **(2 pages)**

	2021	2020
Repairs and maintenance:		
Repairs and maintenance payroll	$ **25,957**	$ 5,533
Repairs supplies	**34,854**	12,570
Painting and decorating	**1,033**	644
Security equipment and maintenance	**-**	53
Repairs contracts	**32,377**	37,884
Grounds maintenance	**11,784**	10,180
Janitor and cleaning contract	**1,392**	1,117
Garbage and trash	**7,844**	7,136
	$ **115,241**	$ 75,117
Taxes and insurance:		
Real estate taxes	$ **267**	$ 273
Property insurance	**16,191**	15,699
	$ **16,458**	$ 15,972
Management services fees:		
Management services fee	$ **7,200**	$ -
Asset management fees:		
Asset management fees	$ **-**	$ 10,801
Incentive management fee:		
Incentive management fee	$ **-**	$ 5,000
Interest expense:		
Interest expense - Mechanics and Farmers	$ **68,248**	$ 70,693
Interest expense - NCHFA	**3,362**	3,498
Interest expense - DHIC	**29,610**	29,610
	$ **101,220**	$ 103,801
Depreciation and amortization:		
Depreciation	$ **148,148**	$ 152,549
Amortization	**-**	339
	$ **148,148**	$ 152,888

See accompanying notes.