Highland Village Housing, LLC

NCHFA Project No. 9001008

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

December 31, 2022 and 2021

Table of Contents

Independent Auditor's Report 1

Financial Statements:

Balance Sheets 4

Statements of Operations 6

Statements of Member's Equity 7

Statements of Cash Flows 8

Notes to Financial Statements 9

Supplementary Information:

Schedules of Income and Expenses 15

FORVIS

Independent Auditor's Report

Member
Highland Village Housing, LLC
NCHFA Project No. 9001008
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Highland Village Housing, LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Highland Village Housing, LLC as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Highland Village Housing, 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 Highland Village Housing, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

FORVIS

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 Highland Village Housing, 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 Highland Village Housing, 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
March 14, 2023

Highland Village Housing, LLC
NCHFA Project No. 9001008
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash	$ 139,866	$ 147,225
Accounts receivable, tenants	12,367	1,461
Prepaid expenses	3,138	15,694
Total current assets	155,371	164,380
Restricted assets and funded reserves:		
Cash, tenant security deposits	29,137	28,882
Cash, tax and insurance escrow	16,736	4,184
Cash, operating reserve	147,213	147,136
Cash, replacement reserve	194,991	171,467
	388,077	351,669
Rental property:		
Buildings	4,102,721	4,098,111
Land improvements	377,648	377,648
Furnishings and equipment	106,641	106,641
	4,587,010	4,582,400
Accumulated depreciation	(2,169,094)	(2,047,890)
	2,417,916	2,534,510
Land	894,403	894,403
	3,312,319	3,428,913
	$ 3,855,767	$ 3,944,962

Highland Village Housing, LLC
NCHFA Project No. 9001008
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current portion of mortgages payable	**$ 52,000**	$ 50,536
Accounts payable and accrued expenses	**9,928**	5,237
Accrued interest - other	**4,250**	4,647
Total current liabilities	**66,178**	60,420
Deposits and prepayment liabilities:		
Tenant security deposits	**29,137**	28,882
Prepaid rent	**354**	82
	29,491	28,964
Long-term liabilities:		
Accrued interest - DHIC	**262,841**	248,414
Mortgages payable, net of unamortized debt issuance costs of $23,941 in 2022 and $25,058 in 2021, less current maturities	**2,111,313**	2,162,196
	2,374,154	2,410,610
Member's equity	**1,385,944**	1,444,968
	$ 3,855,767	$ 3,944,962

See accompanying notes.

Highland Village Housing, LLC
NCHFA Project No. 9001008
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rental income	$ 415,354	$ 403,267
Less:		
Vacancy loss	(9,424)	(5,860)
Loss to lease	(2,588)	(2,643)
Total rental income	403,342	394,764
Other income:		
Interest income	285	37
Other income	2,673	3,779
Total other income	2,958	3,816
Total income	406,300	398,580
Expenses:		
Administrative	64,339	64,477
Utilities	11,760	16,969
Professional fees	14,134	9,080
Management fees	26,787	26,354
Repairs and maintenance	129,435	127,108
Taxes and insurance	13,487	12,732
Total expenses	259,942	256,720
Income from operations	146,358	141,860
Nonoperating expenses:		
Interest expense	56,128	57,786
Depreciation and amortization	123,606	123,406
Loss on disposal of capital assets	3,473	2,137
Partnership fees	22,175	39,187
Total nonoperating expenses	205,382	222,516
Net loss	$ (59,024)	$ (80,656)

Highland Village Housing, LLC
NCHFA Project No. 9001008
Statements of Member's Equity
Years Ended December 31, 2022 and 2021

	2022	2021
Balance, beginning	**$ 1,444,968**	$ 1,525,624
Net loss	**(59,024)**	(80,656)
Balance, ending	**$ 1,385,944**	$ 1,444,968

Highland Village Housing, LLC
NCHFA Project No. 9001008
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net loss	$ (59,024)	$ (80,656)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	123,606	121,406
Loss on disposal of fixed asset	3,473	2,137
Amortization of intangible assets	-	2,000
Amortization of deferred financing costs	1,117	1,117
Change in assets and liabilities:		
Accounts receivable, tenants	(10,906)	(1,057)
Prepaid expenses	12,556	(7,291)
Accounts payable and accrued expenses	4,691	677
Accrued interest - other	(397)	(383)
Tenant security deposit liability	255	1,846
Prepaid rent	272	(4,794)
Accrued interest - DHIC	14,427	14,433
Net cash provided by operating activities	90,070	49,435
Cash flows from investing activities:		
Purchases of rental property	(10,485)	(5,798)
Net cash used by investing activities	(10,485)	(5,798)
Cash flows from financing activities:		
Repayment of mortgages payable	(50,536)	(49,059)
Net cash used by financing activities	(50,536)	(49,059)
Net increase (decrease) in cash	29,049	(5,422)
Cash, deposits held in trust and restricted deposits and funded reserves, beginning of year	498,894	504,316
Cash, deposits held in trust and restricted deposits and funded reserves, end of year	$ 527,943	$ 498,894
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 40,981	$ 42,619
Reconciliation of cash, deposits held in trust and restricted deposits and funded reserves to the balance sheet:		
Cash - operations	$ 139,866	$ 147,225
Restricted deposits and funded reserves	388,077	351,669
	$ 527,943	$ 498,894

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Highland Village Limited Partnership was organized on May 8, 2022, for the purpose of acquiring, owning, developing, constructing, and/or rehabilitating and operating a 50-unit low-income housing complex (the "Project") located in Cary, North Carolina. The property was placed in service in December 2005.

Effective June 6, 2005, the partnership agreement was amended to admit a new limited partner, Community Housing Alliance LP, and to permit the withdrawal of the original limited partner, DHIC, Inc. Effective December 31, 2005, the partnership agreement was amended to allow Community Housing Alliance LP to transfer 79.992% of its ownership interest to Community Housing Alliance II LP. The general partner is Highland Village Development, Inc.

Effective December 31, 2021, Community Housing Alliance LP and Community Housing Alliance II LP transferred their respective partnership interests to Community Revitalization and Preservation Corporation ("CRPC"), an affiliate of the general partner. The general partner, Highland Village, Inc., assigned its 0.01% membership interest to CRPC on January 24, 2022. Effective January 24, 2022, the Partnership was converted to a North Carolina limited liability company and the name of the entity was changed to Highland Village Housing, LLC (the "Company").

The Project received an allocation of low-income housing tax credits from the North Carolina Housing Finance Agency under Section 42 of the Internal Revenue Code of 1986, as amended.

Basis of accounting

The financial statements of the Company are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles.

The following is a summary of significant accounting policies consistently applied in the preparation of these financial statements.

Income taxes

Earnings of the Company are taxed directly to the partners; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Rental property

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

Buildings	40 years
Land improvements	20 years
Furnishings and equipment	10 years

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

Other assets

Tax credit monitoring fees were amortized over the 15-year monitoring period.

Cash and cash equivalents

For purposes of the statements 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 2022 and 2021.

Accounts receivable and bad debts

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Concentrations of credit risk

The 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.

Subsequent events evaluation

The Company evaluated the effect subsequent events would have on the financial statements through March 14, 2023 , which is the date the financial statements were available to be issued.

Debt issuance costs

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

2. Members' Capital Contributions

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

3. Mortgages Payable

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

	2022	2021
First mortgage loan with Providence Bank in the amount of $725,000 bearing interest at 7.25% with all outstanding principal and accrued interest due September 1, 2037. The loan was originally funded from Centrant Community Capital ("Centrant"). The loan was sold to Providence Bank but continues to be serviced by Centrant. All payments will continue to be made to Centrant. The outstanding principal balance will be repaid with 360 consecutive monthly principal and interest payments of $4,946 beginning October 1, 2007 and continuing on the first day of each month through September 2025, then adjusted for loan years 19 through 30 in accordance with the promissory note. The loan is secured by a deed of trust on the property. Accrued interest amounted to $3,242 and $3,361 at December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, interest expense amounted to $39,570 and $40,950, respectively, and interest paid amounted to $39,689 and $41,061, respectively. Deferred loan costs amortized to interest expense for each of the years ended December 31, 2022 and 2021 amounted to $1,117.	**$ 536,667**	$ 556,330
Noninterest-bearing second mortgage loan payable to North Carolina Housing Finance Agency ("NCHFA"), with payments in varying amounts ranging from $303 to $736 through September 1, 2027, at which time all outstanding principal and accrued interest, if any, is due. In 2022, monthly principal payments of $587 were made from January through September, and monthly principal payments of $566 were made from October through December. The loan is secured by a deed of trust on the property.	**647,635**	654,614
Noninterest-bearing note payable to the County of Wake, North Carolina, in the amount of $260,000. The loan is secured by a third lien on the property. Annual principal payments in the amount of $7,500 are payable effective January 1, 2006; followed by annual principal payments of $10,000 effective January 1, 2016 through January 1, 2024; with the remaining balance due January 15, 2025 (the maturity date).	**115,000**	125,000

	2022	2021
Note payable to the County of Wake, North Carolina, in the amount of $250,000 with interest accruing at 2% effective January 1, 2007. The loan is secured by a third lien on the property. Annual payments of principal and interest in the amount of $15,180 are to begin on June 1, 2007 and continue annually effective January 15, 2008 and thereafter until January 15, 2026 (the maturity date), at which time all outstanding principal and accrued interest shall be due and payable. Accrued interest amounted to $1,008 and $1,286 at December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, interest expense amounted to $1,008 and $1,286, respectively, and interest paid amounted to $1,286 and $1,558, respectively.	**$ 53,041**	$ 66,935
Note payable to DHIC, Inc. ("DHIC"), an affiliate of the general partner, in the maximum amount of $205,000 payable in full with 4.65% interest by November 18, 2025. The loan is secured by a fourth lien on the property. Accrued interest amounted to $171,781 and $162,254 at December 31, 2022 and 2021, respectively. Interest expense amounted to $9,533 for each of the years ended December 31, 2022 and 2021.	**205,000**	205,000
Note payable to DHIC, in the maximum amount of $245,000 payable in full including interest at 2% by November 18, 2025. The loan is secured by a fifth lien on the property. Interest expense amounted to $4,900 for each of the years ended December 31, 2022 and 2021. Accrued interest amounted to $91,060 and $86,160 at December 31, 2022 and 2021, respectively.	**245,000**	245,000
Noninterest-bearing note payable to NCHFA in the amount of $384,911. No principal payments are due on this loan until the loan matures on October 25, 2035, at which time all outstanding principal and accrued interest (default) shall be due and payable. The loan is secured by a sixth-position lien upon the property.	**384,911**	384,911
Less: unamortized debt issuance cost	**(23,941)**	(25,058)
	$ 2,163,313	$ 2,212,732

Estimated future principal maturities of the mortgages payable subsequent to December 31, 2022 are as follows:

2023	$ 52,000
2024	53,450
2025	589,885
2026	41,451
2027	651,660
Thereafter	798,808
	$ 2,187,254

4. Related-Party Transactions

Management services fee

Pursuant to the management services agreement dated January 24, 2022, the Company pay an annual management services fee to DHIC equal to 100% of net income available for distribution, as determined at the sole discretion of manager (the sole member of the Company). For the year ended December 31, 2022, management services fees of $0 were paid.

Development fee

Pursuant to a development services agreement, the Company agreed to pay DHIC, a development fee of $577,001, all of which has been earned as of December 31, 2022. During 2015, the Company paid $65,000 in development fees, and the remaining balance of $154,000 was treated as a capital contribution from the general partner. Accordingly, no development fees remained payable at December 31, 2022 and 2021.

Partnership administration fee

Beginning in 2006, the Partnership shall pay to Highland Village Development, Inc., the administrator, over the term of the agreement, an annual partnership administration fee of $27,000. After 2006, the partnership administration fee shall increase at the rate of 3% per year. The partnership administration fee is paid out of the available cash flow. No amount is deducted as an expense by the Partnership until such amount is paid. Partnership administration fees of $22,175 and $35,292 were paid during the years ended December 31, 2022 and 2021, respectively.

Investor services fee

According to the investor service agreement between the Partnership and an affiliate of the limited partners, Enterprise Social Investment Corporation (“ESIC”), beginning in 2006, the Partnership shall pay ESIC $2,500 from cash flow and capital proceeds, an investor service fee. The fee shall increase at the rate of 3% per year after 2006. No amount is deducted as an expense by the Partnership until such amount is paid. For the years ended December 31, 2022 and 2021, fees of $0 and $3,895, respectively, were expensed and paid.

5. Reserves

Operating reserve funding

The general partner shall establish an operating reserve account using a combination of capital contributions received from the limited partners and cash flow from operations, as defined. Upon receipt of the second and third installments of limited partner’s capital contributions, the Company is required to deposit $69,689 per installment for a total of $139,378 into the operating reserve. In addition, the Company may make deposits to the operating reserve out of cash flow from operations. Any withdrawals from the reserve require a written approval from the limited partners.

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

	2022	2021
Balance, beginning	**$ 147,136**	$ 147,147
Interest earned, net of fees	**77**	(11)
Balance, ending	**$ 147,213**	$ 147,136

Replacement reserve funding

The replacement reserve is to be funded in the amount of $250 per unit per year in the first year, increasing by 4% annually thereafter. The Company's requests for withdrawals from the replacement reserve account will be approved as needed to cover the Project's capital improvement needs. The limited partners must approve any withdrawals from the replacement reserve account exceeding $5,000 in aggregate during any year. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 171,467**	$ 182,643
Funding	**23,412**	22,512
Approved withdrawals	**-**	(33,677)
Interest, net of fees	**112**	(11)
Balance, ending	**$ 194,991**	$ 171,467

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 at the rate of 6.75% of gross collections for the previous month. Management fee expense was $26,787 and $26,354 for 2022 and 2021, respectively.

7. Contingencies, Risks, and Uncertainties

The Company's sole asset is its 50-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.

Supplementary Information

Highland Village Housing, LLC
NCHFA Project No. 9001008
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Rental income:		
Residential income	$ 403,342	$ 394,764
Interest income:		
Interest income	$ 285	$ 37
Other income:		
Application fees	$ 40	$ (20)
Damages and cleaning fees	793	680
Cable TV fees	433	1,637
Other income	1,407	1,482
	$ 2,673	$ 3,779
Administrative:		
Advertising/marketing	$ 80	$ 976
Office payroll and related expenses	21,251	26,696
Office supplies	5,250	5,028
Telephone	6,957	7,116
Payroll taxes	2,147	3,113
Amenities	22,763	17,280
Miscellaneous	5,891	4,268
	$ 64,339	$ 64,477
Utilities:		
Electricity	$ 6,064	$ 6,398
Water and sewer	5,696	10,571
	$ 11,760	$ 16,969
Professional fees:		
Auditing	$ 14,134	$ 9,080
Management fees:		
Property management	$ 26,787	$ 26,354

Highland Village Housing, LLC
NCHFA Project No. 9001008
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Repairs and maintenance:		
Repairs and maintenance payroll	$ **15,165**	$ 22,996
Grounds maintenance	**23,710**	19,879
Repairs supplies	**17,487**	19,262
Painting/decorating	**9,236**	7,857
Janitor and cleaning contract	**3,778**	5,223
Exterminating	**2,873**	2,851
Fire alarm expense	**-**	539
Garbage and trash	**12,009**	10,449
Other repairs and maintenance	**45,177**	38,052
	$ **129,435**	$ 127,108
Taxes and insurance:		
Real estate taxes	$ **55**	$ 45
Property insurance	**13,332**	12,588
Other insurance	**100**	99
	$ **13,487**	$ 12,732
Interest expense:		
Interest expense - DHIC deferred loans	$ **14,433**	$ 14,433
Interest expense - term loans	**41,695**	43,353
	$ **56,128**	$ 57,786
Depreciation and amortization:		
Depreciation	$ **123,606**	$ 121,406
Amortization	**-**	2,000
	$ **123,606**	$ 123,406
Loss on disposal of capital assets	$ **3,473**	$ 2,137
Partnership fees:		
Partnership management fee	$ **22,175**	$ 35,292
Investor services fee	**-**	3,895
	$ **22,175**	$ 39,187