West Arbor Limited Dividend Housing Association Limited Partnership

Financial Report

December 31, 2024 and 2023

YEO & YEO

BUSINESS SUCCESS PARTNERS

Table of Contents

Independent Auditors' Report

To the Partners of
West 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 West Arbor Limited Dividend Housing Association Limited Partnership, which comprise the balance sheet as of December 31, 2024 and 2023, 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 West Arbor Limited Dividend Housing Association Limited Partnership, as of December 31, 2024 and 2023, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of West 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 West 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 West 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 West 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
February 14, 2025

West Arbor Limited Dividend
Housing Association Limited Partnership
Balance Sheet
December 31, 2024 and 2023

	2024	2023
Assets		
Cash - operating	**$ 105,267**	$ 119,796
Accounts receivable	**30,889**	14,149
Prepaid expenses	**348**	696
Funded reserves		
Reserve for replacement	**161,248**	139,102
Operating reserve	**218,035**	215,197
Insurance and tax escrow	**53,281**	44,084
Tenant security deposits	**24,920**	22,420
Tax credit fee and compliance fees	**35,838**	40,839
Investment in rental property, at cost		
Building and improvements	**12,355,346**	12,355,346
Furniture and fixtures	**493,275**	488,178
Accumulated depreciation	**(3,087,204)**	(2,693,425)
Total assets	**10,391,243**	10,746,382
Liabilities and partners' equity		
Accounts payable		
Trade	**26,208**	22,535
Related parties	**47,976**	53,293
Prepaid rent	**8,050**	11,989
Accrued liabilities		
Accrued interest	**9,724**	-
Accrued asset management fees	**6,149**	5,970
Other accrued liabilities	**17,085**	16,100
Tenant security deposits	**24,047**	22,420
Long-term debt		
Mortgage note payable, net of unamortized debt issuance costs of $ 50,654 and $ 53,358	**2,032,996**	2,070,593
Related party notes payable	**2,114,668**	2,114,668
Accrued interest - related parties	**761,885**	632,007
Total liabilities	**5,048,788**	4,949,575
Partners' equity	**5,342,455**	5,796,807
Total liabilities and partners' equity	**$ 10,391,243**	$ 10,746,382

West Arbor Limited Dividend
Housing Association Limited Partnership
Statement of Operations
For the Years Ended December 31, 2024 and 2023

	2024	2023
Revenue		
Rental income, net of rent concessions and vacancy	**$ 902,865**	$ 793,960
Less: bad debt	**(5,986)**	(2,000)
Net rental income	**896,879**	791,960
Other income	**33,649**	21,425
Total revenue	**930,528**	813,385
Expenses		
Grounds maintenance	**41,060**	32,764
Insurance - general	**38,717**	36,082
Management fees	**55,832**	48,758
Miscellaneous	**4,959**	2,502
Office expenses	**10,443**	4,542
Professional fees	**20,538**	16,209
Property administration	**150,036**	117,351
Repairs and maintenance	**188,006**	149,285
Supplies	**24,060**	31,417
Electric	**100,466**	80,819
Gas	**19,428**	22,274
Water and sewer	**58,753**	51,625
Total operating expenses	**712,298**	593,628
Operating income	**218,230**	219,757
Other expenses		
Property damage deductible	**10,000**	-
Depreciation	**393,779**	393,133
Tax credit and compliance fees	**5,001**	5,001
Asset management fee	**6,149**	5,970
Interest expense	**257,653**	252,958
Total other expenses	**672,582**	657,062
Net loss	**$ (454,352)**	$ (437,305)

See Accompanying Notes to the Financial Statements

West Arbor Limited Dividend
Housing Association Limited Partnership
Statement of Changes in Partners' Equity
For the Years Ended December 31, 2024 and 2023

	Total	General Partners	Limited Partners
Partners' equity, January 1, 2023	$ 6,234,112	$ (286)	$ 6,234,398
Net loss - 2023	(437,305)	(44)	(437,261)
Partners' equity, December 31, 2023	5,796,807	(330)	5,797,137
Net loss - 2024	(454,352)	(45)	(454,307)
Partners' equity, December 31, 2024	$ 5,342,455	$ (375)	$ 5,342,830

See Accompanying Notes to the Financial Statements

West Arbor Limited Dividend
Housing Association Limited Partnership
Statement of Cash Flows
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Net loss	$ (454,352)	$ (437,305)
Items not requiring cash		
Depreciation	393,779	393,133
Tax credit and compliance fees	5,001	5,001
Debt issuance costs	2,570	2,570
Bad debt	5,986	2,000
Interest expense	129,878	88,329
Changes in operating assets and liabilities		
Accounts receivable	(22,726)	9,674
Prepaid expenses	348	(358)
Trade accounts payable	3,673	(7,976)
Payables to related parties	(5,317)	20,097
Prepaid rent	(3,939)	5,066
Accrued interest	9,724	(10,149)
Other accrued liabilities	1,164	6,759
Tenant security deposits liability	1,627	844
Net cash provided by operating activities	67,416	77,685
Cash flows from investing activities		
Purchase of property and equipment	(5,097)	(16,000)
Cash flows from financing activities		
Principal payments on mortgage note payable	(40,167)	(44,902)
Net change in cash and restricted cash	22,152	16,783
Cash and restricted cash at beginning of year	540,599	523,816
Cash and restricted cash at end of year	$ 562,751	$ 540,599
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 189,071	$ 172,067
Noncash financing activity - payment of interest by increasing outstanding note payable accrued interest	$ 129,878	$ 88,329
Supplemental schedule of non-cash investing activities		
Fixed assets acquired through accounts payable	$ -	$ 16,000

Note 1 – Nature of Business

West 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 46-unit multifamily apartment complex known as West Arbor Apartments (the "Project"). Partnership operations commenced on August 27, 2015 in accordance with the amended and restated agreement of limited partnership. The Project participates in the HUD Rental Assistance Demonstration (RAD) program and 31 units of the Project have project-based voucher units under the HUD Rental Assistance Demonstration (RAD) program, while the remaining 15 units of the Project have project-based voucher units under the HUD Section 8 program. The units were substantially complete and considered placed in service between December 21, 2016 and February 28, 2017. The Partnership shall continue in existence until July 1, 2114, 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.

The Partnership purchased the buildings of the Project under a long-term arrangement. Under the terms of the agreement, an upfront payment was due within the partial first year and payments of $1 are due annually through December 31, 2116. The seller has a revisionary interest in the property after the Partnership makes its final payment in 2116.

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 2017. Amortization expense for the tax credit and compliance fees was $5,001 and $5,001 for the years ended December 31, 2024 and 2023, respectively, and estimated amortization is approximately $5,000 for each of the next five years. Accumulated amortization as of December 31, 2024 and 2023 was $39,172 and $34,171, 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	20 - 40	Straight line
Furniture and fixtures	5 - 10	Straight line

Improvements over $5,000 are capitalized, while expenditures for maintenance and repairs are charged to expense when incurred. Rebates received on capitalized assets are recognized by reducing the cost of the asset by the amount of the rebate received.

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 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.

Governmental Assistance

The Partnership has accounted for the proceeds from the grants by analogy to International Accounting Standard ("IAS 20"), *Accounting for Government Grants and Disclosure of Government Assistance*, and its principles surrounding the recognition of grants related to income. Recognition of proceeds related to grants is on a systematic and rational basis when it becomes probable that the Partnership has complied with the terms and conditions of the grant and in the period in which the corresponding costs related to the grant are recognized. Grants received based on a capital expenditure are recognized by reducing the cost of the asset by the amount of the grant.

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.

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 Tax 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, 2024, the Partnership had deposits with financial institutions of $68,442 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.

Subsequent Events
Management has evaluated subsequent events through February 14, 2025, which is the date the financial statements were available to be issued.

Note 3 – Cash and Restricted Cash

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

	2024	2023
General operating cash	$ 105,267	$ 119,796
Tenant security deposits	24,920	22,420
Real estate tax and insurance escrow	53,281	44,084
Replacement reserve	161,248	139,102
Operating reserve	218,035	215,197
Total cash and restricted cash	$ 562,751	$ 540,599

Note 4 – Funded Reserves

Reserves to be funded include replacement and operating reserves. Replacement reserves are designed for capital improvements over the life of the Project otherwise funded by cash flows. The initial monthly contributions were made in the amount of $300 per unit per year, increasing by 3 percent per year thereafter. For the years ended December 31, 2024 and 2023, the annual contributions were $348 per unit and $338 per unit per year, respectively. Operating reserves will be used for operation deficits to the extent provided in the partnership agreement. The reserves were funded during 2016. 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 for the year ended December 31, 2024:

	Beginning Balance	Additions and Interest	Withdrawals	Ending Balance
Reserve for replacement	$ 139,102	$ 22,246	$ 100	$ 161,248
Operating reserve	215,197	2,838	-	218,035
Insurance and tax	44,084	47,960	38,763	53,281

Note 5 – Mortgage Note Payable

The Partnership has a note payable to Cinnaire Investment Corporation in the original amount of $2,350,000. Interest shall accrue on this note at a rate of 5.6 percent with monthly principal and interest installments in the amount of $13,491 and a term of 30 years. The note is collateralized by the project. Debt issuance costs related to the above note totaled $68,604 and are being amortized over the term of the related mortgage using an effective interest rate of 5.9 percent.

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

December 31, 2025	$ 46,384
December 31, 2026	49,050
December 31, 2027	51,868
December 31, 2028	54,848
December 31, 2029	58,000
Thereafter	1,823,500
Unamortized debt issuance costs	(50,654)
	$ 2,032,996

Note 6 – 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, 2024 and 2023 was $4,831 and $4,898, respectively, all of which is due on demand and noninterest bearing.

Notes Payable

The Partnership entered into a promissory note payable with Ann Arbor Housing Commission, an affiliate of a general partner in the amount up to $1,839,668 with a stated interest rate of 6 percent compounding annually. As of December 31, 2024 and 2023, the outstanding balance of the note is $1,614,668, which is the amount that has been drawn to date. The note shall be paid from available cash flows and matures on August 27, 2045. The note is secured by the property, subordinate to the mortgage note payable. For the years ended December 31, 2024 and 2023, interest expense was $117,822 and $120,216 and accrued interest as of December 31, 2024 and 2023 was $719,571 and $594,694.

The Partnership has another note payable to Ann Arbor Housing Commission in the original amount of $500,000. Interest shall accrue on this note at a rate of 1 percent. No payment of principal or interest are due until the notes matures on July 22, 2036. The note is secured by the property, subordinate to the mortgage note and promissory note payable. The total amount outstanding at December 31, 2024 is $500,000. For the years ended December 31, 2024 and 2023, interest expense was $5,000 for both years and accrued interest as of December 31, 2024 and 2023 was $42,314 and $37,314.

Payroll Reimbursement

The Partnership reimburses the City of Ann Arbor for payroll costs. For the years ended December 31, 2024 and 2023, reimbursed payroll costs totaled $229,863 and $179,733, respectively. At December 31, 2024 and 2023, $43,414 and $48,395 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 2024 and 2023 and totaled $55,832 and $48,758, of which $4,815 and $4,825, respectively, remains payable at December 31, 2024 and 2023 and is included in related party payables.

Asset Management Fee

Beginning in 2017, the Partnership will incur a cumulative annual asset management fee up to $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 in 2024 and 2023 was $6,149 and $5,970, respectively.

Note 7 – Current Vulnerability Due to Certain Concentrations

The Partnership’s sole asset is a 46-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.