The Commons at Highland Village, LLC

NCHFA Project No. 9001004

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

December 31, 2022 and 2021

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of The Commons at Highland Village, LLC, NCHFA Project No. 9001004, which comprise the balance sheets as of December 31, 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 The Commons at Highland Village, 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 (GAAP).

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 The Commons at Highland Village, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 The Commons at Highland Village, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Income and Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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 18, 2023

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
ASSETS		
Current assets:		
Cash	$ **155,783**	$ 43,716
Accounts receivable, tenants	**6,015**	130
Prepaid insurance	**4,268**	21,344
Total current assets	**166,066**	65,190
Restricted deposits and funded reserves:		
Cash, replacement reserve	**263,419**	226,699
Cash, tax and insurance escrow	**22,768**	105,138
Cash, operating reserve	**198,164**	198,128
Cash, tenant security deposits	**39,981**	39,407
	524,332	569,372
Rental property, at cost:		
Land	**1,040,024**	1,040,024
Building	**5,103,535**	5,100,193
Furnishings and equipment	**242,712**	242,712
	6,386,271	6,382,929
Accumulated depreciation	**(2,948,003)**	(2,800,070)
	3,438,268	3,582,859
	$ **4,128,666**	$ 4,217,421

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Balance Sheets
December 31, 2022 and 2021 **(2 pages)**

	2022	2021
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current portion of mortgages payable	**$ 60,550**	$ 58,063
Accounts payable	**10,286**	5,112
Accrued interest	**5,716**	5,716
Total current liabilities	**76,552**	68,891
Deposits and prepayment liabilities:		
Tenant security deposits	**39,980**	39,407
Prepaid rent	**3,317**	165
	43,297	39,572
Long-term liabilities:		
Mortgages payable, net of unamortized debt issuance costs of $10,842 in 2022 and $13,941 in 2021, less current maturities	**1,792,518**	1,850,814
Accrued interest, affiliate	**554,674**	525,064
	2,347,192	2,375,878
Member's equity	**1,661,625**	1,733,080
	$ 4,128,666	$ 4,217,421

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues:		
Gross rent potential	$ 531,654	$ 518,119
Less:		
Vacancies	(10,929)	(8,751)
Loss to lease	(2,582)	(2,280)
Concessions	(1,200)	(1,200)
Net rent revenue	516,943	505,888
Interest income	290	55
Other income	3,826	10,917
Total revenues	521,059	516,860
Operating expenses:		
Administrative	108,688	104,236
Utilities	40,916	39,507
Management fees	34,504	33,326
Repairs and maintenance	135,345	115,241
Taxes and insurance	18,500	16,458
Management services fee	5,000	7,200
Total operating expenses	342,953	315,968
Income from operations	178,106	200,892
Nonoperating expenses:		
Interest - mortgage loans	68,399	71,610
Deferred interest	29,610	29,610
Depreciation	149,494	148,148
Loss on disposal	2,058	1,822
Total nonoperating expenses	249,561	251,190
Net loss	$ (71,455)	$ (50,298)

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Statements of Member's Equity
Years Ended December 31, 2022 and 2021

Balance, December 31, 2020	$ 1,783,378
Net loss	(50,298)
Balance, December 31, 2021	1,733,080
Net loss	(71,455)
Balance, December 31, 2022	$ 1,661,625

See accompanying notes.

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Net cash flows from operating activities:		
Net loss	**$ (71,455)**	$ (50,298)
Adjustments to reconcile net loss to net cash provided by activities:		
Depreciation	**149,494**	148,148
Amortization of deferred financing costs	**3,099**	3,099
Deferred interest expense	**29,610**	29,610
Loss on disposal	**2,058**	1,822
Change in assets and liabilities		
(Increase) decrease:		
Accounts receivable, tenants	**(5,885)**	179
Prepaid insurance	**17,076**	(10,944)
Increase (decrease):		
Accounts payable	**5,174**	(5,636)
Accrued asset management fee	**-**	(5,400)
Accrued interest	**-**	(209)
Tenant security deposits	**573**	3,565
Prepaid rent	**3,152**	(5,461)
Net cash provided by operating activities	**132,896**	108,475
Net cash flows from financing activities:		
Purchase of fixed asset	**(6,961)**	(5,600)
Principal payments on mortgages payable	**(58,908)**	(55,589)
Net cash used by financing activities	**(65,869)**	(61,189)
Net increase in cash	**67,027**	47,286
Cash and restricted deposits and funded reserves, beginning of year	**613,088**	565,802
Cash and restricted deposits and funded reserves, end of year	**$ 680,115**	$ 613,088
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 65,300**	$ 68,720
Reconciliation of cash and restricted deposits and funded reserves to the balance sheet:		
Cash	**$ 155,783**	$ 43,716
Restricted deposits and funded reserves	**524,332**	569,372
	$ 680,115	$ 613,088

Notes to Financial Statements

1. Nature of Operations and Significant Accounting Policies

Nature of operations

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

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

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

Basis of accounting

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

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

Income taxes

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

Rental property

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

Land improvements	20 years
Building	40 years
Furnishings and equipment	5 to 10 years

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

Cash and cash equivalents

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

Use of estimates

The preparation of financial statements in conformity with 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.

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. 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.

Other assets

Deferred tax credit fees were amortized over 15 years.

Concentrations of credit risk

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

Debt issuance costs

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

2. Member's Capital Contributions

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

3. Mortgages Payable

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

	2022	2021
First mortgage loan with Mechanics and Farmers Bank, bearing interest at 7.25%, with all outstanding principal and accrued interest due June 1, 2024. The outstanding principal balance will be repaid with 215 consecutive monthly principal and interest payments of $8,100 beginning July 1, 2006 and continuing on the first day of each month and every month thereafter, and one final payment of $781,478 due June 1, 2024. Accrued interest amounted to $5,441 for each of the years ended December 31, 2022 and 2021. Interest expense amounted to $62,064 and $65,149 for the years ended December 31, 2022 and 2021, respectively. Interest paid amounted to $62,064 and $65,348 for the years ended December 31, 2022 and 2021, respectively. Deferred loan costs amortized to interest expense amounted to $3,099 for each of the years ended December 31, 2022 and 2021, respectively. The loan is secured by a deed of trust on the property.	**$ 836,324**	$ 871,466
Second mortgage loan payable to North Carolina Housing Finance Agency, with payments increasing every year, including interest at 1% due monthly through July 1, 2026, at which time all outstanding principal and interest is due. In 2022, monthly payments were $1,424 for January through July and $1,408 for August through December. Accrued interest amounted to $275 for each of the years ended December 31, 2022 and and 2021, respectively. Interest expense amounted to $3,236 and $3,362 for the years ended December 31, 2022 and and 2021, respectively. Interest paid amounted to $3,236 and $3,373 for the years ended December 31, 2022 and 2021, respectively. The loan is secured by a deed of trust on the property.	**316,086**	329,852
Third mortgage loan with Wake County, non-interest-bearing, with payments of $7,500 in years one through ten and $10,000 in years 11 through 19 beginning January 15, 2006. All outstanding principal is due January 1, 2025. The loan is secured by a deed of trust on the property.	**147,500**	157,500

	2022	2021
Fourth mortgage loan payable to DHIC, Inc. (“DHIC”), an affiliate of the sole member, bearing interest at 5.25%, with all outstanding principal and accrued interest due July 1, 2026. The loan is secured by a deed of trust on the property. Accrued interest amounted to 554,674 and $525,064 at December 31, 2022 and and 2021, respectively. Interest expense amounted to $29,610 for each of the years ended December 31, 2022 and and 2021.	**$ 564,000**	564,000
Less: unamortized debt issuance costs	**(10,842)**	(13,941)
	1,853,068	1,908,877
Less current maturities	**(60,550)**	(58,063)
	$ 1,792,518	$ 1,850,814

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

2023	$ 60,550
2024	822,771
2025	140,669
2026	839,920
	$ 1,863,910

4. Related-Party Transactions

Management services fee

Pursuant to a management services agreement dated August 1, 2020, the Company shall pay an annual management services fee to DHIC equal to 100% of net income available for distribution, as determined at the sole discretion of the manager (the sole member of the Company). For the years ended December 31, 2022 and 2021, management services fees of $5,000 and $7,200, respectively, were incurred and paid.

5. Property Management Agreement

The Company has entered into a management agreement with Community Management Corporation to provide property management services to the project. The management agent will be compensated at the rate of 6.63% of gross operating revenues received from the preceding month. The term of the agreement is three years from the date of initial occupancy and renews for successive terms automatically under certain conditions, as defined. Management fee expense for the years ended December 31, 2022 and 2021 was $34,504 and $33,326, respectively, of which $3,196 and $2,778, respectively, remained payable.

6. Commitments and Contingencies

Replacement reserve

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

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

	2022	2021
Balance, beginning	**$ 226,699**	$ 191,549
Funding	**36,568**	35,160
Interest earned, net of fees	**152**	(10)
Balance, ending	**$ 263,419**	$ 226,699

Operating reserve

The NCHFA loan agreement requires the Company to fund an operating reserve from contributions or permanent loan proceeds in the amount of $185,000 into a segregated reserve account to fund operating expenses and debt service in excess of operating revenues. Any withdrawals that would reduce the operating reserve below $185,000 are subject to NCHFA approval. An analysis of the reserve for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance, beginning	**$ 198,128**	$ 198,098
Interest earned, net of fees	**36**	30
Balance, ending	**$ 198,164**	$ 198,128

8. Current Vulnerability Due to Certain Concentrations

The Company's sole asset is its 68-unit low-income housing complex located in Cary, North Carolina. The Company's operations are concentrated in the affordable housing real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the State Housing Agency. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the State Housing Agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

9. Subsequent Events

The Company evaluated the effect subsequent events would have on the financial statements through April 18, 2023, which is the date the financial statements were available to be issued.

Supplementary Information

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Rental income:		
Residential income	$ 516,943	$ 505,888
Interest income:		
Interest income	$ 290	$ 55
Other income:		
Laundry and vending	$ 98	$ 299
Late fees	661	315
Application fees	1,400	580
Damages and cleaning fees	591	1,456
Grant revenue	-	4,850
Other income	1,076	3,417
	$ 3,826	$ 10,917
Administrative:		
Advertising/marketing/renting expenses	$ 2,232	$ 1,965
Office payroll and related expense	57,192	57,412
Office supplies	6,035	4,617
Accounting fees	12,984	8,500
Telephone	2,289	2,277
Payroll taxes	2,684	3,648
Bad debt expense	-	599
HOA/amenities	19,396	16,077
Miscellaneous	5,876	9,141
	$ 108,688	$ 104,236
Utilities:		
Water	$ 10,752	$ 11,026
Sewer	12,426	13,127
Electricity	17,738	15,354
	$ 40,916	$ 39,507
Management fees:		
Property management	$ 34,504	$ 33,326

The Commons at Highland Village, LLC
NCHFA Project No. 9001004
Schedules of Income and Expenses
Years Ended December 31, 2022 and 2021 **(2 pages)**

	2022	2021
Repairs and maintenance:		
Repairs and maintenance payroll	**$ 13,427**	$ 25,957
Repairs supplies	**37,222**	34,854
Painting and decorating	**2,974**	1,033
Repairs contracts	**57,580**	32,377
Grounds maintenance	**15,387**	11,784
Janitor and cleaning contract	**742**	1,392
Garbage and trash	**8,013**	7,844
	$ 135,345	$ 115,241
Taxes and insurance:		
Real estate taxes	**$ 269**	$ 267
Property insurance	**18,231**	16,191
	$ 18,500	$ 16,458
Management services fees:		
Management services fee	**$ 5,000**	$ 7,200
Interest expense:		
Interest expense - Mechanics and Farmers	**$ 65,163**	$ 68,248
Interest expense - NCHFA	**3,236**	3,362
Interest expense - DHIC	**29,610**	29,610
	$ 98,009	$ 101,220
Depreciation and amortization:		
Depreciation	**$ 149,494**	$ 148,148