Primavera Seniors, LLC

NCHFA Project No. 9265014

Independent Auditor's Report and Financial Statements

December 31, 2022

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Independent Auditor's Report

Members
Primavera Seniors, LLC
Raleigh, NC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Primavera Seniors, LLC, NCHFA Project No. 9265014, which comprise the balance sheet as of December 31, 2022, and the related statements of operations, members' 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 Primavera Seniors, 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.

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 Primavera Seniors, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Primavera Seniors, 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 Primavera Seniors, 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 Primavera Seniors, 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, LLP

High Point, NC
March 22, 2023

Primavera Seniors, LLC
NCHFA Project No 9265014
Balance Sheet
December 31, 2022

ASSETS		
Current assets:		
Cash, construction	$	501,436
Total current assets		501,436
Rental property:		
Land		1,758,526
Construction in process		21,328,156
		23,086,682
Other assets:		
Refundable deposits		295,140
	$	23,883,258
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable, construction and development	$	3,412,313
Accounts payable, affiliate		896,596
Development fee payable		1,036,400
Accrued interest		97,652
Total current liabilities		5,442,961
Long-term liabilities:		
Construction loan payable, net of unamortized debt issuance costs of $998,361		12,659,352
Notes payable, net of unamortized debt issuance costs of $68,029		4,240,931
		16,900,283
Members' equity		1,540,014
	$	23,883,258

Primavera Seniors, LLC
NCHFA Project No 9265014
Statement of Operations
Year Ended December 31, 2022

Other income:	
Interest income	$ 530
Total income	530
Expenses:	
Administrative	1,298
Total operating expense	1,298
Loss from operations	(768)
Net loss	$ (768)

Primavera Seniors, LLC
NCHFA Project No 9265014
Statement of Members' Equity
Year Ended December 31, 2022

	Managing Member	Investor Member	Total
Balance, January 1, 2022	$ -	$ 1,475,182	$ 1,475,182
Contributions	-	65,600	65,600
Net loss	-	(768)	(768)
Balance, December 31, 2022	$ -	$ 1,540,014	$ 1,540,014

Primavera Seniors, LLC
NCHFA Project No 9265014
Statement of Cash Flows
Year Ended December 31, 2022

Cash flows from operating activities:	
Net loss	$ (768)
Net cash used by operating activities	(768)
Cash flows from investing activities:	
Investment in rental property	(10,255,219)
Net cash used by investing activities	(10,255,219)
Cash flows from financing activities:	
Member contributions	65,600
Proceeds from notes payable	1,694,903
Proceeds from construction loan payable	8,666,493
Net cash provided by financing activities	10,426,996
Net increase in cash	171,009
Cash, beginning of year	330,427
Cash, end of year	$ 501,436

Supplemental disclosure of cash flow information:	
Cash paid for interest, including capitalized interest of $300,382	$ 300,382

Supplemental disclosures of noncash investing activities:	
Construction costs, included in development fee payable	$ 976,800
Construction costs, included in accounts payable, affiliate	545,519
Construction costs, included in accounts payable, construction and development	2,948,920
Construction costs, included in accrued interest	97,652
	$ 4,568,891

Reconciliation of cash to balance sheet:	
Cash, construction	$ 501,436

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

Primavera Seniors, LLC (the "Company") was organized on August 19, 2020, for the purpose of acquiring, developing, constructing, leasing, managing, and operating a 164-unit apartment complex (the "project") for rental to seniors in Raleigh, North Carolina commonly known as "Primavera Seniors". The major activities of the Company are governed by the operating agreement and the loan agreements. The project is still under construction as of December 31, 2022.

In July of 2021, the operating agreement was amended to admit a new investor member, Wincopin Circle LLLP, and to permit the withdrawal of the original investor member, DHIC, Inc. ("DHIC"). Pursuant to a Transfer Agreement dated November 17, 2021, Wincopin Circle LLLP assigned its 99.99% membership interest to Enterprise Housing Partners XXXVII Limited Partnership. As a result, the Company had one managing member - Primavera Seniors Housing, Inc.; and one investor member - Enterprise Housing Partners XXXVII Limited Partnership.

The ownership of the Company is as follows:

Primavera Seniors Housing, Inc.	0.01%
Enterprise Housing Partners XXXVII Limited Partnership	99.99%
	100.00%

The Company 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.

Use of estimates

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

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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	10 years

Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. As the project has not yet been placed in service at December 31, 2022, depreciation has not yet commenced.

Debt issuance costs

Debt issuance costs represent costs incurred in conjunction with acquiring debt facilities. In accordance with GAAP, the debt issuance costs are presented as an offset of the related debt instruments within the liabilities section of the balance sheet. Amortization expense is included in interest expense on the accompanying statement of operations. The costs are amortized over the terms of the related debt using a method that approximates the effective interest method.

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.

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 2022.

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.

2. Members' Capital Contributions

The managing member is required to make a capital contribution of $100, none of which has been received as of December 31, 2022. The investor member is required to make capital contributions of $9,836,865, subject to equity adjustors. As of December 31, 2022, the investor member has contributed $1,541,100.

3. Notes Payable

Details of the notes payable at December 31, 2022 are as follows:

Note payable to the City of Raleigh in the maximum amount of $4,400,000, with interest accruing at 1%. During the construction period, no payments of principal and interest were due under the note. Beginning the first day of the month after 30 days from the issuance of the first certificates of occupancy for the project, monthly payments of principal and interest shall begin, ranging from $1,122 to $9,514; provided, however, that in no event shall any annual payment exceed 75% of the available surplus cash, as defined in the subordination agreement. All outstanding principal and interest, if any, shall be due and payable on the earlier of 30 years from the initial payment date, or December 31, 2053. As of December 31, 2022, the proceeds received under the loan amounted to $1,760,000. Interest incurred under the note during the year ended December 31, 2022 amounted to $8,507, all of which was capitalized. Accrued interest at December 31, 2022 amounted to $8,507. The note is secured by the second lien Deed of Trust on the property.	$	1,760,000
Note payable to the Wake County in the maximum amount of $3,000,000, with interest accruing at 1%. During the construction period, interest only payments shall begin one month after the first construction draw. Six months after the first certificate of occupancy is issued, annual payments of principal and interest shall begin, ranging from $3,038 to $77,459; provided, however, that the Company shall not be obligated, except as to the balloon payment, to make any periodic payments to the extent the payment would result in less than a 1.15 debt coverage ratio. All outstanding principal and interest, if any, shall be due and payable on August 1, 2053. As of December 31, 2022, the proceeds received under the loan amounted to $2,548,960. Interest incurred under the note during the year ended December 31, 2022 amounted to $27,310, all of which was capitalized. Accrued interest at December 31, 2022 amounted to $27,310. The note is secured by the third lien Deed of Trust on the property.		2,548,960
Less: unamortized debt issuance costs		(68,029)
	$	4,240,931

Total estimated principal maturities of the notes payable subsequent to December 31, 2022 are as follows:

	City of Raleigh	Wake County	Total
2023	$ -	$ -	$ -
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
Thereafter	-	-	-
*	1,760,000	2,548,960	4,308,960
	$ 1,760,000	$ 2,548,960	$ 4,308,960

** Future maturities cannot be reasonably determined at December 31, 2022.*

4. Construction to Permanent Financing

Pursuant to a Project Loan Agreement dated July 1, 2021, the Housing Authority of the City of Raleigh, North Carolina (“Raleigh Housing Authority”), agreed to make a mortgage loan to the Company in the maximum principal amount of $18,000,000. Raleigh Housing Authority made the Project Loan with the proceeds received from a Funding Loan Agreement with Fifth Third Commercial Funding, Inc. (the “Initial Funding Lender”) and U.S. Bank National Association (the “Fiscal Agent”). The Initial Funding Lender has agreed to fund the Funding Loan in installments to the Raleigh Housing Authority which will then be used by the Raleigh Housing Authority to fund the Project Loan to the Company in corresponding installments pursuant to the Project Loan Agreement.

Pursuant to the Multifamily Note between the Company and Raleigh Housing Authority, during the construction phase, commencing on September 1, 2021, the Company shall make monthly interest-only payments at a rate equal to (i) the product of (a) the then-applicable ICE LIBOR rate and (b) 79%, plus (ii) a margin of 2.25%, provided, however, that in no event shall the interest rate be less than 3.00%. As of December 31, 2022, the interest rate on this construction financing was 5.50875%. The loan is being serviced by Fifth Third Commercial Funding, Inc. during the construction phase. For the year ended December 31, 2022, interest incurred under the loan amounted to $349,322, all of which was capitalized. Interest paid during the year ended December 31, 2022 amounted to $300,382. Accrued interest as of December 31, 2022 amounted to $61,835. The outstanding principal balance of the construction loan was $12,659,352, net of deferred financing costs of $998,361. The note matures on August 1, 2041.

Subject to the Conditions of Conversion being met, as indicated in the Construction Phase Financing Agreement, which shall occur no later than August 1, 2024 (the “Forward Commitment Maturity Date”), the Project Loan will convert from the construction phase to the permanent phase. On the conversion date, Fifth Third Commercial Funding, Inc. shall deliver, and Bellwether Enterprise Real Estate Capital, LLC shall purchase the Funding Loan, and shall deliver the Funding Loan to Freddie Mac for purchase. The maximum Funding Loan principal at conversion is $14,757,000. This permanent first mortgage financing shall be for an estimated term of 204 months, amortized over 480 months, and maturing on August 1, 2041, with a balloon payment required at maturity. Bellwether Enterprise Real Estate Capital, LLC will be the servicer of the permanent first mortgage financing.

5. Related-Party Transactions

Accounts payable - affiliate

As of December 31, 2022, accounts payable, affiliate consisted of $896,596, in advances from DHIC for development and operational costs.

Development fee

The Company shall incur a development fee totaling $2,200,000 payable to DHIC for services rendered to the Company for overseeing the construction of the project. As of December 31, 2022, $1,698,400 of the total fee has been incurred and capitalized. As of December 31, 2022, $1,036,400 remained payable. The deferred portion of the development fee, as defined in the development services agreement, shall be repaid out of available cash flow, as defined in the operating agreement (see Note 7), and shall accrue interest at a rate of 8%. As of December 31, 2022, the final investor member contributions have not been received and, accordingly, the deferred portion of the development fee is not yet known. Any unpaid development fee and accrued interest thereon shall be due in full on or before the end of the tax credit compliance period.

Investor services fee

The Company is required to pay an affiliate of the investor member a cumulative, annual investor services fee of $8,000, to be increased annually by 3%. In the initial year of operations, the fee is to be prorated for the number of months that the Company receives rental income. The fee is to commence upon the later of 2023, or the first calendar year in which the Company receives rental income. This fee is compensation for property management oversight, tax credit compliance and monitoring and related services. The investor services fee is payable annually, out of the Company's available cash flow (see Note 7). No investor services fee was incurred for the year ended December 31, 2022.

Company administration fee

Beginning in the later of 2023 or the first calendar year the Company receives income, the Company shall pay to Primavera Seniors Housing, Inc., the administrator, over the term of the agreement, an annual company administration fee of $67,000. In the initial year of operations, the fee is to be prorated for the number of months that the Company receives rental income. The company administration fee shall increase at the rate of 3% per year. The company administration fee is paid out of the Company's available cash flow (see Note 7). No amount is deducted as an expense by the Company until such amount is paid. No company administration fee was incurred for the year ended December 31, 2022.

6. Reserves

Replacement reserve

The operating agreement requires the Company to fund a replacement reserve using cash flow from operations, as defined. Reserve additions of $250 per unit per year, increasing at 4% each year, are required to be made annually, commencing the second full month following the completion date of the project, as defined in the operating agreement. This reserve is utilized to fund major repairs, capital expenditures and replacements of capital items in the project. The managing member shall not utilize the replacement reserve for any capital expenditure which causes total withdrawals from the replacement reserve account to exceed $5,000 during any calendar year without written consent from the investor member. As of December 31, 2022, the replacement reserve has not yet been funded.

Operating reserve

The operating agreement requires the Company to fund an operating reserve account in the total amount of $760,750, consisting of an initial amount of $380,375 upon the payment of the fourth installment of the investor member's capital contribution, and an additional $380,375 upon the payment of the seventh installment of the investor member's capital contribution. PrimThe reserve shall be deposited into an interest-bearing segregated reserve account to fund operating expenses in excess of operating revenues. The managing member may not utilize the operating reserve until after the later of the stabilization date, as defined, or the conversion of all loans to permanent status. In addition, the managing member shall not utilize the operating reserve without written consent from the investor member. As of December 31, 2022, the investor member's fourth capital contribution has not been received, and, accordingly, the operating reserve account has not yet been funded.

Lease-up reserve

The operating agreement requires the Company to establish a lease-up reserve fund of $65,600 upon the payment of the second installment of the investor member's capital contribution. The Company shall utilize the lease-up reserve to pay operating expenses to the extent funds are not available from other sources until the later of the stabilization date, as defined in the operating agreement, or receipt of the conversion of all loans to permanent status. Upon achievement of 93% qualified occupancy, as defined, any balance remaining in the lease-up reserve account shall be transferred to the replacement reserve. The lease-up reserve was not funded as of December 31, 2022.

7. Distribution of Cash Flow

Payment of fees and other expenses contingent upon cash flow shall be made annually in the following order of priority:

1. To repay the City of Raleigh loan in accordance with its terms;
2. To repay the Wake County loan in accordance with its terms;
3. To the investor member, an amount equal to the credit deficiency;
4. To the investor member, an amount sufficient to pay federal income taxes on taxable income allocated to the investor member for such fiscal year by the Company, assuming the investor member is subject to the maximum corporate federal income tax rate then in effect;
5. To pay the Investor Services Fee in accordance with the Investor Services Agreement;
6. To fund the operating reserve up to the operating reserve amount;
7. To pay the deferred development fee, including accrued interest;
8. To the managing member to repay any operating deficit contribution, credit adjuster advance, additional advance, or development advance;
9. To pay the company administration fee in accordance with the Company Administration Agreement;
10. Any remaining cash flow shall constitute net cash flow which is distributable to the members in an amount of 90% to the managing member and 10% to the investor member.

8. Real Estate Tax Exemption

The managing member is wholly owned by a 501(c)(3) organization which qualifies the Company for full exemption for property taxes. The owner of the managing member is required to maintain in good standing its 501(c)(3) non-profit status. The tax-exemption is subject to change by an act of State Legislature. Such change may occur with little notice and would materially impact the rental operations of the project.

9. Construction Contract

The Company entered into a construction contract with Harold K. Jordan & Co., Inc., in April 2021 for services related to the construction of the project. The total construction contract amounts to $23,785,391, including change orders of $1,650,551. Total costs incurred under the construction contract through December 31, 2022 amounted to $17,004,677, all of which has been capitalized to the rental property. As of December 31, 2022, $3,395,484 remained payable, including retainage payable of $1,155,886.

10. Current Vulnerability Due to Certain Concentrations

The Company's sole asset is its 164-unit 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.

11. Operating Deficit Contribution

In accordance with the operating agreement, if at any time or from time to time after the later of the stabilization date or loan conversion, an operating deficit exists (as defined in the operating agreement), then the managing member shall contribute funds to the Company as a contribution to capital in an amount equal to the amount of the operating deficit. The managing member's maximum operating deficit contribution over the course of the agreement is $757,000. The managing member's obligation to make operating deficit contributions shall terminate on the date that the following have occurred simultaneously: (i) the project has operated at the required debt service coverage determined by the audited financial statements for a period of at least two consecutive fiscal years, which two year period shall have commenced not earlier than three years after the first day of the year in which the later of the stabilization date is achieved or loan conversion occurs, as defined in the operating agreement, (ii) the property tax exemption is in full force and effect (see Note 8) or the project has operated at the required debt service coverage ratio for the two year period without the property tax exemption, and (iii) the balance in the operating reserve equals or exceeds $760,750. Operating deficit contributions shall be repayable to the managing member, without interest, solely from cash flow, as defined in the operating agreement (see Note 7).

12. Subsequent Events

The Company evaluated the effect subsequent events would have on the financial statements through March 22, 2023, which is the date the financial statements were available to be issued.