UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP
MSHDA DEVELOPMENT NO. 889-2

FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP
MSHDA DEVELOPMENT NO. 889-2

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December 31, 2020 and 2019

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Independent Auditor's Report

To the Partners of
University Meadows I Limited Dividend Housing Association Limited Partnership:

Report on the Financial Statements

We have audited the accompanying financial statements of University Meadows I Limited Dividend Housing Association Limited Partnership (a Michigan limited partnership) (MSHDA Development No. 889-2) (the Partnership) which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in partners' equity, cash flows and operating expenses for the year ended December 31, 2020, and period from October 31, 2019 (inception) to December 31, 2019, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Meadows I Limited Dividend Housing Association Limited Partnership as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the year ended December 31, 2020, and the period from October 31, 2019 (inception) to December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on page 19 is presented for purposes of additional analysis and to comply with the reporting requirements of Michigan State Housing Development Authority (MSHDA) and is not a required part of the basic 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 audit 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2021, on our consideration of the Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Partnership's internal control over financial reporting and compliance.

AAFCPAs, Inc.

Boston, Massachusetts
March 2, 2021

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP

Balance Sheets
December 31, 2020 and 2019

Assets	**2020**	**2019**
Current Assets:		
Cash	$ 11,924	$ 30,447
Accounts receivable - tenant	6,875	5,320
Accounts receivable - subsidy	7,864	15,167
Due from related party	-	18,614
Prepaid expenses	16,900	-
Tenant security deposits	15,160	15,960
Total current assets	58,723	85,508
Reserves and Deposits:		
Replacement reserve	470,210	461,006
Operating reserve	170,673	166,630
Property insurance, interest and tax escrow	20,059	41,659
Construction escrow	1,058,804	1,036,139
Total reserves and deposits	1,719,746	1,705,434
Construction in Process	4,571,316	1,167,977
Property and Equipment:		
Land	277,500	277,500
Buildings	1,895,430	1,895,430
Furniture and equipment	11,532	11,532
	2,184,462	2,184,462
Less - accumulated depreciation	58,149	8,307
Net property and equipment	2,126,313	2,176,155
Total assets	$ 8,476,098	$ 5,135,074

Liabilities and Partners' Equity	**2020**	**2019**
Current Liabilities:		
Accounts payable - operations	$ 29,932	$ 16,557
Accrued expenses - operations	22,642	4,593
Accrued interest	14,976	20,204
Current portion of due to related parties	67,336	-
Tenant security deposits	15,160	15,960
Prepaid rent	5,185	3,433
Total current liabilities	155,231	60,747
Long-term Liabilities:		
Mortgage notes payable, net	6,364,772	4,114,917
Accounts payable and accrued expenses - construction	692,714	-
Deferred interest	24,338	3,227
Due to related parties, net of current portion	628,385	214,448
Total long-term liabilities	7,710,209	4,332,592
Total liabilities	7,865,440	4,393,339
Partners' Equity:		
General partners	231,134	231,147
Limited partner	379,524	510,588
Total partners' equity	610,658	741,735
Total liabilities and partners' equity	$ 8,476,098	$ 5,135,074

The accompanying notes are an integral part of these statements.

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP

Statements of Operations
For the Year Ended December 31, 2020 and the Period from
October 31, 2019 (Inception) to December 31, 2019

	2020	2019
Income:		
Gross potential residential rents:		
Rental income - subsidy	$ 166,288	$ 29,498
Rental income - tenants	154,131	37,544
Less - vacancies and concessions	(18,982)	(6,441)
Net residential rents	301,437	60,601
Interest and other income	42,387	2,208
Total income	343,824	62,809
Operating Expenses:		
Administrative	117,695	19,001
Utilities	58,029	19,204
Operating and maintenance	125,850	17,100
Taxes and insurance	32,609	6,911
Interest on first mortgage	85,876	14,867
Total operating expenses	420,059	77,083
Loss from operations	(76,235)	(14,274)
Asset Management Fee	(5,000)	(833)
Depreciation	(49,842)	(8,307)
Net loss	$ (131,077)	$ (23,414)

The accompanying notes are an integral part of these statements.

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP

Statements of Changes in Partners' Equity
For the Year Ended December 31, 2020 and the Period from
October 31, 2019 (Inception) to December 31, 2019

	Managing General Partner	**Adminis-trative General Partner**	**Limited Partner**	**Total Partners' Equity**
Partners' Equity, October 31, 2019	$ -	$ -	$ -	$ -
Equity adjustment for property acquisition	231,100	49	600,000	831,149
Syndication costs	-	-	(66,000)	(66,000)
Net loss	(1)	(1)	(23,412)	(23,414)
Partners' Equity, December 31, 2019	231,099	48	510,588	741,735
Net loss	(7)	(6)	(131,064)	(131,077)
Partners' Equity, December 31, 2020	$ 231,092	$ 42	$ 379,524	$ 610,658

The accompanying notes are an integral part of these statements.

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP

Statements of Cash Flows
For the Year Ended December 31, 2020 and the Period from
October 31, 2019 (Inception) to December 31, 2019

	2020	2019
Cash Flows from Operating Activities:		
Net loss	$ (131,077)	$ (23,414)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	49,842	8,307
Bad debt	2,067	2,328
Changes in operating assets and liabilities:		
Accounts receivable - tenant	(3,622)	(7,648)
Accounts receivable - subsidy	7,303	(15,167)
Due from related party	18,614	(18,614)
Prepaid expenses	(16,900)	-
Accounts payable - operations	13,375	16,557
Accrued expenses - operations	18,049	4,593
Accrued interest	(5,228)	20,204
Due to related parties	67,336	-
Tenant security deposits	(800)	15,960
Prepaid rent	1,752	3,433
Net cash provided by operating activities	20,711	6,539
Cash Flows from Investing Activities:		
Construction in process additions	(2,689,514)	(6,551)
Cash Flows from Financing Activities:		
Due to related parties	413,937	214,448
Proceeds from capital contributions	-	575,803
Syndication costs	-	(66,000)
Payments on mortgage notes payable	-	-
Proceeds from mortgage notes payable	2,249,855	1,027,602
Net cash provided by financing activities	2,663,792	1,751,853
Net Change in Cash and Restricted Cash	(5,011)	1,751,841
Cash and Restricted Cash:		
Beginning of period	1,751,841	-
End of period	$ 1,746,830	$ 1,751,841
Reconciliation of Cash and Restricted Cash Reported Within the Balance Sheets:		
Cash	$ 11,924	$ 30,447
Tenant security deposits	15,160	15,960
Replacement reserve	470,210	461,006
Operating reserve	170,673	166,630
Property insurance, interest and tax escrow	20,059	41,659
Construction escrow	1,058,804	1,036,139
Total cash and restricted cash	$ 1,746,830	$ 1,751,841
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest - capitalized	$ 36,818	$ -
Cash paid for interest - expensed	$ 88,294	$ -
Non-Cash Investing and Financing Transactions:		
Construction in process funded through accounts payable and accrued expenses - construction and deferred interest	$ 717,052	$ 3,227
Construction in process and property and equipment funded through mortgages payable and deferred interest	$ -	$ 3,090,542
Construction in process and property and equipment funded through capital contributions	$ -	$ 255,346

The accompanying notes are an integral part of these statements.

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP

Statements of Operating Expenses
For the Year Ended December 31, 2020 and the Period from
October 31, 2019 (Inception) to December 31, 2019

	2020	2019
Administrative:		
Salaries and related	$ 65,218	$ 7,397
Property management fee	27,936	4,648
Professional fees	12,687	1,010
Office supplies	4,419	1,750
Miscellaneous	3,668	1,478
Bad debt	2,067	2,328
Telephone	1,700	390
Total administrative	$ 117,695	$ 19,001
Utilities:		
Water and sewer	$ 30,729	$ 6,146
Electricity	17,758	10,440
Gas	9,542	2,618
Total utilities	$ 58,029	$ 19,204
Operating and Maintenance:		
Salaries and related	$ 42,966	$ 6,911
Security	20,727	3,001
Cleaning contract	14,608	1,150
Miscellaneous	13,132	707
Repairs	12,599	765
Exterminating	12,067	49
Snow removal	5,971	2,800
Garbage removal	2,476	734
Maintenance supplies and materials	1,304	983
Total operating and maintenance	$ 125,850	$ 17,100
Taxes and Insurance:		
Property and other taxes	$ 17,558	$ 2,618
Property and liability insurance	15,051	4,293
Total taxes and insurance	$ 32,609	$ 6,911
Interest on First Mortgage	$ 85,876	$ 14,867

The accompanying notes are an integral part of these statements.

1. OPERATIONS

University Meadows I Limited Dividend Housing Association Limited Partnership (the Partnership), a Michigan limited partnership, was organized in 2016 to own and operate a residential apartment project for low and moderate-income senior citizens. The Partnership shall continue in perpetuity, unless it is dissolved or terminated sooner in accordance with the provisions of the operating agreement. The Project, located in Detroit, Michigan, and known as University Meadows Apartments (the Property), consists of fifty-three units. The Partnership began renovating the Property in 2019. The Property will remain in service during renovation and all units are expected to be completed in 2021. The Property was financed with the proceeds of mortgage loans from the Michigan State Housing Development Authority (MSHDA) (see Note 4). Under the terms of the regulatory agreement executed in connection with obtaining the mortgage loans, MSHDA regulates rental rates on renewal leases and cash distributions to partners. In addition, the Partnership must lease eighteen of the units of the Property to individuals or families whose income is 50% or less than the area's median gross income. The regulatory agreement stays in effect until the mortgage loans are paid off.

On October 31, 2019 (inception), the Partnership acquired a building and land located in Detroit, Michigan from University Meadows Limited Dividend Housing Association Limited Partnership, a wholly-owned entity of Develop Detroit, Inc. (see Note 3), at which time it began operations. As part of the October 31, 2019 acquisition, there were various assets acquired with multiple sources of financing, as summarized in the table below:

Acquisition costs:	
Property and equipment	$ 2,184,462
Reserves and deposits and cash	1,661,747
Construction in process and debt issuance costs	1,164,158
Syndication costs	66,000
Total acquisition costs	$ 5,076,367
Source of funds:	
Capital contributions	$ 831,149
Mortgage notes payable	4,245,218
Total source of funds	$ 5,076,367

The Partnership's rehabilitation of the Project will qualify for an allocation of 4% Federal low-income housing tax credits (LIHTC) under Section 42 of the Internal Revenue Code (the Code) because the Project will be more than 50% financed with tax-exempt bonds. These tax credits will be taken over a ten-year period. As a condition of receiving these tax credits, the Property must be used in the manner prescribed by this Code Section and by the Tax Credit Regulatory Agreement with MSHDA for a minimum of fifteen years from the date on which at least fifty percent of the units are occupied. In addition, the Partnership must lease all fifty-three units (the low-income units) of the Property to individuals or families whose income is 60% or less than the area's median gross income, in accordance with the Tax Credit Regulatory Agreement (TCRA). The Partnership expects to qualify for $298,149 of annual tax credits. These tax credits are claimed on an annual basis and the Partnership will begin claiming the tax credits on its tax return for the year ended December 31, 2021. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously claimed LIHTC plus interest. The holder of substantially all mortgage notes (MSHDA) and the Investor Limited Partner (see Note 3) have specific rights and recourse to the Partnership should the Property cease to qualify for the tax credits.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Partnership prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Cash and Cash Equivalents

The Partnership considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. There were no cash equivalents as of December 31, 2020 and 2019. For the purpose of the statements of cash flows, cash and restricted cash includes cash, tenant security deposits (see Note 8), and reserves and deposits (see Note 5).

Revenue Recognition

Gross potential rent revenue is recorded for apartment rentals as it accrues. Rental payments received in advance are classified as liabilities (prepaid rent) until earned. All other income is recognized as earned. The Partnership received rental subsidies of $166,288 and $29,498 in 2020 and the two months ended December 31, 2019, respectively, which was 58% and 44% of net residential rents, respectively.

Allowance for Doubtful Tenant and Subsidy Accounts Receivable

An allowance for doubtful tenant and subsidy accounts receivable is recorded based upon management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. There was no allowance for doubtful accounts as of December 31, 2020 and 2019.

Construction in Process

Construction in process represents costs incurred pertaining to renovations of the Project. The Project is expected to be completed and placed into service in May 2021. Estimated total cost of this project in addition to the acquisition to the land and building is approximately $6,700,000, of which $4,571,316 and $1,167,977 are included in construction in process in the accompanying balance sheets as of December 31, 2020 and 2019, respectively.

Property and Equipment and Depreciation

Property and equipment are recorded at cost. Renewals and betterments of $5,000 or more are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Building improvements	20 years
Furniture and equipment	5 years

The Partnership accounts for the carrying value of its long-lived assets in accordance with the requirements of ASC Topic, *Property, Plant and Equipment*. As of December 31, 2020 and 2019, the Partnership has not recognized any reduction in the carrying value of its property and equipment when considering these requirements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

Debt issuance costs will be amortized over the term of the permanent note (see Note 4) using the straight-line method, which approximates the effective interest method. Unamortized debt issuance costs are reported as a reduction of the related mortgage notes payable (see Note 4).

Income Taxes and Tax Status

The Partnership is treated as a partnership for income tax purposes. Income, losses, deductions, and credits of the Partnership are taxed to the partners on their respective tax returns; accordingly, no income tax provision has been included in the accompanying financial statements.

The Partnership accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Partnership has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2020 and 2019. However, the Partnership's income tax returns are subject to examination by the appropriate taxing jurisdictions.

Fair Value Measurements

The Partnership follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Partnership would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Partnership uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Partnership. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through March 2, 2021, which is the date the financial statements were available to be issued. There were no events that met the criteria for disclosure in the financial statements.

3. RELATED PARTY TRANSACTIONS

The Partnership is related to the following organizations:

Partners:

University Meadows I, LLC (the Managing General Partner) is a Michigan limited liability company. The Managing General Partner holds a .0051% interest in the capital, income, losses, and cash flow of the Partnership. The Managing General Partner committed and paid $231,100 in capital contributions to the Partnership in 2019. DDPI (see below) owns 100% interest in the capital, income, and losses of the Managing General Partner.

PVM University Meadows I, LLC (the Administrative General Partner) is a Michigan limited liability company. The Administrative General Partner holds a .0049% interest in the capital, income, losses, and cash flow of the Partnership. The Administrative General Partner committed and paid $49 in capital contributions to the Partnership in 2019.

USB LIHTC Fund 2017-7, LLC (the Limited Partner) is a Delaware limited liability company, which replaced U.S. Bancorp Community Development Corporation. The Limited Partner holds a 99.99% interest in the capital, income, losses, credits, and cash flow of the Partnership as its only investor limited partner. The Limited Partner committed $2,897,595 in capital contributions to the Partnership in three installments. The first installment of $600,000 was paid in 2019 and the remaining installments are expected in 2021. The Limited Partner has the right to certain adjustments of its capital contributions if the amount of low-income housing tax credits allocated to the Limited Partner is different than projected.

Develop Detroit Properties, Inc. (DDPI) is a Michigan corporation. DDPI holds 100% interest in the capital, income, and losses of the Managing General Partner.

Develop Detroit, Inc. (DDI) is a Michigan not-for-profit organization exempt from income taxes under Internal Revenue Code (IRC) Section 501(c)(3). DDI holds 100% interest in the capital, income, and losses of DDPI. DDI is also a sponsor of the Partnership (see page 11).

Presbyterian Villages of Michigan (PVM) is a Michigan not-for-profit corporation. PVM holds a 100% interest in the capital, income, losses, credits, and cash flow of the Administrative General Partner. PVM is also a sponsor of the Partnership (see page 11), as well as the property manager (see Note 6).

3. RELATED PARTY TRANSACTIONS (Continued)

The Partnership entered into the following transactions with related parties:

- DDI and PVM, as the sponsors of the Partnership, are entitled to a developer fee and overhead reimbursement for services provided during the development of the Project. Under the terms of the developer agreement, DDI and PVM are entitled to a developer fee, inclusive of all overhead, of $1,027,695 with 85% payable to DDI and 15% payable to PVM. As of December 31, 2020 and 2019, $758,680 and $359,693, respectively, of the developer fee was incurred and the remainder of the fee is expected to be incurred during 2021. The total developer fee payable outstanding as of December 31, 2020 and 2019, after $150,000 was paid at closing, was $608,680 and $209,693, respectively. Upon recognition of the remaining developer fee of $269,015, the Partnership is expecting $378,189 to be paid with proceeds from the Limited Partner's remaining equity installments in 2021. The remaining $499,506 of the fee will be deferred and paid from available distributable cash flow (see Note 7).

- The Partnership has a note payable to DDI and a note payable to PVM (see Note 4).

- Due from related party as of December 31, 2019, includes $18,614 advanced to PVM for costs that it paid on behalf of the Partnership in January 2020.

- Due to related parties includes reimbursements due to DDI for various development and pre-development costs, totaling $13,872 and $3,922 (see below), as of December 31, 2020 and 2019, respectively.

- Due to related parties includes the following as of December 31:

	2020	2019
Developer fee - DDI (see above)	$ 517,379	$ 178,239
Developer fee - PVM (see above)	91,301	31,454
Operating advances - PVM	67,336	-
Reimbursement to DDI (see above)	13,872	3,922
Asset management fee (see page 12)	5,833	833
	695,721	214,448
Less - current portion	67,336	-
	$ 628,385	$ 214,448

The Partnership, the Managing General Partner, DDI, the Limited Partner, and the Administrative General Partner have entered into the following agreements:

Guaranty Against Development and Operating Deficits

Under this agreement, DDI has guaranteed the payment of additional capital contributions to the General Partner to fund the Partnership's operating deficits, if there are not sufficient funds in the operating reserve (see Note 5). DDI also guaranteed the completion of the rehabilitation of the Project, payment of all development costs in excess of the rehabilitation budget, and compliance with all requirements of the Code to qualify for the LIHTC. DDI has guaranteed to fund the Partnership's operating deficits through operating deficit loans up to $400,000.

3. RELATED PARTY TRANSACTIONS (Continued)

Obligation To Purchase

The Partnership has required the General Partners to purchase the interest of the Limited Partner in the event the Project is not completed and leased up timely as set forth in the partnership agreement. The purchase price shall be 110% of the Limited Partner's capital contributions paid to date, plus any outstanding amounts advanced by the Limited Partner and any costs incurred as part of the repurchase, as defined in the partnership agreement.

Purchase Option

The Partnership has granted the Managing General Partner an option to purchase the Project during an eighteen month period after the close of the Tax Credit Compliance Period (see Note 1) (the Option Period) in the event the Partnership proposes to sell, transfer, assign, or ground lease substantially all of its interest therein. The purchase price under the Purchase Option shall be the fair market value of the Property or the Limited Partner's interest at the time, plus any accrued and unpaid fees due to the Limited Partner less third-party brokerage fees (if any). The Administrative General Partner has second priority to purchase the Project under the same conditions in the event the Managing General Partner declines its right to purchase.

Right of Removal of the General Partners

The Limited Partner has the right to remove and replace the General Partners, if material default occurs in accordance with the provision of the agreement and such default is not addressed within the time period set forth as specified in the agreement. If removed, the Partnership shall pay the General Partners in the manner set forth in the agreement.

Right of First Refusal

The Partnership has granted a continuing right of first refusal to the Managing General Partner to purchase the Project in the event that the Partnership proposes to sell, transfer or assign the Project. The Managing General Partner would be required to continue to maintain the Project as low-income housing under this agreement. The Administrative General Partner has second priority to the right of refusal to purchase the Project under the same conditions in the event the Managing General Partner declines its right to first refusal.

Asset Management Fee

An asset management fee is payable to the Limited Partner for asset management services on behalf of the Partnership. The fee is $5,000 per year, increasing by 10% every five years, and is cumulative. The Limited Partner earned $5,000 for the year ended December 31, 2020, and $833 for the two months ended December 31, 2019, as the fee was prorated in the first year of operations. This fee is paid out of cash flow as described in Note 7. There is no asset management fee due in 2021 and 2020 based on 2020 and 2019 distributable cash flow, respectively.

Partnership Management Fee

After the fifth year of full qualified occupancy (the Flip Date), the Managing General Partner is entitled to a partnership management fee for services it provides in the business affairs of the Partnership. The fee is $17,500 per year, escalating 3% annually, but no greater than 10% of gross rents collected for such year, as defined in the agreement, and is cumulative. This fee will be paid out of distributable cash flow as described in Note 7.

4. MORTGAGE NOTES PAYABLE

Mortgage notes payable, which are secured by the property and equipment and reserves and deposits (see Note 5) of the Partnership, consist of the following as of December 31:

	2020	2019
5.25% construction note to MSHDA which allows for borrowings up to $5,030,578. Monthly payments of interest only are due until construction completion, at which time outstanding principal and unpaid interest are due. This note is expected to convert to a permanent note and the maximum borrowings under this note will be reduced to $2,290,466 upon construction completion. Monthly payments of principal and interest will be due until maturity in January 2061. Interest expense and capitalized interest for the year ended December 31, 2020, were $85,876 and $34,008, respectively. For the two months ended December 31, 2019, interest expense and capitalized interest were $14,867 and $5,337, respectively. Accrued interest at December 31, 2020 and 2019, was $14,976 and $20,204, respectively. This note is secured by a first mortgage on the Project.	$ 3,458,934	$ 2,309,079
1% second mortgage note with MSHDA under the HOME program which allows for borrowings up to $1,284,467. Interest accrues annually until maturity in October 2069. The principal and interest payment shall be made based on available surplus cash as outlined in the partnership agreement. There are no payments due in 2021 based on 2020 funds available for distribution. There were no payments required in 2020 based on 2019 funds available for distribution. Deferred interest payable and capitalized interest is $12,833 and $1,833 as of December 31, 2020 and 2019, respectively.	1,150,000	1,100,000
1% third mortgage note with the City of Detroit which allows for borrowings up to $1,540,000. Interest accrues annually until maturity in October 2069. The principal and interest payment shall be made based on available surplus cash as outlined in the partnership agreement. There are no payments due in 2021 based on 2020 funds available for distribution. Deferred interest payable and capitalized interest is $1,750 as of December 31, 2020.	1,050,000	-

4. MORTGAGE NOTES PAYABLE (Continued)

	2020	2019
1% fourth mortgage note to PVM. Interest is compounded annually and will accrue until maturity in October 2069. The principal and interest payment shall be made based on available surplus cash as outlined in the partnership agreement. There are no payments due in 2021 based on 2020 funds available for distribution. There were no payments due in 2020 based on 2019 funds available for distribution. Deferred interest payable and capitalized interest is $7,875 and $1,125 as of December 31, 2020 and 2019, respectively.	675,000	675,000
1% fourth mortgage note to DDI. Interest is compounded annually and will accrue until maturity in October 2069. The principal and interest payment shall be made based on available surplus cash as outlined in the partnership agreement. There are no payments due in 2021 based on 2020 funds available for distribution. There were no payments due in 2020 based on 2019 funds available for distribution. Deferred interest payable and capitalized interest is $1,880 and $269 as of December 31, 2020 and 2019, respectively.	161,139	161,139
	6,495,073	4,245,218
Less - unamortized debt issuance costs	(130,301)	(130,301)
	$ 6,364,772	$ 4,114,917

Debt issuance costs for the above mortgage notes payable totaled $130,301. The debt issuance cost will begin amortizing upon completion of the Project.

All mortgage notes payable contain various non-financial covenants and restrictions on the Partnership, as described in the agreements. The Partnership was in compliance with all of its covenants as of December 31, 2020 and 2019.

5. RESERVES AND DEPOSITS

Replacement Reserve

Under the provisions of the partnership agreement, the Partnership is required to establish and maintain a replacement reserve to fund future capital improvements and repairs. The replacement reserve was funded in the initial amount of $459,516 by the first installment of capital contributions from the Limited Partner and the Managing General Partner (see Note 3) and proceeds from the first mortgage construction note payable (see Note 4). Required monthly deposits of $1,325 will begin in the month following the date in which the permanent note (see Note 4) closes. The monthly deposits increase 3% annually. The reserve funds are held by MSHDA and can only be drawn upon with permission of MSHDA. This reserve was adequately funded as of December 31, 2020 and 2019.

5. RESERVES AND DEPOSITS (Continued)

Operating Reserve

Under the provisions of the partnership agreement and MSHDA regulatory agreement, the Partnership is required to maintain an operating reserve to fund operating deficits. The operating reserve was funded in the initial amount of $166,092, the minimum required balance, from the first capital contribution installment from the Limited Partner (see Note 3). Additional deposits into the reserve will be made based on distributable cash flow (see Note 7). The reserve funds can only be drawn down upon with the permission of the Limited Partner. This reserve was adequately funded as of December 31, 2020 and 2019.

Lease-up Reserve

In accordance with the partnership agreement, the Partnership is required to establish a lease-up reserve in the amount of $45,474 from the Limited Partner's first capital contribution to fund marketing and lease-up expenses of the Partnership until all units are 100% qualified for occupancy. All funds remaining in the reserve, at the time the Project reaches 100% qualified occupancy, will be deposited into the operating reserve. The lease-up reserve was funded in 2019 and utilized for operating expenses. As of December 31, 2020 and 2019, $45,474 is due to the lease up reserve to fund the marketing and lease-up expenses upon 100% qualified occupancy.

Property Insurance, Interest and Tax Escrow

Payments in lieu of property taxes (see Note 10), interest and insurance escrow are maintained under the control of MSHDA for the benefit of the Project. These deposits are restricted to offset specific expenses and to replace structural elements and mechanical equipment of the Partnership, upon consent of MSHDA. The deposit amount is determined each year by MSHDA and the Partnership made all required deposits in 2020 and 2019.

Construction Escrow

The construction escrow was established to fund development costs and capital improvements and was funded from the proceeds of the mortgage notes after all other required reserves and construction costs related to the acquisition of the Project were funded. The construction escrow is held by MSHDA and can only be drawn upon with permission of MSHDA.

The following is a summary of the activity in these reserves and escrows for 2020 and 2019:

	Beginning Balance December 31, 2019	Additions and Interest	With-drawals and Transfers	Ending Balance December 31, 2020
Replacement reserve	$ 461,006	$ 11,183	$ 1,979	$ 470,210
Operating reserve	$ 166,630	$ 4,043	$ -	$ 170,673
Property tax, interest and insurance escrow	$ 41,659	$ 745	$ 22,345	$ 20,059
Construction escrow	$ 1,036,139	$ 22,665	$ -	$ 1,058,804

5. RESERVES AND DEPOSITS (Continued)

	Beginning Balance October 31, 2019	Additions and Interest	With-drawals and Transfers	Ending Balance December 31, 2019
Replacement reserve	$ -	$ 461,006	$ -	$ 461,006
Operating reserve	$ -	$ 166,630	$ -	$ 166,630
Property tax, interest and insurance escrow	$ -	$ 41,659	$ -	$ 41,659
Construction escrow	$ -	$ 1,036,139	$ -	$ 1,036,139

6. MANAGEMENT AGREEMENTS

The Project is managed by PVM. Under an agreement approved by MSHDA, it provided for management fees of $527 per unit. Management fees charged to the Partnership for 2020 and 2019 totaled $27,936 and $4,648, respectively. The management fees charged in 2019 were prorated for the partial year of operations. The agreement terminated on December 31, 2020, and was automatically extended until December 31, 2021.

In accordance with the management agreement, the management company is entitled to a premium management fee of a maximum $81 per unit based on approvals of the owner and MSHDA for 2020 and 2019. There were no premium fees during 2020 and 2019.

7. PARTNERSHIP PROFIT AND LOSS ALLOCATIONS AND DISTRIBUTIONS

Partnership Profit and Loss Allocations

All profits, losses and credits are allocated 99.99% to the Limited Partner, .0051% to the Managing General Partner, and .0049% to the Administrative General Partner.

Income and gains from sale or refinancing are allocated as follows:

1) To the Limited Partner, the General Managing Partner, and the Administrative General Partner on a pro-rata basis in proportion of their respective negative capital account balances until their accounts have zero balances; and no more than 49% shall be allocated to the General Managing Partner.

2) To each partner, the amounts and extent necessary to increase their respective capital accounts to align with the cash flow priorities from sale or refinancing described on page 17.

Losses from sale or refinancing are allocated as follows:

1) To any partners having positive capital account balances, in proportion to and to the extent of positive balances.

2) The balance, if any, 99.99% to the Limited Partner, 0.0051% to the Managing General Partner, and 0.0049% to the Administrative General Partner.

7. PARTNERSHIP PROFIT AND LOSS ALLOCATIONS AND DISTRIBUTIONS (Continued)

Distributions

The Partnership is required to make annual distributions from surplus cash, as defined by the partnership agreement, as follows:

1) To pay the asset management fee (see Note 3) and any accrued and unpaid asset management fee from prior periods.

2) To pay any outstanding and unpaid credit deficiencies and tax equivalency payments, including interest.

3) To pay any default cash flow priority as directed by the Limited Partner.

4) To fund the replacement reserve and thereafter to replenish the operating reserve.

5) To repay any loans or other advances made by the Limited Partner.

6) To pay the unpaid Development Fee (see Note 3).

7) After the Flip Date, to pay the partnership management fee (see Note 3) to the Managing General Partner, up to $17,500, not to exceed 10% of annual gross collected receipts.

8) 50% of remaining cash flow to pay principal and interest on the MSHDA HOME note payable until paid in full (see Note 4).

9) 50% of remaining cash flow to pay principal and interest pro-rata on the Sponsor notes payable to DDI and PVM (see Note 4) until paid in full.

10) 100% of remaining cash flow to pay principal and interest on the City HOME note payable (see Note 4) until paid in full.

11) To the General Partners to repay any advances or any other loans made by the General Partner.

12) The balance to the Managing General Partner, Administrative General Partner and the Limited Partner in accordance with their Percentage Interests.

To the extent that insufficient cash flow is available to pay any of the amount set forth in sections first through twelfth when due, such amount shall accrue and be payable in the future when there is available cash flow, after prior payment of all higher priority payments from cash flow, as set forth above.

There was no surplus cash available for distribution from operations for 2020 or 2019.

Cash from a sale or refinancing will be distributed by the Partnership as follows:

1) To the Limited Partner, to pay any outstanding and unpaid credit deficiencies and tax equivalency payments, including interest and any and all loans or other amounts payable to the Limited Partner.

2) To pay any outstanding and unpaid asset management fees (see Note 3).

3) To DDI, the amount of any unpaid deferred development fee (see Note 3).

7. PARTNERSHIP PROFIT AND LOSS ALLOCATIONS AND DISTRIBUTIONS (Continued)

Distributions (Continued)

4) To the General Partners, the amount of any unpaid advances or any other loans.

5) The balance, if any, 99.99% to the Limited Partner, 0.0051% to the Managing General Partner, and 0.0049% to the Administrative General Partner.

8. TENANT SECURITY DEPOSITS

Tenant security deposits consist of security deposits collected upon move-in. Interest is paid annually to the tenants based on the current interest rate of the bank where the Partnership holds the security deposits.

9. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's operations are concentrated in the senior citizens affordable rental 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, state, and local regulatory agencies, including, but not limited to, MSHDA. Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by MSHDA. 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.

10. PAYMENTS IN LIEU OF PROPERTY TAXES

The Project is a participant in a tax abatement program providing for payments in lieu of property taxes. The payments are computed at 4% of rental income less utilities expense. The payments are reported in the statements of operations in the year in which the related rental income and utilities expense are recognized.

11. CONTINGENCY

In March 2020, the COVID-19 coronavirus (COVID-19) pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on the Partnership, its operations and future financial statements. The accompanying financial statements have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

Management of the Partnership is monitoring these events closely to assess the potential financial impact of the situation and determine appropriate courses of action. As of the date of this report, the Partnership is unable to accurately predict how the COVID-19 will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain.

12. RECLASSIFICATIONS

Certain amounts from the 2019 financial statements have been reclassified to conform with 2020 presentation.

Detail of Surplus Funds and Reconciliation of Variances
For the Year Ended December 31, 2020

There were no distributions of 2019 surplus funds made in 2020.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

To the Partners of
University Meadows I Limited Dividend Housing Association Limited Partnership:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Meadows I Limited Dividend Housing Association Limited Partnership (MSHDA Development No. 889-2) (the Partnership), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, changes in partner's equity, cash flows and operating expenses for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated March 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Partnership's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Partnership's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including compliance with specific provisions of the MSHDA Regulatory Agreement, MSHDA Directives, and MSHDA Audit Guide Policy, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have compared the December 31, 2020 Monthly Income and Expense (MIE) Report submitted to MSHDA with balances in the financial statements as of December 31, 2020, audited by us and covered by our report dated March 2, 2021. The account balances set forth therein are in material agreement (defined by MSHDA as differences not exceeding 10% and $3,000).

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Partnership's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AAFCPAs, Inc.

Boston, Massachusetts
March 2, 2021

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTNERSHIP
MSHDA DEVELOPMENT NO. 889-2

Certification of Partners
December 31, 2020

We hereby certify that we have examined the accompanying financial statements and supplemental information of University Meadows I Limited Dividend Housing Association Limited Partnership and to the best of our knowledge and belief, the same is complete and accurate. University Meadows I Limited Dividend Housing Association Limited Partnership only has one managing general partner.

UNIVERSITY MEADOWS I LIMITED DIVIDEND HOUSING ASSOCIATION LIMITED PARTERNSHIP
(FEIN: 30-0992429)

By: ______________________________

Sonya Mays, Authorized Signer
University Meadows I, LLC, Managing General Partner