River Run Ann Arbor Limited Dividend Housing Association Limited Partnership

Financial Report

December 31, 2021 and 2020

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Table of Contents

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Independent Auditors' Report

To the Partners of
River Run Ann Arbor Limited Dividend
Housing Association Limited Partnership
Ann Arbor, Michigan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of River Run Ann Arbor Limited Dividend Housing Association Limited Partnership, which comprise the balance sheet as of December 31, 2021 and 2020, and the related statements of operations, changes in partners' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of River Run Ann Arbor Limited Dividend Housing Association Limited Partnership, as of December 31, 2021 and 2020, 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 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 River Run Ann Arbor Limited Dividend Housing Association Limited Partnership, 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 these 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 River Run Ann Arbor Limited Dividend Housing Association Limited Partnership's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 River Run Ann Arbor Limited Dividend Housing Association Limited Partnership'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 River Run Ann Arbor Limited Dividend Housing Association Limited Partnership'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.

Yeo & Yeo, P.C.

Lansing, Michigan
March 23, 2022

River Run Ann Arbor Limited Dividend Housing Association Limited Partnership

Balance Sheet

December 31, 2021 and 2020

	2021	2020
Assets		
Cash - operating	$ **260,871**	$ 188,332
Accounts receivable	**45,520**	19,571
Accounts receivable - other	**3,214**	53,299
Funded reserves		
Replacement reserves	**293,469**	301,145
Operating reserve	**216,339**	216,312
Insurance and tax escrow	**45,771**	40,570
Tenant security deposits	**39,958**	39,735
Prepaid expenses	**4,112**	3,838
Tax credit and compliance fees	**39,157**	50,905
Investment in rental property, at cost		
Land	**728,000**	728,000
Building and improvements	**12,272,832**	12,266,350
Furniture and fixtures	**825,182**	825,182
Accumulated depreciation	**(2,654,173)**	(2,319,053)
Total assets	**$ 12,120,252**	12,414,186
Liabilities and Partners' Equity		
Accounts payable		
Trade	**$ 48,266**	106,374
Related parties	**114,608**	67,395
Prepaid rent	**8,771**	5,672
Accrued liabilities		
Accrued interest	**2,445**	2,484
Accrued asset management fees	**5,971**	5,797
Other accrued liabilities	**23,199**	14,448
Tenant security deposits	**39,516**	39,737
Long-term debt		
Mortgage note payable, net of unamortized debt issuance costs of $ 34,177 and $ 36,283	**431,500**	436,936
Related party notes payable, net of unamortized debt issuance costs of $ 89,108 and $ 95,032	**3,288,451**	3,282,526
Related party promissory note	**1,040,000**	1,040,000
Accrued interest - related party	**979,876**	823,756
Total liabilities	**5,982,603**	5,825,125
Partners' equity	**6,137,649**	6,589,061
Total liabilities and partners' equity	**$ 12,120,252**	$ 12,414,186

See Accompanying Notes to the Financial Statements

River Run Ann Arbor Limited Dividend Housing Association Limited Partnership

Statement of Operations

For the Years Ended December 31, 2021 and 2020

	2021	2020
Revenue		
Rental income net of concessions and vacancy loss	$ 1,164,599	$ 1,097,253
Less: bad debt	(1,775)	-
Net rental income	1,162,824	1,097,253
Ann Arbor Housing Commission DDA Grant	-	51,909
Other income	3,810	5,953
Total revenue	1,166,634	1,155,115
Expenses		
Grounds maintenance	55,354	65,546
Insurance - general	41,123	37,889
Janitorial and cleaning	20,784	20,784
Management fees	69,998	66,192
Miscellaneous	5,693	12,551
Office expenses	22,221	13,162
Professional fees	13,645	18,605
Property administration	242,110	191,140
Repairs and maintenance	316,513	360,558
Supplies	33,059	24,057
Telephone	1,958	1,928
Electricity	139,350	129,988
Gas	39,818	38,623
Water	60,501	43,018
Total operating expenses	1,062,127	1,024,041
Operating income	104,507	131,074
Other expenses		
Depreciation	335,120	477,628
Tax credit and compliance fees	11,747	11,747
Interest expense	203,081	194,500
Asset management fee	5,971	5,797
Total other expenses	555,919	689,672
Net loss	$ (451,412)	$ (558,598)

See Accompanying Notes to the Financial Statements

River Run Ann Arbor Limited Dividend Housing Association Limited Partnership

Statement of Changes in Partners' Equity

For the Years Ended December 31, 2021 and 2020

	Total	General Partners	Limited Partners
Partners' equity, January 1, 2020	7,147,659	$ (219)	$ 7,147,878
Net loss - 2020	(558,598)	(50)	(558,548)
Partners' equity, December 31, 2020	6,589,061	(269)	6,589,330
Net loss - 2021	(451,412)	(41)	(451,371)
Partners' equity, December 31, 2021	$ 6,137,649	$ (310)	$ 6,137,959

River Run Ann Arbor Limited Dividend Housing Association Limited Partnership

Statement of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows operating activities		
Net loss	**$ (451,412)**	$ (558,598)
Items not requiring cash		
Depreciation	**335,120**	477,628
Tax credit and compliance fees	**11,747**	11,747
Debt issuance costs	**8,030**	8,050
Bad debt	**1,775**	-
Interest expense	**156,121**	156,431
Changes in operating assets and liabilities		
Accounts receivable	**(27,724)**	(40,244)
Accounts receivable - other	**50,085**	-
Prepaid expenses	**(274)**	(155)
Trade accounts payable	**(58,108)**	(74,942)
Trade payables to related parties	**47,213**	(10,016)
Prepaid rent	**3,099**	(581)
Accrued interest	**(39)**	2,484
Other accrued liabilities	**8,925**	3,653
Tenant security deposits liability	**(221)**	1,987
Net cash provided by (used in) operating activities	**84,337**	(22,556)
Cash flows from investing activities		
Purchase of property and equipment	**(6,482)**	-
Gain on disposal of fixed asset	**-**	1,834
Net cash provided by (used in) investing activities	**(6,482)**	1,834
Cash flows from financing activities		
Principal payments on mortgage note payable	**(7,541)**	(6,509)
Net change in cash and restricted cash	**70,314**	(27,231)
Cash and restricted cash at beginning of year	**786,094**	813,325
Cash and restricted cash at end of year	**$ 856,408**	$ 786,094
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 38,969**	$ 27,535
Supplemental schedule of non-cash financing activities		
Noncash financing activity - payment of interest by increasing outstanding note payable accrued interest	**$ 156,121**	$ 156,431

See Accompanying Notes to the Financial Statements

Note 1 – Nature of Business

River Run Ann Arbor Limited Dividend Housing Association Limited Partnership (the "Partnership") was formed as a limited partnership to develop real property located in Ann Arbor, Michigan and to rehabilitate, own, maintain, and operate the property as a 116-unit multifamily apartment complex known as River Run Apartments (the "Project"). Partnership operations commenced on September 1, 2014 in accordance with the amended and restated agreement of limited partnership. The Project is an occupied rehab, and all units of the Project have been converted by the Partnership from traditional public housing to project-based voucher units under the HUD Rental Assistance Demonstration (RAD) program. The Partnership shall continue in existence until December 31, 2113 unless the Partnership is sooner dissolved in accordance with the partnership agreement. The Partnership has qualified for and been allocated low-income housing tax credits pursuant to Internal Revenue Service Code Section 42.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting
The Partnership maintains its accounting records and prepares its financial statements on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America.

Classification
The financial affairs of the Partnership do not generally involve a business cycle since the realization of assets and the liquidation of liabilities are usually dependent on the Partnership's circumstances. Accordingly, the classification of current assets and current liabilities is not considered appropriate and has been omitted from the balance sheet.

Cash Equivalents
For the statement of cash flows, all unrestricted investments with original maturities of three months or less are cash equivalents.

Tenant Accounts Receivable
Tenant accounts receivable are stated at net rent amounts. The Partnership considers any tenant accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts are determined to be uncollectible, they are charged to operations at that time.

Tax Credit Fees and Compliance Fees
Prepaid tax credit fees are amortized over the compliance period beginning in 2015. Amortization expense for the tax credit and compliance fees is $11,747 for both the years ended December 31, 2021 and 2020 and estimated amortization expense for each of the ensuing years through December 31, 2024 is $11,747. Accumulated amortization as of December 31, 2021 and 2020 is $ 78,314 and $66,566, respectively.

Property and Equipment
Land, building, and other depreciable assets are recorded at cost, less accumulated depreciation computed as follows:

	Years	Method
Buildings and improvements	15 - 40	Straight line
Furniture and fixtures	5	Straight line

Improvements over $5,000 are capitalized, while expenditures for maintenance and repairs are charged to expense when incurred.

Impairment of Assets
The Partnership recognizes impairment of long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. No impairment of the Partnership's rental property has occurred.

Revenue Recognition
The Partnership's primary revenue stream is rent charges for residential units under leases with durations of one year or less. The Partnership records revenue for such leases at gross potential rent as prescribed by HUD. The rental value of vacancies and other concessions are stated separately to present net rental income on the accrual basis. Subsidy revenue for low-income eligible tenants is provided under a project rental assistance contract. This contract requires tenants to contribute a portion of the contract rent based on formulas prescribed by the Department of Housing and Urban Development (HUD). The difference from the calculated subsidy and the contract rent is paid by the tenant.

The Partnership believes that such both rental and subsidy income streams are exempted from compliance with ASC 606 due to their inclusion under current and future lease standards. Revenue streams subject to ASC 606 include: tenant reimbursement of consumption – based costs paid by the Partnership on behalf of the tenant, such as utilities and other monthly fees. Additional revenue includes laundry, vending, pet and parking fees as well as damages. Such fees are ancillary to the lease process and are recognized as revenue at the point in time such fees are incurred.

Income Taxes
The Partnership is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by the Partnership. Partners are taxed individually on their pro-rata ownership share of the Partnership's earnings. The Partnership's net income or loss is allocated among the members in accordance with the Partnership's operating agreement.

Partner Allocation of Profits and Losses
Profits or losses from operations of the Partnership are allocated annually between the general partners and the limited partners at 0.009 percent and 99.991 percent, respectively.

Low-income Housing Credits
The Partnership has qualified for and has been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42), which regulates the use of the Project's units as to occupant eligibility and unit gross rent, among other requirements. The Project's units must meet the provisions of these regulations during each of 15 consecutive years in order for the Partnership to remain qualified to receive the credits. The Partnership has also executed a Regulatory Agreement, which requires the utilization of the Project pursuant to Section 42 for a minimum of 30 years, even if disposition of the Project by the Partnership occurs.

Concentration of Credit Risk
The Partnership is required to disclose concentration of credit risk regardless of the degree of such risk. Financial instruments that potentially subject the Partnership to concentration of credit risk consist principally of cash. The Partnership places its cash with FDIC insured financial institutions. Although such balances may exceed the federally insured limits at certain times during the year, they are, in the opinion of management, subject to minimal risk. At December 31, 2021, the Partnership had deposits with financial institutions of $363,909 that were uncollateralized and uninsured by FDIC insurance.

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 and disclosures. Accordingly, actual results could differ from those estimates.

Debt Issuance Costs

Debt issuance costs, net of accumulated amortization are reported as a direct reduction from the face amount of the mortgage and note payables to which such costs related. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Subsequent Events

Management has evaluated subsequent events through March 23, 2022, which is the date the financial statements were available to be issued.

Note 3 - Cash and Restricted Cash

The following table provides a reconciliation cash and restricted cash reported that sum to the total in the statements of cash flows as of December 31:

	2021	2020
Cash - operating	$ 260,871	$ 188,332
Replacement reserve	293,469	301,145
Operating reserve	216,339	216,312
Insurance and tax escrow	45,771	40,570
Tenant security deposits	39,958	39,735
	$ 856,408	$ 786,094

Note 4 – Funded Reserves

In accordance with the partnership and/or loan agreements, the Partnership has established the following reserves:

A reserve for replacement has been established to be used for capital improvements over the life of the Project. The initial monthly contributions were made in the amount of $350 per unit per year, increasing by 3 percent per year thereafter and the Special Limited Partner's approval is required for any withdrawals. For years ended December 31, 2021 and 2020, the monthly contributions were $394 and $383 per unit per year.

An operating reserve has been established to meet operating expenses and debt service of the Partnership that exceed operating revenues available for payment thereof to the extent provided in the partnership agreement. Any withdrawals are required to have the Special Limited Partner's approval before the withdrawal. If the balance of the operating reserve falls below $165,000, the operating reserve shall be replenished from net cash flow.

Monthly deposits are made with the mortgagor in a separate account to be used for the payment of insurance.

The following summarizes the activity in the funded reserve accounts for the year ended December 31, 2021:

	Beginning Balance	Additions and Interest	Withdrawals	Ending Balance
Replacement reserve	$ 301,145	$ 45,824	$ 53,500	$ 293,469
Operating reserve	216,312	27	-	216,339
Insurance and tax	40,570	46,324	41,123	45,771

Note 5 – Mortgage Note Payable

The Partnership has a note payable to Cinnaire Investment Corporation in the original amount of $500,000. Interest shall accrue on this note at a rate of 6.3 percent with monthly principal and interest installments in the amount of $3,095 and a term of 18 years. A balloon payment of approximately $314,000 is due on October 1, 2034. The note is collateralized by the property.

Debt issuance costs related to the above note, net of accumulated amortization, totaled $34,178 and are amortized over the term of the related mortgage using an effective interest rate of 7.3 percent.

Aggregate maturities of the note payable for the years ending December 31, are as follows:

December 31, 2022	$ 8,030
December 31, 2023	8,551
December 31, 2024	9,105
December 31, 2025	9,696
December 31, 2026	10,325
Thereafter	419,970
Unamortized debt issuance costs	(34,177)
	$ 431,500

Note 6 – Capital Leases

The Partnership leases the land and buildings of the Project under a long-term lease arrangement that is classified as a capital lease. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreement, $1,040,000 was due within the partial first year and payments of $1 are due annually through December 31, 2113.

At December 31, 2021 and 2020, property under capital lease consists of land and buildings with a gross cost of $1,040,000 and $1,040,000, respectively. Accumulated depreciation on the property under the capital lease was $57,200 and $49,400 for the years ended December 31, 2021 and 2020, respectively.

Note 7 – Related Party Transactions

Related Party Payable

Related party payables primarily consist of amounts owed to Ann Arbor Housing Commission, an affiliate of the general partner, for management fees and reimbursements of operating expenses. The amounts outstanding at December 31, 2021 and 2020 is $6,978 and $5,890, all of which is due on demand and noninterest bearing.

Notes Payable

The Partnership has a note payable to Ann Arbor Housing Commission, an affiliate of the general partner. The note, in the amended amount of $2,877,559, accrues interest at a rate of 1 percent. Payments on the note are fully deferred until maturity. The note matures on September 17, 2044. The note is secured by the property, subordinate to the mortgage note payable. For the years ended December 31, 2021 and 2020, interest expense was $28,776 and $28,776, respectively. Accrued interest on the note totaled $208,082 and $179,306 as of December 31, 2021 and 2020, respectively.

The Partnership has entered into another note with Ann Arbor Housing Commission in the original amount of $500,000 and payable to Chase Bank USA, National Association per an allonge dated April 30, 2015. Interest shall accrue on this note at a rate of 1 percent. Payments on the notes are fully deferred until maturity. The note matures on April 30, 2065. The note is secured by the property, subordinate to the mortgage and note payable. The note is subject to and must comply with the Federal Home Loan Bank of Pittsburgh's Affordable Housing Program's retention period as described in the mortgage. The total amount outstanding December 31, 2021 is $500,000. For the years ended December 31, 2021 and 2020, interest expense was $5,000 and $5,000 and accrued interest totaled $33,608 and $28,608 as of December 31, 2021 and 2020, respectively.

The Partnership entered into a promissory note payable to Ann Arbor Housing Commission, an affiliate of a general partner, in the amount of $1,040,000. The note bears interest at 8 percent compounded annually. The note and interest shall be paid from available cash flow and mature on September 17, 2044. The note is secured by the Project, subordinate to the note payable. For the years ended December 31, 2021 and 2020, interest expense on the note was $131,717 and $122,655, respectively. The accrued interest as of December 31, 2021 and 2020 was $738,186 and $615,841, which is included in related party accrued interest.

For years ended December 31, 2021 and 2020, debt issuance costs related to the above notes, net of accumulated amortized interest, totaled $89,108 and $95,032, respectively. The costs are being amortized over the term of the related mortgages using an effective interest rate of 1.2%.

Payroll Reimbursements

The Partnership reimburses the City of Ann Arbor for payroll costs. For the years ended December 31, 2021 and 2020, reimbursed payroll costs totaled $366,041 and $320,964, respectively. At December 31, 2021 and 2020, $107,630 and $67,395 remained payable and is included in related party payables.

Management Fees

The Partnership has contracted with a management agent, which is an affiliate of a general partner, for conducting the rental operations of the Partnership. Management fees are calculated at 6 percent of gross operating revenue. Management fees expense for the years ended December 31, 2021 and 2020, totaled $69,998 and $66,192, respectively. At December 31, 2021 and 2020, $6,002 and $5,843 remained payable and is included in related party payables.

Asset Management Fee

Beginning in January 2015, the Partnership will incur a cumulative annual asset management fee of $5,000 payable to an affiliate of one of the limited partners for an annual review of the operations of the Partnership and the apartment complex. This fee will increase by 3 percent each year and be payable from available cash flow from operations as detailed in the partnership agreement. The asset management fee expense incurred for years ended December 31, 2021 and 2020 is $5,971 and $5,797, respectively.

Operating Deficit Guaranty

As provided for in the partnership agreement, the general partner will provide loans to the Partnership up to but not to exceed $330,000 for operating deficits incurred in the five years after stabilized operations has occurred and until debt service coverage ratio of 1.15:1 for each two consecutive six-month periods at the end of such five-year period and the operating reserve has a minimum balance of at least $165,000. The loans are unsecured, noninterest bearing, and will be repaid from future excess cash flows of the Partnership. There has been no advance of this loan as of December 31, 2021.

Note 8 - Current Vulnerability Due to Certain Concentrations

The Partnership's sole asset is a 116-unit apartment project. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of federal regulatory agencies, including, but not limited to, the Internal Revenue Code. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the Internal Revenue Service. 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.