West Arbor Limited
Dividend Housing Association
Limited Partnership

Financial Report

December 31, 2021 and 2020

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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, 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 West 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 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
April 4, 2022

West Arbor Limited Dividend
Housing Association Limited Partnership
Balance Sheet
December 31, 2021 and 2020

	2021	2020
Assets		
Cash - operating	$ 164,450	$ 165,297
Accounts receivable	22,509	8,130
Funded reserves		
Reserve for replacement	102,355	87,334
Operating reserve	211,961	211,939
Insurance and tax escrow	26,489	22,215
Tenant security deposits	19,653	20,976
Tax credit fee and compliance fees	50,840	55,841
Investment in rental property, at cost		
Building and improvements	12,339,346	12,339,346
Furniture and fixtures	476,310	476,310
Accumulated depreciation	(1,908,781)	(1,517,034)
Total assets	$ 11,505,132	$ 11,870,354
Liabilities and partners' equity		
Accounts payable		
Trade	$ 17,412	$ 54,919
Related parties	42,818	3,656
Prepaid rent	10,674	4,402
Accrued liabilities		
Accrued interest	10,332	10,505
Other accrued liabilities	9,460	10,021
Tenant security deposits	20,409	20,976
Long-term debt		
Mortgage note payable, net of unamortized debt issuance costs of $ 58,639 and $ 61,209	2,149,582	2,184,107
Related party notes payable	2,114,668	2,114,668
Accrued interest - related parties	477,076	423,508
Total liabilities	4,858,058	4,826,762
Partners' equity	6,647,074	7,043,592
Total liabilities and partners' equity	$ 11,505,132	$ 11,870,354

See Accompanying Notes to the Financial Statements

West 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 rent concessions and vacancy	**$ 735,616**	$ 704,768
Less: bad debt	**(24)**	-
Net rental income	**735,592**	704,768
Other income	**6,527**	6,711
Total revenue	**742,119**	711,479
Expenses		
Grounds maintenance	**22,937**	19,196
Insurance - general	**22,888**	21,171
Management fees	**44,527**	42,677
Miscellaneous	**7,294**	12,404
Office expenses	**2,365**	4,504
Professional fees	**9,270**	10,581
Property administration	**88,233**	86,931
Repairs and maintenance	**122,201**	110,365
Supplies	**22,620**	17,109
Electric	**77,113**	78,355
Gas	**22,398**	19,514
Water and sewer	**45,369**	40,847
Total operating expenses	**487,215**	463,654
Operating income	**254,904**	247,825
Other expenses		
Depreciation	**391,747**	391,747
Tax credit and compliance fees	**5,001**	5,001
Asset management fee	**5,627**	5,463
Interest expense	**249,047**	257,926
Total other expenses	**651,422**	660,137
Net loss	**$ (396,518)**	$ (412,312)

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, 2021 and 2020

	Total	General Partners	Limited Partners
Partners' equity, January 1, 2020	$ 7,455,904	$ (164)	$ 7,456,068
Net loss - 2020	(412,312)	(41)	(412,271)
Partners' equity, December 31, 2020	7,043,592	(205)	7,043,797
Net loss - 2021	(396,518)	(40)	(396,478)
Partners' equity, December 31, 2021	$ 6,647,074	$ (245)	$ 6,647,319

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, 2021 and 2020

	2021	2020
Cash flows operating activities		
Net loss	**$ (396,518)**	$ (412,312)
Items not requiring cash		
Depreciation	**391,747**	391,747
Tax credit and compliance fees	**5,001**	5,001
Debt issuance costs	**2,570**	2,519
Bad debt	**24**	-
Interest expense	**53,568**	108,915
Changes in operating assets and liabilities		
Accounts receivable	**(14,403)**	(2,043)
Trade accounts payable	**(37,507)**	(9,129)
Payables to related parties	**39,162**	(157)
Prepaid rent	**6,272**	(6)
Accrued interest	**(173)**	10,505
Other accrued liabilities	**5,066**	2,317
Tenant security deposits liability	**(567)**	702
Net cash provided (used) by operating activities	**54,242**	98,059
Cash flows from financing activities		
Principal payments on mortgage note payable	**(37,095)**	(32,229)
Net change in cash and restricted cash	**17,147**	65,830
Cash and restricted cash at beginning of year	**507,761**	441,931
Cash and restricted cash at end of year	**$ 524,908**	$ 507,761
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 192,909**	$ 146,627
Noncash financing activity - payment of interest by increasing outstanding note payable accrued interest	**$ 53,568**	$ 108,915

See Accompanying Notes to the Financial Statements

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.

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 is $5,001 and $5,001 for the years ended December 31, 2021 and 2020, respectively, and estimated amortization expense for each of the ensuing years through December 31, 2024 is $5,001. Accumulated amortization as of December 31, 2021 and 2020 is $24,171 and $19,170, 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.

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.

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 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 $116,068 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 April 4, 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
General operating cash	$ 164,450	$ 165,297
Tenant security deposits	19,653	20,976
Real estate tax and insurance escrow	26,489	22,215
Replacement reserve	102,355	87,334
Operating reserve	211,961	211,939
Total cash and restricted cash	$ 524,908	$ 507,761

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, 2021 and 2020, the annual contributions were $328 per unit and $318 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, 2021:

	Beginning Balance	Additions and Interest	Withdrawals	Ending Balance
Reserve for replacement	$ 87,334	$ 15,021	$ -	$ 102,355
Operating reserve	211,939	22	-	211,961
Insurance and tax	22,215	27,208	22,934	26,489

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, 2022	$	39,226
December 31, 2023		41,481
December 31, 2024		43,864
December 31, 2025		46,384
December 31, 2026		49,050
Thereafter		1,988,216
Unamortzed debt issuance costs		(58,639)
	$	2,149,582

Note 6 – Ground Lease

The Partnership leases the land and buildings of the Project under a long-term lease arrangement. Under the terms of the lease agreement payments of $1 are due annually through December 31, 2116.

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 are $4,019 and $3,656, 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, 2021 and 2020, 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, 2021 and 2020, interest expense was $116,855 and $123,738 and accrued interest as of December 31, 2021 and 2020 is $449,762 and $401,194.

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 maturity on July 22, 2036. The note is secured by the property, subordinate to the mortgage note and promissory note payable. The total amount outstanding December 31, 2021 is $500,000. For the years ended December 31, 2021 and 2020, interest expense was $5,000 for both years and accrued interest as of December 31, 2021 and 2020 is $27,314 and $22,314.

Payroll Reimbursement

The Partnership reimburses the City of Ann Arbor for payroll costs. For the years ended December 31, 2021 and 2020, reimbursed payroll costs totaled $136,613 and $136,414, respectively. At December 31, 2021 and 2020, $34,800 and $22,073 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 2021 and 2020 and totaled $44,527 and $42,677, of which $3,719 and $3,637, respectively, remains payable at December 31, 2021 and 2020 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 2021 and 2020 was $5,627 and $5,463, 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 $210,000 for operating deficits incurred through the date on which the Partnership has achieved a Debt Service Coverage Ratio of 1.15 or better, measured on an annualized basis, for a period of two consecutive years commencing on or after the second anniversary of achievement of stabilized occupancy (which occurred in 2017) and the operating reserve has a minimum balance of at least $210,000. 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 and 2020, respectively.

Note 8 – 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.