

Harborlight House LLC

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2022 and 2021

Harborlight House LLC

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Independent Auditor's Report

To the Managing Member
Harborlight House LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Harborlight House LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, members' equity (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 Harborlight House 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 Harborlight House 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 Harborlight House LLC's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 Harborlight House 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 Harborlight House 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 audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Certain Revenues and Expenses are presented for purposes of additional analysis and is 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.

CohnReznick LLP

Boston, Massachusetts
March 21, 2023

Harborlight House LLC
Balance Sheets
December 31, 2022 and 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Current assets		
Cash	\$ 93,613	\$ 50,973
Tenant accounts receivable	1,205	615
Accounts receivable - subsidy	6,964	5,923
Prepaid expenses	8,095	17,844
Total current assets	<u>109,877</u>	<u>75,355</u>
Restricted deposits and funded reserves		
Replacement reserve	179,528	179,939
Operating reserve	276,695	275,959
Total restricted deposits and funded reserves	<u>456,223</u>	<u>455,898</u>
Rental property		
Building and improvements	7,175,652	7,171,328
Land improvements	3,825	3,825
Furniture and equipment	79,159	66,982
Total rental property	<u>7,258,636</u>	<u>7,242,135</u>
Accumulated depreciation	<u>(1,223,017)</u>	<u>(1,036,396)</u>
Land	<u>6,035,619</u>	<u>6,205,739</u>
Land	350,000	350,000
Total rental property	<u>6,385,619</u>	<u>6,555,739</u>
Other assets		
Deferred tax credit fees, net	<u>9,116</u>	<u>10,256</u>
Total other assets	<u>9,116</u>	<u>10,256</u>
Total assets	<u><u>\$ 6,960,835</u></u>	<u><u>\$ 7,097,248</u></u>

Harborlight House LLC
Balance Sheets
December 31, 2022 and 2021

Liabilities and Members' Equity (Deficit)

	2022	2021
Current liabilities		
Accounts payable	\$ 4,733	\$ 3,625
Accrued expenses	20,248	15,385
Total current liabilities	24,981	19,010
Prepaid liability		
Prepaid rent	6,671	7,630
Total prepaid liability	6,671	7,630
Long-term liabilities		
Mortgages payable (long-term)	5,249,573	5,248,046
Accrued interest payable - mortgages payable	298,583	257,867
Deferred development fee payable and accrued interest	404,325	412,217
Total long-term liabilities	5,952,481	5,918,130
Commitments and contingencies	-	-
Members' equity (deficit)	976,702	1,152,478
Total liabilities and members' equity (deficit)	\$ 6,960,835	\$ 7,097,248

See Notes to Financial Statements.

Harborlight House LLC
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Revenue		
Rental income	\$ 409,921	\$ 400,710
Vacancies and concessions	(26,041)	(45,871)
Other operating income	71,276	67,467
Total revenue	455,156	422,306
Operating expenses		
Salaries and employee benefits	130,307	128,108
Repairs and maintenance	71,968	73,421
Utilities	65,362	63,704
Property management fee	25,857	24,172
Real estate taxes	23,851	23,572
Property insurance	28,302	25,527
Miscellaneous operating expenses	52,477	50,592
Total operating expenses	398,124	389,096
Net operating income	57,032	33,210
Other income (expense)		
Interest income	1,222	726
Interest expense - mortgages payable	(42,243)	(42,231)
Interest expense - deferred development fee payable	(4,026)	(4,135)
Depreciation	(186,621)	(186,484)
Amortization	(1,140)	(1,140)
Total other income (expense)	(232,808)	(233,264)
Net loss	\$ (175,776)	\$ (200,054)

See Notes to Financial Statements.

Harborlight House LLC

Statements of Members' Equity (Deficit) Years Ended December 31, 2022 and 2021

	Managing member	Investor member	Total members' equity (deficit)
Balance, January 1, 2021	\$ 3,732	\$ 1,348,800	\$ 1,352,532
Net loss	(20)	(200,034)	(200,054)
Balance, December 31, 2021	3,712	1,148,766	1,152,478
Net loss	(17)	(175,759)	(175,776)
Balance, December 31, 2022	\$ 3,695	\$ 973,007	\$ 976,702
Members' percentage interest	0.01%	99.99%	100.00%

See Notes to Financial Statements.

Harborlight House LLC
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net loss	\$ (175,776)	\$ (200,054)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	186,621	186,484
Amortization	1,140	1,140
Fair value interest adjustment	1,527	1,515
Changes in:		
Tenant accounts receivable	(590)	(77)
Accounts receivable - subsidy	(1,041)	101
Prepaid expenses	9,749	(10,583)
Accounts payable	1,108	(2,329)
Accrued expenses	4,863	4,249
Accrued interest payable - mortgages payable	40,716	40,716
Accrued interest payable - deferred development fee	(109)	(227)
Prepaid rent	(959)	1,191
	<u>67,249</u>	<u>22,126</u>
Cash flows from investing activities		
Expenditures on rental property	(16,501)	-
Payments of development fee	(7,783)	(16,287)
	<u>(24,284)</u>	<u>(16,287)</u>
Net cash used in investing activities		
	<u>42,965</u>	<u>5,839</u>
Cash and restricted cash, beginning	<u>506,871</u>	<u>501,032</u>
Cash and restricted cash, end	<u>\$ 549,836</u>	<u>\$ 506,871</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 4,135</u>	<u>\$ 4,363</u>

See Notes to Financial Statements.

Harborlight House LLC

Notes to Financial Statements December 31, 2022 and 2021

Note 1 - Organization and nature of operations

Harborlight House LLC (the "Company") was formed as a limited liability company under the laws of the Commonwealth of Massachusetts on February 20, 2014, for the purpose of acquiring, rehabilitating and operating a low-income residential apartment complex for the elderly. The Project consists of 30 units located in Beverly, Massachusetts and is currently operating under the name of Harborlight House (the "Project").

The Company shall continue in full force and effect until December 31, 2066, unless sooner dissolved or terminated in accordance with the provisions of the First Amended and Restated Operating Agreement (the "Operating Agreement") dated August 31, 2015.

Pursuant to the Operating Agreement, net profits, losses and tax credits are generally allocated 0.01% to the Managing Member, Harborlight House MM LLC, and 99.99% to the Investor Member, MHEF Eastern Fund I LLC.

The building of the Project has qualified for and been allocated low-income housing credits pursuant to Internal Revenue Code Section 42 ("Section 42"), which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. The building of the Project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. In addition, Harborlight House LLC has executed a Tax Credit Regulatory Agreement and Declaration of Restrictive Covenants which requires the utilization of the Project pursuant to Section 42 for a minimum of 30 years, even if the Company disposes of the Project. The tax credits commenced in 2016 and run through 2026.

Note 2 - Summary of significant accounting policies

New accounting pronouncements

The Company adopted Accounting Standards Update 2016-02 (as amended), *Leases* ("Topic 842") on January 1, 2022 ("Adoption Date"). Additionally, the Company elected and applied the following transition practical expedients:

- To apply the provisions of Topic 842 at the Adoption Date, instead of applying them to the earliest comparative period presented in the financial statements.
- The package of practical expedients permitting the Company to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases.

The Company accounted for its existing operating leases with residential tenants of the property as operating leases. Adopting Topic 842 in accounting for residential tenant leases did not result in adjustments to the financial statements.

Use of estimates

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

Harborlight House LLC

Notes to Financial Statements December 31, 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.

Rental property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives of 40 years for the building and improvements, 20 years for land improvements, and 10 years for furniture and equipment by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used.

Impairment of long-lived assets

In accordance with the accounting guidance for impairment or disposal of long-lived assets, the Company reviews its rental property and certain intangibles to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows, then recorded amounts of the assets will be reduced to their fair value. No impairment losses have been recognized during the years ended December 31, 2022 and 2021.

Deferred tax credit fees and amortization

Tax credit fees of \$17,096 are being amortized over the 15-year compliance period using the straight-line method. Accumulated amortization as of December 31, 2022 and 2021 is \$7,980 and \$6,840, respectively. Estimated amortization expense for the ensuing years through December 31, 2027 is expected to be \$1,140 annually.

Rental income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Company and the tenants of the property are operating leases.

Advertising costs

Advertising costs are expensed as incurred.

Income taxes

The Company has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to take any tax positions in order to qualify as a pass-through entity. The Company is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Company has no other tax positions which must be considered for disclosure. Income tax returns filed by the Company are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2019 remain open.

Harborlight House LLC

Notes to Financial Statements December 31, 2022 and 2021

Note 3 - Mortgages and notes payable

MassDocs loans

The Company has entered into five loan agreements to provide subordinated financing for the Project. The terms and the provisions of these loans are described below.

The Company entered into a MassDocs Mortgage and Security Agreement and MassDocs Affordable Housing Restriction as part of the Participating Lenders' note agreements. The mortgage agreement provides for a second mortgage interest, *pari passu*, between the Participating Lenders, in the real estate and the related personal property of the Company, an assignment of rents and leases, and all the Company's rights, title, and interest in and to all contracts related to the construction, use and operation of the Project. All five loans are due and payable in their entirety at maturity; however, the maturity dates may be extended in accordance with the provisions of the individual promissory notes for a period up to the original term of the loan. Additionally, except as otherwise required, each loan may be prepaid, in whole, or in part, at any time without premium or penalty with the consent of the lender, in its sole discretion.

The liability of the Company under the Participating Lenders' notes is limited to the underlying value of the real estate collateral.

DHCD HOME loan

The Commonwealth of Massachusetts, acting by and through the Department of Housing and Community Development ("DHCD"), provided financing to the Company in the form of a promissory note in the original amount of \$400,000. The note bears interest at a rate of 2.74% per annum, compounded annually. All interest, principal, and other payments shall be due and payable on August 10, 2046, the maturity date. At both December 31, 2022 and 2021, the outstanding balance on the loan was \$400,000. For both of the years ended December 31, 2022 and 2021, interest incurred on the loan amounted to \$10,960. At December 31, 2022 and 2021, accrued interest payable was \$80,373 and \$69,413, respectively.

MHP HSF loan

The Massachusetts Housing Partnership Fund Board ("MHP") provided financing to the Company under the Housing Stabilization and Investment Trust Fund program ("HSF") in the form of a promissory note in the original amount of \$1,010,000. The note is noninterest-bearing. All principal and other payments due under the note shall be due and payable on August 10, 2066, the maturity date. At both December 31, 2022 and 2021, the outstanding balance on the loan was \$1,005,000.

CEDAC HIF II loan

The Community Economic Development Assistance Corporation ("CEDAC") provided financing to the Company under the Housing Innovations Fund II program ("HIF II") in the form of a promissory note in the original amount of \$250,000. The note bears interest at a rate of 2% per annum. The note provides for annual payments based on Gross Cash Receipts in excess of 105% of Gross Cash Expenditures for the previous year, payable to the extent of available surplus cash after certain other priorities as set forth in the Operating Agreement (see Note 8). All interest, principal and other payments due under this note shall be due and payable on August 10, 2056, the maturity date. The note was recorded by the Company at its fair value in the amount of \$180,795 at the acquisition of the property on August 31, 2015. The fair value of the debt does not represent the value for which the debt could be settled with the lender. At both December 31, 2022 and 2021, the outstanding principal balance on the loan at face value was \$250,000. At December 31, 2022 and 2021, the outstanding balance on the loan at fair value was \$191,716 and \$190,189, respectively. For the years ended December 31, 2022 and 2021, interest incurred on the loan amounted to

Harborlight House LLC

Notes to Financial Statements December 31, 2022 and 2021

\$6,527 and \$6,515, respectively. The interest expense includes a fair value interest adjustment to properly reflect the principal amortization of the debt at fair value in the amount of \$1,527 and \$1,515, respectively, during the years ended December 31, 2022 and 2021. At December 31, 2022 and 2021, accrued interest was \$36,667 and \$31,667, respectively.

CEDAC HIF VI loan

CEDAC provided financing to the Company under the Housing Innovations Fund VI program ("HIF VI") in the form of a promissory note in the original amount of \$1,000,000. The note is noninterest-bearing. All principal and other payments due under the note are payable on August 10, 2046, the maturity date. At both December 31, 2022 and 2021, the outstanding principal balance of the note was \$1,000,000.

CEDAC HPSTF loan

CEDAC provided financing to the Company under the Housing Preservation and Stabilization Trust Fund program ("HPSTF") in the form of a promissory note in the original amount of \$1,000,000. The note is noninterest-bearing. All principal and other payments are due and payable on August 10, 2056, the maturity date. At both December 31, 2022 and 2021, the outstanding principal balance was \$1,000,000.

NSHC HOME loan

The North Shore Home Consortium ("NSHC"), acting by and through the City of Beverly, Massachusetts, provided financing under the HOME Investment Partnership program ("HOME") in the form of a promissory note in the original amount of \$150,000. The note bears interest at a rate of 2.82%. The mortgage agreement provides for a third mortgage interest, *pari passu*, between NSHC and the City of Beverly, in the real estate and the related personal property of the Company, and an assignment of rents and leases. All outstanding principal, interest, and other payments are due on August 31, 2045, the maturity date. At both December 31, 2022 and 2021, the outstanding principal balance was \$150,000. For both of the years ended December 31, 2022 and 2021, interest incurred on the loan amounted to \$4,230. At December 31, 2022 and 2021, accrued interest payable was \$31,020 and \$26,790, respectively.

City of Beverly CDBG loan

The City of Beverly, Massachusetts, provided financing to the Company under the CDBG Property Rehabilitation Deferred Loan program ("CDBG") in the form of a promissory note in the original amount of \$50,000. The note bears interest at a rate of 2.82%. The mortgage agreement provides for a third mortgage interest, *pari passu*, between the City of Beverly and NSHC, in the real estate and the related personal property of the Company, and an assignment of rents and leases. All principal and interest are due on August 31, 2055, the maturity date. At both December 31, 2022 and 2021, the outstanding principal balance was \$50,000. For both of the years ended December 31, 2022 and 2021, interest incurred on the loan amounted to \$1,410. At December 31, 2022 and 2021, accrued interest amounted to \$10,340 and \$8,930, respectively.

HCP FHLB loan

Harborlight Community Partners, Inc. ("HCP"), an affiliate of the Managing Member, acting by and through the Federal Home Loan Bank of Boston ("FHLB") under the Affordable Housing Program ("AHP"), provided financing to the Company in the form of a promissory note in the original amount of \$500,000. The note is noninterest-bearing and is secured by a fourth mortgage interest in the real estate and the related personal property of the Company. All outstanding principal and other payments are due and payable on September 1, 2031, the maturity date. At both December 31, 2022 and 2021, the outstanding balance on the loan was \$500,000.

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Notes to Financial Statements December 31, 2022 and 2021

HCP seller loan

HCP provided financing to the Company in the form of a promissory note in the original amount of \$677,857. The note bears interest at a rate of 2.82% per annum. The mortgage agreement provides for a fifth mortgage interest, pari passu, between the seller and sponsor notes, in the real estate and the related personal property of the Company. The note requires annual payments in an amount up to but not to exceed \$56,045 from available Cash Flow after certain other priorities as set forth in the Operating Agreement (see Note 8). The note is due and payable in full on August 31, 2065, the maturity date. At both December 31, 2022 and 2021, the outstanding balance on the loan was \$677,857. For both of the years ended December 31, 2022 and 2021, interest incurred on the loan amounted to \$19,116. At December 31, 2022 and 2021, accrued interest payable amounted to \$140,183 and \$121,067, respectively.

HCP sponsor distribution loan

HCP provided financing to the Company in the form of a promissory note in the original amount of \$255,000. The note is noninterest-bearing. The mortgage agreement provides for a fifth mortgage interest, pari passu, between the seller and sponsor notes, in the real estate and the related personal property of the Company. The note is due and payable in full on August 31, 2065, the maturity date. At both December 31, 2022 and 2021, the outstanding balance on the loan was \$255,000.

HCP sponsor CPA loan

HCP provided financing to the Company in the form of a promissory note in the original amount of \$20,000. The note is noninterest-bearing. The mortgage agreement provides for a fifth mortgage interest, pari passu, between the seller and sponsor notes, in the real estate and the related personal property of the Company. The note is due and payable in full on August 31, 2065, the maturity date. At both December 31, 2022 and 2021, the outstanding balance on the loan was \$20,000.

Note 4 - Related party transactions

Management fee

The Company has entered into an agreement with HCP in connection with the management of the Project. Pursuant to the management agreement, HCP is entitled to a management fee of 5.7% of gross collections, as defined. For the years ended December 31, 2022 and 2021, management fees of \$25,857 and \$24,172, respectively, were charged to operations and paid.

The Company incurred accounting and data processing fees to HCP of \$18,000 and \$18,000, respectively, for the years ended December 31, 2022 and 2021.

Personnel working at the Project site are employees of HCP and therefore the Company reimburses HCP for the actual salaries and related taxes and benefit costs. Salaries and related taxes and benefit costs incurred and paid during the years ended December 31, 2022 and 2021 amounted to \$130,307 and \$128,108, respectively.

From time to time HCP, may pay for certain operating costs on behalf of the Company. As of December 31, 2022 and 2021, the Company has no obligation to HCP for such operating payables.

Harborlight House LLC

Notes to Financial Statements December 31, 2022 and 2021

Development Services Agreement

Pursuant to the terms of the Developer Services Agreement, HCP was entitled to a fee for its services related to the rehabilitation of the Project in the amount of \$969,370. The development fee had been fully earned during 2016. Any amount of the development fee not paid at or prior to the time of the Break Even Installment shall bear interest at a rate of 1% per annum. The full amount of the development fee, together with any accrued interest, shall be payable no later than December 31, 2025.

During 2022, the Company made payments of \$11,918 to HCP, of which \$4,135 was applied to accrued interest and \$7,783 was applied to the development fee payable balance. During 2021, the Company made payments of \$20,650 to HCP, of which \$4,363 was applied to accrued interest and \$16,287 was applied to the development fee payable balance. Both the 2022 and 2021 payments were made from net cash flow from operations. As of December 31, 2022 and 2021, the Company has a liability to HCP for development fee payable of \$400,299 and \$408,082, respectively. For the years ended December 31, 2022 and 2021, interest incurred on the deferred development fee payable amounted to \$4,026 and \$4,135, respectively. As of December 31, 2022 and 2021, accrued interest on the deferred development fee payable amounted to \$4,026 and \$4,135, respectively.

Note 5 - Statements of cash flows

The following table provides a reconciliation of cash and restricted cash reported within the balance sheets that sum to the total of the same such amounts in the statements of cash flows:

	<u>2022</u>	<u>2021</u>
Cash	\$ 93,613	\$ 50,973
Restricted cash		
Replacement reserve	179,528	179,939
Operating reserve	<u>276,695</u>	<u>275,959</u>
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 549,836</u>	<u>\$ 506,871</u>

Amounts included in restricted cash are comprised of reserves, including the replacement reserve and operating reserve as required by regulatory authority and the Operating Agreement.

Harborlight House LLC

Notes to Financial Statements December 31, 2022 and 2021

Note 6 - Restricted deposits and funded reserves

Replacement reserve

In accordance with the Operating Agreement, the Company shall establish and maintain a replacement reserve account to be available to fund certain capital improvements to the Project. As of December 31, 2022 and 2021, the required monthly deposit to the reserve was \$876 and \$869, respectively. The activity within the replacement reserve for the years ended December 31, 2022 and 2021, is as follows:

	2022	2021
Balance, January 1	\$ 179,939	\$ 170,149
Deposits	11,396	9,564
Interest income	486	226
Withdrawals	(12,293)	-
	<u>179,528</u>	<u>179,939</u>
Balance, December 31	<u>\$ 179,528</u>	<u>\$ 179,939</u>

Operating reserve

In accordance with the Operating Agreement, the Company shall establish and maintain an operating reserve with a minimum balance of \$265,466 (the "Operating Reserve Minimum"). The operating reserve may be used by the Managing Member to eliminate any operating deficits occurring in the operation of the Project. The activity within the operating reserve for the years ended December 31, 2022 and 2021, is as follows:

	2022	2021
Balance, January 1	\$ 275,959	\$ 275,460
Interest income	736	499
	<u>276,695</u>	<u>275,959</u>
Balance, December 31	<u>\$ 276,695</u>	<u>\$ 275,959</u>

Note 7 - Contributions

The Operating Agreement requires the Managing Member to make capital contributions totaling \$100 to the Company. The Operating Agreement requires the Investor Member to make capital contributions totaling \$2,205,186 to the Company. As of December 31, 2022, the Investor Member made capital contributions of \$2,274,153 to the Company, which included an upward adjuster of \$68,967, all of which was contributed in prior years.

Note 8 - Distributions

Net Cash Flow, as defined by the Operating Agreement, shall be distributed as follows:

- i. First, to make required deposits to the Operating Reserve;
- ii. Second, to pay any accrued and unpaid portion of the Development Fee pursuant to the Development Services Agreement;
- iii. Third, to pay any amounts then due and payable under the Seller Acquisition Loan;

Harborlight House LLC

Notes to Financial Statements December 31, 2022 and 2021

- iv. Fourth, to pay any amounts then due and payable under the Sponsor Loans;
- v. Fifth, to pay any amounts then due and payable under the CEDAC HIF II loan; and
- vi. Sixth, 90% of available remaining Net Cash Flow to make additional deposits to the Operating Reserve.

Any remaining Net Cash Flow shall be distributed as follows:

- i. First, if the Managing Member has made Operating Deficit Capital Contributions, to the Managing Member in an amount up to the aggregate amount of such Operating Deficit Capital Contributions not theretofore repaid to the Managing Member; and
- ii. Second, the balance, if any, 99.99% to the Investor Member and 0.01% to the Managing Member.

During 2022, distributions of Net Cash Flow of \$11,918 were paid towards the balance of the deferred development fee payable and accrued interest thereon (see Note 4). During 2021, distributions of Net Cash Flow of \$20,650 were paid towards the balance of the deferred development fee payable and accrued interest thereon (see Note 4).

Proceeds from a sale or refinancing will be distributed in accordance with the terms of the Operating Agreement.

Note 9 - Rental assistance payments

The Company has entered into an agreement for a Massachusetts Renter Voucher Program Payment Contract ("MRVP") with Community Teamwork, Inc. ("CTI"), who also serves as the contract administrator. The Company is to receive subsidies for qualified tenants of 30 units at the Project for a term of 15 years expiring on April 1, 2031. Under the Contract, the Project may not increase rents charged to tenants without DHCD's approval. For the years ended December 31, 2022 and 2021, rental assistance payments under this contract amounted to \$250,527 and \$236,698, respectively.

In addition to the rental assistance program, CTI will also pay a subsidy for supportive services as provided by the Company or its designee. Supportive services subsidy maximum is \$2,500 annually per unit, paid monthly. For the years ended December 31, 2022 and 2021, resident services income amounted to \$71,249 and \$67,291, respectively.

Note 10 - Concentration of credit risk

The Company maintains its cash balances in accounts in one bank. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Company has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2022 and 2021.

Harborlight House LLC

Notes to Financial Statements December 31, 2022 and 2021

Note 11 - Commitments and contingencies

Tax credits

The Project's low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the Investor Member.

Note 12 - Current vulnerability due to certain concentrations

The Company's principal asset is a 30-unit apartment project located in Beverly, Massachusetts. The Company's operations are concentrated in the multifamily 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 state and local agencies, including, but not limited to, DHCD and CEDAC. Such administrative directives, rules and regulations are subject to change. 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.

Note 13 - Taxable losses

Reconciliations of the financial statement net loss to the income tax loss of the Company for the years ended December 31, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Net loss per financial statements	\$ (175,776)	\$ (200,054)
Adjustments		
Excess of tax depreciation over book	(53,395)	(57,313)
Rents collected in advance	<u>(959)</u>	<u>1,191</u>
Net loss per tax return	<u>\$ (230,130)</u>	<u>\$ (256,176)</u>

Note 14 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through March 21, 2023 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Supplementary Information

Harborlight House LLC

Supplementary Information

Schedules of Certain Revenues and Expenses Years Ended December 31, 2022 and 2021

	2022	2021
Rental income		
Rent revenue - gross potential	\$ 159,394	\$ 164,012
Tenant assistance payments	250,527	236,698
Total rental income	\$ 409,921	\$ 400,710
Vacancies and concessions		
Apartments vacancies	\$ 26,041	\$ 45,871
Total vacancies and concessions	\$ 26,041	\$ 45,871
Other operating income		
Damages income	\$ -	\$ 176
Resident services income	71,249	67,291
Miscellaneous other income	27	-
Total other operating income	\$ 71,276	\$ 67,467
Salaries and employee benefits		
Salaries - administrative	\$ 77,169	\$ 77,298
Salaries - maintenance	25,321	23,152
Payroll taxes	12,674	10,641
Health insurance and other benefits	14,507	16,294
Workmen's compensation insurance	636	723
Total salaries and employee benefits	\$ 130,307	\$ 128,108
Repairs and maintenance		
Exterminating	\$ 820	\$ 771
Grounds	2,032	3,535
Painting, decorating and cleaning	23,539	27,672
Repairs and maintenance - other than contracts	12,467	11,499
Repairs and maintenance - contracts	25,533	24,566
Elevator	5,950	3,882
Miscellaneous maintenance expenses	1,627	1,496
Total repairs and maintenance	\$ 71,968	\$ 73,421

Harborlight House LLC

Supplementary Information

Schedules of Certain Revenues and Expenses Years Ended December 31, 2022 and 2021

	2022	2021
Utilities		
Electricity	\$ 38,647	\$ 37,522
Water	2,156	2,102
Sewer	4,155	4,192
Trash removal	3,513	3,089
Gas	13,190	13,361
Cable	3,701	3,438
	<u>\$ 65,362</u>	<u>\$ 63,704</u>
Miscellaneous operating expenses		
Office supplies and expense	\$ 13,495	\$ 11,092
Training and travel	125	320
Telephone and answering service	3,941	3,640
Other rent expense	1	13
Resident services	175	124
Miscellaneous administrative	1,249	2,092
Advertising and newspaper	-	500
Audit	13,930	13,000
Accounting	18,000	18,000
Other professional fees	720	720
Other taxes, licenses and insurance	841	1,091
	<u>\$ 52,477</u>	<u>\$ 50,592</u>
Interest expense - mortgages payable		
Interest expense - DHCD HOME loan	\$ 10,960	\$ 10,960
Interest expense - CEDAC HIF II loan	6,527	6,515
Interest expense - seller loan	19,116	19,116
Interest expense - NSHC HOME loan	4,230	4,230
Interest expense - CDBG loan	1,410	1,410
	<u>\$ 42,243</u>	<u>\$ 42,231</u>

See Independent Auditor's Report.



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