Jeffries Ridge, LLC

NCHFA Project No. 9000963

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

December 31, 2022 and 2021

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Independent Auditor's Report

Member
Jeffries Ridge, LLC
NCHFA Project No. 9000963
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Jeffries Ridge, LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, member's 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 Jeffries Ridge, 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 Jeffries Ridge, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Jeffries Ridge, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 Jeffries Ridge, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Jeffries Ridge, LLC's ability to continue as a going concern for a reasonable period of time.

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

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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
April 26, 2023

Jeffries Ridge, LLC
NCHFA Project No. 9000963
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash	**$ 58,406**	$ 20,878
Tenant accounts receivable	**4,060**	19,411
Accounts receivable, other	**3,415**	2,165
Miscellaneous prepaid expenses	**1,641**	8,207
Total current assets	**67,522**	50,661
Restricted deposits and funded reserves:		
Escrow deposits	**8,772**	2,418
Replacement reserve	**146,131**	139,220
Project reserve fund	**78,576**	78,435
Tenant deposits held in trust	**17,146**	18,151
	250,625	238,224
Fixed assets:		
Land	**10,500**	10,500
Land improvements	**108,371**	108,371
Buildings	**1,427,960**	1,427,960
Building equipment	**115,303**	115,303
	1,662,134	1,662,134
Accumulated depreciation	**(1,444,335)**	(1,421,204)
	217,799	240,930
	$ 535,946	$ 529,815

Jeffries Ridge, LLC
NCHFA Project No. 9000963
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES LESS MEMBER'S DEFICIT		
Current liabilities:		
Current maturities of mortgages payable	**$ 18,649**	$ 17,419
Accounts payable	**4,772**	1,564
Accounts payable, management company	**1,513**	1,366
Accrued interest payable	**3,372**	3,473
Total current liabilities	**28,306**	23,822
Deposits and prepayment liabilities:		
Tenant security deposits	**17,146**	18,151
Prepaid rent	**1,304**	72
	18,450	18,223
Long-term liabilities:		
Mortgages payable, less unamortized debt issuance costs of $29,013 in 2022 and $31,382 in 2021, net of current maturities	**1,384,154**	1,400,434
Accrued interest payable	**92,035**	87,415
	1,476,189	1,487,849
Member's deficit	**(986,999)**	(1,000,079)
	$ 535,946	$ 529,815

Jeffries Ridge, LLC
NCHFA Project No. 9000963
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rent potential	$ 277,440	$ 271,680
Less:		
Vacancy loss	(4,068)	(3,842)
Loss to lease and concessions	(5,541)	(6,926)
Net rental income	267,831	260,912
Interest income	484	101
Miscellaneous income	7,869	8,387
Total revenues	276,184	269,400
Operating expenses:		
Administrative	56,262	48,357
Utilities	7,795	5,746
Professional	10,185	9,354
Repairs and maintenance	94,038	116,915
Taxes and insurance	12,946	12,448
Total operating expenses	181,226	192,820
Income from operations	94,958	76,580
Nonoperating expenses:		
Interest expense - mortgage	40,247	41,403
Interest expense - deferred	4,620	4,620
Interest expense - amortization of deferred financing costs	2,369	2,368
Depreciation	23,131	22,874
Annual management fees	11,511	-
Total nonoperating expenses	81,878	71,265
Net income	$ 13,080	$ 5,315

Jeffries Ridge, LLC
NCHFA Project No. 9000963
Statements of Member's Deficit
Years Ended December 31, 2022 and 2021

Member's deficit, December 31, 2020	$	(1,005,394)
Net income		5,315
Member's deficit, December 31, 2021		(1,000,079)
Net income		**13,080**
Member's deficit, December 31, 2022	**$**	**(986,999)**

Jeffries Ridge, LLC
NCHFA Project No. 9000963
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	$ 13,080	$ 5,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23,131	22,874
Amortization of deferred financing costs	2,369	2,369
Change in assets and liabilities		
(Increase) decrease:		
Tenant accounts receivable	15,351	(8,142)
Accounts receivable, other	(1,250)	7,281
Miscellaneous prepaid expenses	6,566	(3,973)
Increase (decrease):		
Accounts payable	3,208	(9,155)
Accounts payable, management company	147	37
Accrued interest payable	4,519	3,015
Tenant security deposits	(1,005)	914
Prepaid rent	1,232	(52)
Net cash provided by operating activities	67,348	20,483
Cash flows from investing activities:		
Purchases of fixed assets	-	(5,697)
Net cash used by investing activities	-	(5,697)
Cash flows from financing activities:		
Principal payments on mortgages payable	(17,419)	(16,271)
Net cash used by financing activities	(17,419)	(16,271)
Net increase (decrease) in cash and cash equivalents	49,929	(1,485)
Cash and cash equivalents, beginning of year	259,102	260,587
Cash and cash equivalents, end of year	$ 309,031	$ 259,102
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 40,348	$ 43,008
Reconciliation of cash, deposits held in trust, and restricted deposits and funded reserves to the balance sheet:		
Cash and cash equivalents consist of the following:		
Cash - operations	$ 58,406	$ 20,878
Restricted deposits and funded reserves	250,625	238,224
	$ 309,031	$ 259,102

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

The original entity was formed as a limited partnership under the laws of the state of North Carolina on December 5, 1988, for the purpose of constructing and operating a rental housing project under Section 221(d) 4 of the National Housing Act. Effective December 20, 2007, the Partnership was converted to a North Carolina limited liability company and the name of the entity was changed to Jeffries Ridge, LLC (the "Company"). The project consists of 32 units located in Raleigh, North Carolina and is currently operating under the name of Jeffries Ridge.

Effective January 31, 2006, the partnership agreement was amended to reflect the sale of the limited partner interest to DHIC, Inc. ("DHIC") and the withdrawal of Progress Energy from the partnership. Effective December 20, 2007, Eastside Community Housing Organization, transferred 100% of its general partner interest to DHIC, which in turn transferred 100% of its interest to Community Revitalization and Preservation Corporation ("CRPC"), which became the sole member of the Company as of the date of transfer. CRPC and DHIC are related through common Board members and control.

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 members in accordance with the operating agreement and is reflected in their income taxes; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes..

Rental property

Rental property is stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the declining-balance and straight-line methods. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Depreciable lives are as follows:

Land improvements	15 to 27.5 years
Buildings	5 to 27.5 years
Building equipment	5 years

Rental income

Revenue is recognized from apartment rentals as accrued. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Company and tenants of the project are operating leases.

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 or 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.

Advertising

The Company expenses advertising costs as they are incurred. No advertising expense was incurred for the years ended December 31, 2022 and 2021.

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 lives of the related loans.

Reclassifications

Certain amounts presented in the 2021 financial statements have been reclassified to conform to the 2022 presentation.

Subsequent events

The Company evaluated the effect subsequent events would have on the financial statements through April 26, 2023, which is the date the financial statements were available to be issued.

2. Long-Term Liabilities

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

	2022	2021
First mortgage payable to Community Housing Capital and serviced by JPMorgan Chase bank, N.A. in the original principal amount of $742,212, secured by a first deed of trust on the rental property. Principal and interest at 6.75% are payable in monthly installments of $4,814 commencing on February 1, 2009. All remaining principal and interest shall be due and payable on January 30, 2039. Accrued interest amounted to $3,372 and $3,473 at December 31, 2022 and 2021. Interest expense amounted to $40,247 and $41,403 for the years ended December 31, 2022 and 2021, respectively. Interest paid amounted to $40,348 and $41,497 for the years ended December 31, 2022 and 2021, respectively.	**$ 580,070**	$ 597,489
Second mortgage with the City of Raleigh, collateralized by a second deed of trust on the rental property and its improvements and fixtures. The loan was modified on December 22, 2006 to adjust the interest rate from 8% to 2% (effective December 6, 2005) per annum and is payable annually based on 50% of surplus cash, as defined, with a maturity date of January 30, 2039. Accrued interest amounted to $22,112 and $17,492 at December 31, 2022 and 2021, respectively. Interest expense amounted to $4,620 for each of the years ended December 31, 2022 and 2021. Interest paid amounted to $0 and $1,511 for the years ended December 31, 2022 and 2021, respectively.	**231,006**	231,006
Third mortgage with the North Carolina Housing Finance Agency ("NCHFA") is collateralized by a deed of trust on the leasehold interest on the land with improvements, easements, rights, rents and royalties. All principal and interest payments are deferred until maturity. The loan was modified on December 18, 2006 to reduce the interest rate from 5% to 0% and to extend the maturity date from June 30, 2005 to March 1, 2020, which was subsequently extended to January 30, 2039 with a second modification on January 30, 2009. Accrued interest is $69,923 as of December 31, 2022 and 2021.	**50,000**	50,000
Fourth mortgage with NCHFA in the maximum amount of $570,740, collateralized by a leasehold deed of trust. The loan is non-interest bearing and no principal payments are due until maturity on January 30, 2039.	**570,740**	570,740
Less: unamortized debt issuance costs	**(29,013)**	(31,382)
	1,402,803	1,417,853
Less current maturities	**(18,649)**	(17,419)
	$ 1,384,154	$ 1,400,434

Aggregate principal maturities of the mortgages payable for each of the five years subsequent to December 31, 2022 are as follows:

2023	$	18,649
2024		19,856
2025		21,369
2026		22,878
2027		24,494
Thereafter		1,093,564
*		231,006
	$	1,431,816

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

3. Ground Lease

The Company has a ground lease agreement with the City of Raleigh. The annual rental is $1, and runs through December 5, 2039. The land is required to be used to provide affordable housing to persons of low and moderate income. Should the Company not meet the affordable housing provisions, the base rental will increase to $12,000 per annum, or 7% of the gross rents collected, whichever is greater.

4. Related-Party Transactions

Pursuant to a management services agreement dated January 1, 2009, the Company shall pay management services fees to DHIC equal to 100% of net income available for distribution, as defined.

The Company first pays DHIC an annual management fee. For the years ended December 31, 2022 and 2021, the annual management fee amounted to $10,000 and $0, respectively.

In addition to the annual management fee, the Company may pay Company management fees from surplus cash. For the year ended December 31, 2021, there was $0 surplus cash, as defined in the City Loan agreement. Accordingly, no payment was to be distributed for company management fees in 2022. A payment of $1,511, half of surplus cash, was available to be distributed for company management fees in 2020 and was paid in 2022.

5. Property Management

The Company has entered into a management agreement with Community Management Corporation ("CMC"), an unaffiliated company, to provide property management services to the project. The management agent is compensated at the rate of 7% of gross operating revenues received. The term of the agreement is two years and shall automatically renew. For the years ended December 31, 2022 and 2021, management fees amounted to $20,089 and $17,864, respectively. At December 31, 2022 and 2021, $1,513 and $1,366, respectively, of accrued management fees were included in accounts payable management company.

6. Reserve Funds

Project reserve fund

In accordance with the loan agreement with the city of Raleigh ("City"), the Company established a project reserve fund of $60,000 upon completion of project construction in 1990. Per the January 30, 2009 modified loan agreement with NCHFA, the required minimum balance is $26,000. In the event the balance is below, or falls below, the required minimum balance, any withdrawals from the reserve must be approved by the NCHFA. In the event of default on any loan, withdrawals must be approved by the City and NCHFA. An analysis of the project reserve fund for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 78,435**	$ 78,402
Interest (fees), net	**141**	33
Balance, ending	**$ 78,576**	$ 78,435

Replacement reserve

In accordance with the provisions of the loan agreement with NCHFA, restricted cash is held in a separate account approved by NCHFA to be used for replacement of property. Monthly deposits of $383 to the reserve were required to be made. Per the January 30, 2009 loan modifications, annual deposits of $350 per unit ($11,200) are required to be made, and any withdrawals from the reserve require the approval of NCHFA. In the event of default on any loan, withdrawals must be approved by both the City and NCHFA. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 139,220**	$ 141,043
Funding of reserve	**11,200**	11,200
Approved withdrawals	**(4,550)**	(13,082)
Interest (fees), net	**261**	59
Balance, ending	**$ 146,131**	$ 139,220

7. Contingencies, Risks and Uncertainties

The Company's sole asset is its 32-unit low-income housing complex located in Raleigh, North Carolina. The Company's operations are concentrated in the affordable housing real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the State Housing Agency. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the State Housing Agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Supplementary Information

Jeffries Ridge, LLC
NCHFA Project No. 9000963
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Rental income:		
Residential income	**$ 267,831**	$ 260,912
Interest income:		
Interest income	**$ 484**	$ 101
Other income:		
Other	**$ 7,869**	$ 8,387
Administrative:		
Office payroll and related expenses	**$ 4,308**	$ 4,059
Property management fee	**20,089**	17,864
Manager salaries	**19,621**	13,363
Bad debts (recoveries), net	**4,412**	942
Telephone	**1,037**	821
Office supplies	**3,254**	2,754
Miscellaneous	**3,541**	7,692
Management consulting	**-**	862
	$ 56,262	$ 48,357
Utilities:		
Electricity	**$ 5,822**	$ 4,809
Water	**592**	517
Sewer	**1,381**	420
	$ 7,795	$ 5,746
Professional fees:		
Auditing	**$ 10,374**	$ 5,610
Legal (net of recoveries)	**(189)**	3,744
	$ 10,185	$ 9,354

Jeffries Ridge, LLC
NCHFA Project No. 9000963
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Repairs and maintenance:		
Repairs and maintenance payroll	**$ 15,296**	$ 4,518
Grounds maintenance	**14,504**	12,898
Repairs supplies	**9,821**	28,727
Repairs contract	**26,578**	38,988
HVAC repairs and maintenance	**13,780**	15,733
Miscellaneous repairs	**952**	1,340
Painting/decorating	**5,091**	6,000
Janitor supplies/payroll	**136**	487
Exterminating	**1,155**	622
Security contract	**129**	232
Garbage and trash	**6,596**	7,370
	$ 94,038	$ 116,915

	2022	2021
Taxes and insurance:		
Property and liability insurance	**$ 6,874**	$ 6,429
Payroll taxes	**2,920**	1,353
Health insurance/employee benefits	**3,106**	4,111
Worker's compensation	**46**	555
	$ 12,946	$ 12,448