Creston Commons, LLC

NCHFA Project No. 9000975

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

December 31, 2022 and 2021

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FORVIS

Independent Auditor's Report

Member
Creston Commons, LLC
NCHFA Project No. 9000975
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Creston Commons, LLC, which comprise the balance sheet as of December 31, 2022, and the related statements of operation, member's equity, and cash flows for the year 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 Creston Commons, LLC as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion
We conducted our audit 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 Creston Commons, 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 GAAP, 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 Creston Commons, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 Creston Commons, 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 Creston Commons, 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.

Prior Period Financial Statements
The financial statements of Creston Commons, LLC, as of December 31, 2021, were audited by other auditors whose report dated April 29, 2022 expressed an unmodified opinion on those statements.

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Report on Supplementary Information

Our audit was 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 audit 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 GAAS. 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
April 19, 2023

Creston Commons, LLC
NCHFA Project No. 9000975
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash, operating	$ **119,162**	$ 199,004
Accounts receivable, other	**2,160**	57,962
Accounts receivable, tenants	**5,849**	5,881
Prepaid expenses	**3,012**	15,060
Total current assets	**130,183**	277,907
Restricted deposits and funded reserves:		
Cash, operating reserve	**104,451**	104,214
Cash, replacement reserve	**194,079**	166,207
Cash, supportive services reserve	**20,486**	20,546
Cash, tax and insurance escrow	**16,324**	4,361
Tenant security deposits	**24,742**	25,896
	360,082	321,224
Rental property:		
Land improvements	**1,067,597**	1,067,597
Buildings and improvements	**2,785,645**	2,782,801
Furniture and fixtures	**125,410**	125,410
	3,978,652	3,975,808
Less accumulated depreciation	**(1,999,769)**	(1,924,481)
Total property and equipment	**1,978,883**	2,051,327
Other assets		
Utility deposits	**1,000**	1,000
	$ **2,470,148**	$ 2,651,458

Creston Commons, LLC
NCHFA Project No. 9000975
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accounts payable	$ 1,101	$ 61,560
Accrued management fees	2,614	3,126
Accrued wages payable	2,421	2,154
Accrued interest	929	2,018
Mortgage payable, net of unamortized debt issuance costs of $24,764 in 2022 and $23,835 in 2021	1,123,823	1,276,918
Total current liabilities	1,130,888	1,345,776
Deposits and prepayment liabilities:		
Tenant security deposits	24,742	25,896
Prepaid rent	4,277	7,841
	29,019	33,737
Long-term liabilities:		
Notes payable, affiliate	410,000	410,000
Accrued interest, affiliate	257,555	245,925
	667,555	655,925
Member's equity	642,686	616,020
	$ 2,470,148	$ 2,651,458

Creston Commons, LLC
NCHFA Project No. 9000975
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rental income	$ 381,907	$ 373,904
Less: Vacancies	(7,712)	(5,166)
Less: Concessions	-	(100)
Less: Loss to lease	(583)	(1,482)
Plus: Excess rent	57	60
Net rental income	373,669	367,216
Other income:		
Interest income	763	786
Other income	13,415	18,347
Total other income	14,178	19,133
Total income	387,847	386,349
Expenses:		
Administrative	54,421	46,874
Property management fees	32,796	33,637
Professional fees	4,210	6,007
Repairs and maintenance	67,567	95,984
Taxes and insurance	13,221	11,026
Utilities	29,574	27,339
Total operating expense	201,789	220,867
Income from operations	186,058	165,482
Nonoperating (income) expenses:		
Interest expense	31,585	37,621
Depreciation	76,613	82,461
Management services fee	50,000	50,000
Gain on involuntary conversion	-	(26,001)
Loss on disposal of fixed assets	1,194	33,117
Total nonoperating expenses	159,392	177,198
Net income (loss)	$ 26,666	$ (11,716)

Creston Commons, LLC
NCHFA Project No. 9000975
Statements of Member's Equity
Years Ended December 31, 2022 and 2021

Balance, December 31, 2020	$	627,736
Net loss		(11,716)
Balance, December 31, 2021		616,020
Net income		**26,666**
Balance, December 31, 2022	**$**	**642,686**

See accompanying notes.

Creston Commons, LLC
NCHFA Project No. 9000975
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

(2 pages)

	2022	2021
Cash flows from operating activities:		
Net income (loss)	$ 26,666	$ (11,716)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	76,613	82,461
Loss on disposal of fixed assets	1,194	33,117
Gain on involuntary conversion	-	(26,001)
Amortization of debt issuance costs	929	1,238
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	32	4,539
Accounts receivable, other	(362)	(17,962)
Prepaid expenses	12,048	(8,492)
Increase (decrease):		
Accounts payable and accrued expenses	(60,459)	5,764
Accrued management fees	(512)	-
Accrued wages payable	267	-
Accrued interest	10,541	11,486
Tenant security deposits liability	(1,154)	(285)
Prepaid rent	(3,564)	3,778
Net cash provided by operating activities	62,239	77,927
Cash flows from investing activities:		
Insurance proceeds	56,164	-
Investment in rental property	(5,363)	(138,659)
Net cash provided (used) by investing activities	50,801	(138,659)
Cash flows from financing activities:		
Repayment of notes payable	(154,024)	(13,584)
Net cash used by financing activities	(154,024)	(13,584)
Net decrease in cash, restricted deposits and funded reserves	(40,984)	(74,316)
Cash, restricted deposits and funded reserves, beginning	520,228	594,544
Cash, restricted deposits and funded reserves, ending	$ 479,244	$ 520,228

See accompanying notes.

Creston Commons, LLC
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Statements of Cash Flows
Years Ended December 31, 2022 and 2021

(2 pages)

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 20,115**	$ 24,898
Reconciliation of cash, restricted deposits and funded reserves to balance sheet:		
Cash, operating	**$ 119,162**	$ 199,004
Cash, operating reserve	**104,451**	104,214
Cash, replacement reserve	**194,079**	166,207
Cash, debt service reserve	**20,486**	20,546
Cash, tax and insurance escrow	**16,324**	4,361
Tenant security deposits	**24,742**	25,896
	$ 479,244	$ 520,228

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Creston Commons, LLC (the "Company") was organized as a Limited Liability Company under the laws of the State of North Carolina on April 23, 1999, for the purpose of constructing, owning, and operating a low income rental housing community (the "Property"). The Property consists of 48 multifamily residential rental units located in Southern Pines, North Carolina.

Pursuant to the Second Amended and Restated Operating Agreement dated December 31, 2016, the Sole Member of the company is Community Revitalization and Preservation Corporation ("CRPC"), a North Carolina nonprofit corporation.

The term of the Company shall extend until December 31, 2050, unless sooner terminated as provided in the Operating Agreement.

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 (GAAP).

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 GAAP 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. GAAP requires 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:

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 years ended December 31, 2022 and 2021.

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 years ended December 31, 2022 and 2021 amounted to $70 and $155, 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 April 19, 2023, which is the date the financial statements were available to be issued.

2. Notes Payable

An analysis of the notes payable at December 31, 2022 and 2021 is as follows:

	2022	**2021**
The Company had a first mortgage loan with Wells Fargo Bank, N.A. with an original principal amount of $400,000. The loan has a term of 25 years with a 7.75% annual interest rate. The terms of the loan provide monthly installments of principal and interest totaling $3,040 until February 2020. Thereafter, the interest rate and monthly installments shall be reset to a fixed rate equal to the Treasury Rate plus the Fixed Rate Margin. The loan was repaid June 2022. During the years ended December 31, 2022 and 2021, interest expense on the mortgage totaled $7,838 and $13,648, and interest paid totaled $8,927 and $13,081, all respectively. Accrued interest as of December 31, 2022 and 2021 totaled $0 and $1,089, respectively.	**$ -**	$ 163,212
The Company has a second mortgage loan with the North Carolina Housing Finance Agency ("NCHFA"). The original amount of the loan was $1,109,704, with 1% interest. The terms of the loan provide for monthly installments of principal and interest. Beginning November 1, 2014, the monthly installments decrease to an amount that is less than the interest due, resulting in principal increasing over the remaining life of the loan. In 2022, monthly payments were $166.67. The loan is expected to be paid off in April 2023 during re-syndication of the property. The note is secured by a deed of trust on the Property. During the years ended December 31, 2022 and 2021, interest expense on the mortgage totaled $11,188 and $11,105, and interest paid totaled $11,188 and $11,097, all respectively. Accrued interest at December 31, 2022 and 2021 totaled $929 and $929, respectively.	**1,123,823**	1,114,635

		2022		2021
The Company has an outstanding note payable with an affiliate of DHIC, Inc. the original principal amount of the note is $310,000, due on or before January 30, 2033. The interest rate of the note is 2% annually. During each of the years ended December 31, 2022 and 2021, interest expense was $6,200, interest paid was $0, and principal payments were $0. At December 31, 2022 and 2021, accrued interest payable totaled $140,358 and $134,158, respectively.	**$**	**310,000**	$	310,000
The Company has a second outstanding note payable with an affiliate of DHIC, Inc. The second note has an original principal amount of $100,000, due on or before May 2, 2033. The interest rate of the note is 5.43% annually. During each of the years ended December 31, 2022 and 2021, interest expense was $5,430, interest paid was $0, and principal paid was $0. At December 31, 2022 and 2021, accrued interest payable totaled $117,197 and $111,767, respectively.		**100,000**		100,000
Less: current maturities		**(1,123,823)**		(1,276,918)
Less: unamortized debt issuance costs		**-**		(929)
	$	**410,000**	$	410,000

Estimated maturities of long-term debt subsequent to December 31, 2022 are as follows:

2023	$	1,123,823
2024		-
2025		-
2026		-
2027		-
Thereafter		410,000
	$	1,533,823

3. Related-Party Transactions

Management services fee

In accordance with the management services fee agreement and for its services in managing the Company, DHIC, Inc., an affiliate of the Sole Member, shall earn an annual, non-cumulative management services fee equal to 100% of the net income available for distribution by the Company at the end of its fiscal year, as determined by the Sole Member. The Company may make interim disbursements of available cash flow to DHIC, Inc. during any given fiscal year as determined by the Sole Member. During the years ended December 31, 2022 and 2021, management services fees totaling $50,000 and $50,000 were earned and paid, respectively.

4. 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. 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 years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 166,207**	$ 256,413
Deposits	**27,483**	26,184
Interest, net of fees	**389**	487
Withdrawals	**-**	(116,877)
Balance, ending	**$ 194,079**	$ 166,207

Operating reserve

In accordance with the NCHFA loan agreement, the Company is required to maintain an operating reserve in the minimum amount of $100,000. 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 years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 104,214**	$ 103,982
Interest	**237**	232
Balance, ending	**$ 104,451**	$ 104,214

Supportive services reserve

The Property received $40,000 from an unaffiliated local company to fund a supportive services reserve. The reserve is to be used to fund an adult scholarship program a first-time home buyer’s program, and summer youth scholarships. An analysis of the reserve for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Balance, beginning	**$ 20,546**	$ 20,545
Interest	**-**	1
Service charges	**(60)**	-
Balance, ending	**$ 20,486**	$ 20,546

5. 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 8.78% 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 July 26, 2005 until December 31, 2007, 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 years ended December 31, 2022, and 2021 amounted to $32,796 and $33,637, respectively.

6. Contingencies, Risks and Uncertainties

The Company's sole asset is its 48-unit housing complex located in Southern Pines, 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.

Supplementary Information

Creston Commons, LLC
NCHFA Project No. 9000975
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021

(3 pages)

	2022	2021
Rental income:		
Residential income	**$ 373,669**	$ 367,216
Interest income:		
Interest income	**$ 763**	$ 786
Other income:		
Grant income	**$ -**	$ 8,514
Application fees	**360**	420
Laundry and vending	**500**	930
Damages and cleaning fees	**6,319**	4,280
Legal fees	**589**	-
Late fees	**3,381**	2,032
Other revenue	**2,266**	2,171
	$ 13,415	**$ 18,347**

Creston Commons, LLC
NCHFA Project No. 9000975
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021

(3 pages)

	2022	2021
Administrative expenses:		
Administrative payroll	**$ 26,991**	$ 27,812
Health insurance and other benefits	**6,152**	5,063
Payroll taxes	**3,531**	3,288
Workers compensation	**619**	823
Bad debt expense (recoveries), net	**7,159**	84
Advertising	**70**	155
Telephone, internet and cable	**2,719**	2,739
Office supplies and expenses	**3,240**	4,014
Criminal background and credit checks	**451**	470
Other administrative expenses	**3,489**	2,426
	$ 54,421	$ 46,874
Property management fees:		
Property management fee	**$ 32,796**	$ 33,637
Professional fees:		
Auditing and accounting	**$ 3,495**	$ 5,145
Legal fees	**715**	-
Management consultants	**-**	862
	$ 4,210	$ 6,007
Repairs and maintenance:		
Maintenance payroll	**$ 20,862**	$ 20,925
Repairs expense	**15,535**	29,584
Painting and decorating	**2,635**	4,773
Grounds maintenance	**9,492**	11,354
Cleaning expense	**134**	208
Exterminating	**1,886**	2,146
Fire alarm expense	**1,303**	1,878
Security	**180**	673
HVAC maintenance	**4,289**	11,665
Garbage removal	**8,935**	6,524
Other repairs and maintenance	**2,316**	6,254
	$ 67,567	$ 95,984

Creston Commons, LLC
NCHFA Project No. 9000975
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021

(3 pages)

	2022	2021
Taxes and insurance:		
Property and liability insurance	$ 12,793	$ 10,592
Other taxes, licenses, and fees	328	335
Other insurance	100	99
	$ 13,221	$ 11,026
Utilities:		
Electricity	$ 6,898	$ 7,375
Water	10,461	9,428
Sewer	12,215	10,536
	$ 29,574	$ 27,339
Interest:		
Interest expense - Wells Fargo	$ 7,838	$ 13,648
Interest expense - DHIC	11,630	11,630
Interest expense - NCHFA	11,188	11,105
Amortization of debt issuance costs	929	1,238
	$ 31,585	$ 37,621
Depreciation	$ 76,613	$ 82,461
Management services fee	$ 50,000	$ 50,000
Gain on involuntary conversion	$ -	$ (26,001)
Loss on disposal of fixed assets	$ 1,194	$ 33,117