

**MUTUAL HOUSING ASSOCIATION OF  
SOUTHWESTERN CONNECTICUT INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2017**

**(with summarized information for the year ended December 31, 2016)**

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Mutual Housing Association of Southwestern Connecticut, Inc.  
Bridgeport, Connecticut

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Friendship House Apartments Limited Partnership, an affiliate, whose statements reflect total assets of \$20,064,562 and total revenue of \$2,453,061 for the year ended December 31, 2017. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors. We conducted our audit 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 consolidated financial statements. The procedures selected depend on the auditors' 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 consolidated 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 consolidated 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, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information presented on pages 47 through 62, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information presented on pages 47 through 62 and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information presented on pages 47 through 62 and the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Report on Summarized Comparative Information

We have previously audited the Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Other Reporting Required by *Government Auditing Standards*

In accordance with the *Government Auditing Standards*, we have also issued our report dated September 19, 2018 on our consideration of Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' internal control over financial reporting and 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 the 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 Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' internal control over financial reporting and compliance.



Braintree, Massachusetts  
September 19, 2018

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**December 31, 2017**

**(with summarized information as of December 31, 2016)**

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,204,918	\$ 1,128,396
Grants receivable - Note 7	42,955	899,535
Tenant accounts receivable, net of allowance for doubtful accounts of \$93,554 and \$311,513, respectively	72,081	82,886
Accounts receivable, HUD, net of allowance for doubtful accounts of \$10,689 and \$17,719, respectively	139,092	87,875
Accounts receivable, other	5,656	4,346
Mortgage receivable - current portion - Note 8	23,096	26,225
Accrued interest receivable	7,100	7,100
Assets held for sale - Note 28	590,000	-
Prepaid expenses	<u>250,624</u>	<u>146,292</u>
<b>Total Current Assets</b>	<u>2,335,522</u>	<u>2,382,655</u>
 <b>PROPERTY AND EQUIPMENT</b>		
Land and land improvements	4,185,469	4,202,119
Buildings and improvements	80,876,229	83,064,607
Equipment	1,255,365	1,229,553
Construction in progress	1,576,942	739,259
Less Accumulated depreciation	<u>(24,460,578)</u>	<u>(22,657,307)</u>
<b>Net Property and Equipment</b>	<u>63,433,427</u>	<u>66,578,231</u>
 <b>OTHER ASSETS</b>		
Restricted cash - Note 4	3,667,026	3,359,149
Investments - Notes 5 & 6	10,076	12,924
Other assets	93,352	94,685
Mortgages receivable, net of current portion - Note 8	1,051,626	1,288,362
Loan loss reserve - Note 8	(407,249)	(610,473)
Other notes receivable - Note 10	65,150	65,150
Deferred costs - Note 2	191,128	248,890
Accumulated amortization - Note 2	<u>(73,520)</u>	<u>(91,626)</u>
<b>Total Other Assets</b>	<u>4,597,589</u>	<u>4,367,061</u>
 <b>Total Assets</b>	 <u>\$ 70,366,538</u>	 <u>\$ 73,327,947</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION - (Continued)**

**December 31, 2017**

**(with summarized information as of December 31, 2016)**

**LIABILITIES AND NET ASSETS**

	<u>2017</u>	<u>2016</u>
<b>CURRENT LIABILITIES</b>		
Cash overdraft	\$ 33,197	\$ 6,474
Accounts payable - operations	1,480,806	957,419
Accounts payable - construction	367,790	798,324
Accounts payable - subsidy	30,768	-
Accrued expenses	144,046	91,243
Prepaid rent	53,363	24,609
Deferred subsidy	7,018	21,076
Line of credit - Note 11	291,117	291,617
Accrued interest	185,134	169,549
Other notes payable - current portion - Note 13	16,608	16,608
Mortgages payable - amortizing, current portion - Note 12	657,361	1,354,856
Mortgages payable - non-amortizing, current portion - Note 12	-	3,855,288
<b>Total Current Liabilities</b>	<u>3,267,208</u>	<u>7,587,063</u>
<b>LONG-TERM LIABILITIES</b>		
Security deposits	283,134	296,563
Accrued expenses	510,400	510,400
Mortgages payable - amortizing, net of current portion - Note 12	14,165,994	12,696,731
Mortgages payable - non-amortizing, net of current portion - Note 12	21,673,795	20,581,761
Membership fee and accrued interest - Note 14	370,044	381,022
Other notes payable - Note 13	562,230	578,887
Accrued interest, net of current portion	2,417,494	2,369,466
<b>Total long-term liabilities</b>	<u>39,983,091</u>	<u>37,414,830</u>
<b>TOTAL LIABILITIES</b>	<u>43,250,299</u>	<u>45,001,893</u>
<b>NET ASSETS</b>		
Mutual Housing Association of Southwestern Connecticut, Inc. net assets/partners' capital		
Unrestricted	15,761,975	18,334,118
Temporarily restricted - Note 17	50,000	-
Permanently restricted - Note 17	4,417,767	4,417,767
	<u>20,229,742</u>	<u>22,751,885</u>
Noncontrolling interest	6,886,497	5,574,169
<b>TOTAL NET ASSETS</b>	<u>27,116,239</u>	<u>28,326,054</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 70,366,538</u>	<u>\$ 73,327,947</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2017  
(with summarized information for the year ended December 31, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>2016</u>
<b>Public Support</b>					
Foundation grants and corporate contributions	\$ 44,814	\$ -	\$ -	\$ 44,814	\$ 28,723
Federal, state and local grants	216,100	50,000	-	266,100	162,835
<b>Revenues</b>					
Rental income	6,968,797	-	-	6,968,797	6,297,115
Other income	230,292	-	-	230,292	254,695
Developer fees	16,014	-	-	16,014	974,604
Gain on sale of property	-	-	-	-	117,340
Sale of Properties	-	-	-	-	370,000
Less cost of properties sold	-	-	-	-	(315,214)
Investment income - Note 5	18,714	-	-	18,714	8,397
Interest income on notes receivable	<u>2,252</u>	<u>-</u>	<u>-</u>	<u>2,252</u>	<u>5,345</u>
<b>Total Revenue</b>	<u>7,496,983</u>	<u>50,000</u>	<u>-</u>	<u>7,546,983</u>	<u>7,903,840</u>
<b>Expenses</b>					
General and administrative expenses	447,104	-	-	447,104	346,258
Program expenses	5,843,971	-	-	5,843,971	5,672,672
Fundraising expenses	<u>13,223</u>	<u>-</u>	<u>-</u>	<u>13,223</u>	<u>3,420</u>
<b>Total Expenses</b>	<u>6,304,298</u>	<u>-</u>	<u>-</u>	<u>6,304,298</u>	<u>6,022,350</u>
<b>Change in Net Assets from Operations</b>	1,192,685	50,000	-	1,242,685	1,881,490
<b>Non-operating Income (Expenses)</b>					
Capital grant income	-	-	-	-	5,348,918
Depreciation and amortization	(2,356,038)	-	-	(2,356,038)	(2,160,574)
Interest expense	(1,357,049)	-	-	(1,357,049)	(1,380,668)
Entity expense	(25,346)	-	-	(25,346)	-
Forgiveness of interest	<u>199,615</u>	<u>-</u>	<u>-</u>	<u>199,615</u>	<u>-</u>
<b>Total Non-operating Income (Expenses)</b>	<u>(3,538,818)</u>	<u>-</u>	<u>-</u>	<u>(3,538,818)</u>	<u>1,807,676</u>
<b>Change in Net Assets from Continuing Operations</b>	(2,346,133)	50,000	-	(2,296,133)	3,689,166
<b>Discontinued Operations</b>					
Loss from operations of discontinued operations	<u>(1,194,161)</u>	<u>-</u>	<u>-</u>	<u>(1,194,161)</u>	<u>-</u>
<b>Change in Net Assets</b>	<u>\$ (3,540,294)</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ (3,490,294)</u>	<u>\$ 3,689,166</u>

See Accompanying Notes

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS  
For the Year Ended December 31, 2017**

	<u><b>Total</b></u>	<u><b>Unrestricted</b></u>	<u><b>Temporarily Restricted</b></u>	<u><b>Permanently Restricted</b></u>
Net assets, beginning, as restated - Note 29	\$ 28,289,510	\$ 23,871,743	\$ -	\$ 4,417,767
Capital contributions/transfers	2,317,023	2,317,023	-	-
Change in net assets	<u>(3,490,294)</u>	<u>(3,540,294)</u>	<u>50,000</u>	<u>-</u>
Net assets, ending	<u>\$ 27,116,239</u>	<u>\$ 22,648,472</u>	<u>\$ 50,000</u>	<u>\$ 4,417,767</u>

The change in consolidated net assets attributed to noncontrolling interest is as follows:

	<u><b>Total</b></u>	<u><b>Controlling Interest</b></u>	<u><b>Noncontrolling Interest</b></u>
Net assets, beginning, as restated - Note 29	\$ 28,289,510	\$ 22,720,618	\$ 5,568,892
Capital contributions/transfers	2,317,023	-	2,317,023
Change in net assets	<u>(3,490,294)</u>	<u>(2,490,876)</u>	<u>(999,418)</u>
Net assets, ending	<u>\$ 27,116,239</u>	<u>\$ 20,229,742</u>	<u>\$ 6,886,497</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2017  
(with summarized information for the year ended December 31, 2016)**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (3,490,294)	\$ 3,689,166
<b>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	2,356,038	2,160,574
Bad debts	56,543	134,791
Write-off of organization costs	-	5,000
Accrued interest	48,028	93,389
Gain on sale of properties	-	(143,742)
Capital grant income	-	(5,348,918)
Forgiveness of interest	(199,615)	-
Loss from operations of discontinued operations	604,161	-
<b>(Increase) decrease in assets</b>		
Grants receivable	856,580	(799,646)
Tenant accounts receivable	67,348	161,531
Accounts receivable, HUD	(61,761)	(42,875)
Accounts receivable, Other	(1,310)	22,834
Prepaid expenses	(104,332)	53,324
Other assets	1,333	1,333
Notes receivable	-	2,286
<b>Increase (decrease) in liabilities</b>		
Accounts payable-operating	497,387	273,212
Accounts payable-construction	(430,534)	(884,296)
Accounts payable-subsidy	30,768	-
Accrued expenses	52,803	(43,286)
Security deposits	(13,429)	12,745
Prepaid revenue	28,754	2,993
Deferred subsidy	(14,058)	21,076
Accrued interest	15,585	55,464
Membership fees	(10,978)	(6,431)
<b>Net cash provided by (used in) operating activities</b>	<u>289,017</u>	<u>(579,476)</u>
<b>Cash flows from investing activities</b>		
Restricted cash	(307,877)	(216,911)
Capital expenditures	(1,079,463)	(6,584,323)
Revolving loan fund	36,641	18,585
Payments on purchase of investments	2,848	2,362
<b>Net cash used in investing activities</b>	<u>(1,347,851)</u>	<u>(6,780,287)</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS – (Continued)  
For the Year Ended December 31, 2017  
(with summarized information for the year ended December 31, 2016)**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from financing activities</b>		
Cash overdraft	\$ 26,723	\$ 6,474
Payments on line of credit	(500)	-
Capital contributions	2,317,023	-
Proceeds from capital grant	787,646	5,348,918
Distributions	-	(1,006)
Proceeds from debt	3,990,512	2,892,267
Organization costs incurred	-	(10,000)
Payment of loan financing fees	(82,428)	(17,325)
Cash paid on debt	<u>(5,903,620)</u>	<u>(490,506)</u>
<b>Net cash provided by financing activities</b>	<u>1,135,356</u>	<u>7,728,822</u>
 <b>Increase in cash</b>	 76,522	 369,059
 <b>Cash, beginning of year</b>	 <u>1,128,396</u>	 <u>759,337</u>
 <b>Cash, end of year</b>	 <u>\$ 1,204,918</u>	 <u>\$ 1,128,396</u>
 <b>Supplemental Disclosure</b>		
Cash paid for interest	<u>\$ 1,110,013</u>	<u>\$ 907,453</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 – ORGANIZATION**

**Nature of Organization**

Mutual Housing Association of Southwestern Connecticut, Inc. (“MHA”), a NeighborWorks® America chartered affiliate, is a not-for-profit agency organized to encourage the prevention and elimination of neighborhood deterioration. The Organization’s mission is to create and sustain housing, revitalize neighborhoods and enhance the quality of life for low and moderate income residents of Fairfield County, Connecticut.

NeighborWorks® America is a public, congressionally chartered nonprofit organization that receives a direct federal appropriation of funds. NeighborWorks® is not a federal agency, but a recipient of federal funds. Thus, its chartered organizations are sub-recipients of these federal funds.

**Principles of Consolidation**

The consolidated financial statements of Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries (the “Organization”) were prepared for the purpose of presenting, in a consolidated format, the financial position and results of operations of the following entities, which are controlled by the same board:

Certain companies included in the consolidation are organized as limited liability companies and, as such, the members' liability is limited to their capital contributions.

MHA Operations consist of the following:

Operating Fund represents all activity not specific to another fund.

Capital Projects Fund consists of resources used for property development.

Revolving Loan Funds consist of the Bridgeport and Norwalk Revolving Loan Funds. The Bridgeport Revolving Loan Fund consists of resources designated for providing loans to homeowners in specific target neighborhoods in Bridgeport, Connecticut, for home improvement and rehabilitation, grants for real property improvements, and various community development projects. The Norwalk Revolving Loan Fund consists of resources designated to encourage the cooperative efforts of neighborhood representatives, city government and participating lending institutions in a combined effort to stem the deterioration of housing in Norwalk, Connecticut, by providing loans for home improvement and acquisition.

Wholly-Owned Operating Properties and Property Funds consist of the following:

MHA 20-28 Fairfield Commons LLC is a limited liability company organized to own and operate multi-family homes consisting of nineteen (19) units located on 20-28 Fairfield Avenue in Stamford, Connecticut, and to provide supportive services to residents.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 – ORGANIZATION - (Continued)**

Fairfield Commons I, Inc. is a nonprofit corporation organized to provide housing facilities for individuals with disabilities and to provide services specially designed to meet their physical, social and psychological needs. The Corporation is governed by MHA's board. The Corporation owns Fairfield Commons I, a six (6) unit residential development located in Stamford, Connecticut.

Parkside Gables Fund represents the activity of managing Parkside Gables, a sixty-nine (69) unit residential development on Stamford's West Side. The development provides housing for low to moderate income families.

MHA Conger House, LLC is a limited liability company organized to own, rehabilitate and manage eight (8) residential units known as Conger House in Bridgeport, Connecticut and to provide supportive housing to individuals with HIV/AIDS.

MHA Yale Street, LLC is a limited liability company organized to own, rehabilitate and manage three (3) residential units on Yale Street in Bridgeport, Connecticut.

MHA Merton House LLC is a limited liability company organized to develop twenty-two (22) Residential units for low income families and women coming out of foster care in Bridgeport, Connecticut.

Greenfield Commons, Inc. is a nonprofit corporation organized to provide elderly and handicapped persons with housing facilities and services specially designed to meet their physical, social and psychological needs. The Corporation is governed by MHA's board. The Corporation owns Greenfield Commons, a ten (10) unit residential development located in Fairfield, Connecticut.

Trinity Park Mutual Housing Limited Partnership (“TPMH”) was formed on August 21, 1995, under the laws of the State of Connecticut as a limited partnership to acquire an interest in real property located in Stamford, Connecticut, and to construct and operate thereon a residential housing project of forty-eight (48) units, under Section 42 of the Internal Revenue Code as a “qualified low-income housing project”. The 1% general partner of the partnership, Trinity Park Mutual Housing Association, Inc., is a nonprofit organization in which the board of directors is directly controlled by MHA. The 99% limited partner is MHA. On August 14, 2015, Trinity Park Apartments Limited Partnership (“TPA”) acquired the building and improvements from TPMH and assumed all of its existing operating assets and operating liabilities.

Development Properties consist of the following:

MHA Fairfield Commons II, LLC is a limited liability company organized for acquiring, renovating and developing six (6) units known as Fairfield Commons II, Supportive Housing in Stamford, Connecticut. This development is being funded utilizing the State of Connecticut Department of Housing funds, and MHA does not have any partners in this project.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 – ORGANIZATION - (Continued)**

Spruce Street Townhomes, LLC is a limited liability company organized to develop affordable townhome condominiums for sale to low and moderate income individuals and families in Stamford, Connecticut. The Company is a 50/50 joint venture between MHA and Neighborhood Housing Services of Stamford.

Limited Partnerships and Limited Liability Companies consist of the following:

Yale Street Limited Partnership was organized under the laws of the State of Connecticut as a limited partnership formed September 24, 1996, to acquire an interest in real property located in Bridgeport, Connecticut, and to rehabilitate and operate thereon a residential housing project complex of forty-four (44) units, under Section 42 of Internal Revenue Code, as a “qualified low-income housing project”. The 0.1% general partner of the partnership, Yale Street Mutual Housing Association, Inc., is a nonprofit organization in which the board of directors is directly controlled by MHA.

Maplewood School Apartments Limited Partnership was organized under the laws of the State of Connecticut as a limited partnership formed December 5, 1994, to acquire an interest in real property located in Bridgeport, Connecticut, and to rehabilitate and operate thereon a residential housing project complex of thirty-two (32) units, under Section 42 of Internal Revenue Code, as a “qualified low-income housing project”. The 1% general partner of the partnership, Maplewood Court Mutual Housing Association, Inc., is a nonprofit organization in which the board of directors is directly controlled by MHA.

Huntington Senior Housing Limited Partnership was organized under the laws of the State of Connecticut as a limited partnership formed January 21, 2003, to acquire an interest in real property located in Trumbull, Connecticut, and to rehabilitate and operate thereon a residential housing project complex of forty (40) units, under Section 42 of Internal Revenue Code, as a “qualified low-income housing project”. The general partner of the partnership is MHA.

Woodward Cliffs Limited Partnership was organized under the laws of the State of Connecticut as a limited partnership formed December 11, 1995, to acquire an interest in real property located in Norwalk, Connecticut, and to rehabilitate and operate thereon a residential housing project complex of six (6) units, under Section 42 of Internal Revenue Code, as a “qualified low-income housing project”. The 1% general partner of the partnership, Woodward Cliffs Development Corporation, is a for-profit company owned 50% by MHA. The 99% limited partner of the partnership is MHA Woodward Cliffs, LLC, which is a limited liability company of which MHA is the 51% managing member.

Wilton Commons Apartments Limited Partnership was organized under the laws of the State of Connecticut as a limited partnership formed November 20, 2010, to acquire an interest in real property located in Wilton, Connecticut, and to rehabilitate and operate thereon a residential housing project complex consisting of fifty-one (51) units, under Section 42 of Internal Revenue Code, as a “qualified low-income housing project”. The general partner of the partnership, Wilton Commons GP, Inc., is a nonprofit organization in which the board of directors is jointly controlled by MHA and Wilton Commons, Inc. During the development and compliance phase, MHA has special fiscal and management rights.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 – ORGANIZATION - (Continued)**

Friendship House Apartments Limited Partnership was organized under the laws of the State of Connecticut as a limited partnership formed June 24, 2003, to acquire an interest in real property located in Stamford, Connecticut, and to rehabilitate and operate thereon a residential housing complex of one hundred twenty-one (121) units, under Section 42 of the Internal Revenue Code as a “qualified low-income housing project”. The .01% general partner of the partnership, NNI/MHA Friendship, Inc., is a nonprofit organization in which the board of directors is jointly controlled by MHA and New Neighborhoods, Inc.

Trinity Park Apartments Limited Partnership was organized under the laws of the State of Connecticut as a limited partnership formed on September 29, 2011 to acquire, construct and operate a housing project for low-income and very low-income families in Stamford, Connecticut and to rehabilitate and operate thereon a residential housing complex of forty-eight (48) units, known as Trinity Park Apartments (the Project), under Section 42 of the internal Revenue Code as a “qualified low-income housing project”. The Partnership has also executed an Extended Low-Income Housing Commitment with Connecticut Housing Finance Authority (CHFA) in which the Partnership will continue to operate the Project as a qualified low-income housing project for an additional thirty-five years after the tax credit compliance period.

Wilton Commons 2, LLC was organized under the laws of the State of Connecticut as a limited liability company on March 6, 2014 to acquire an interest in real property located in Wilton, Connecticut and to develop and operate a twenty-three (23) unit congregate housing facility. This development was developed using funds from the State of Connecticut Department of Housing. MHA is a 50% member of Wilton Commons 2, LLC.

All significant intercompany accounts and transactions are eliminated in the consolidation.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation and Accounting**

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

**Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**A. Basis of Presentation and Accounting – (Continued)**

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same reporting period have been reported as unrestricted support in the consolidated statement of activities.

The financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

**B. Revenue Recognition**

Rental Income - MHA recognizes monthly rental revenue earned from leasing housing units on the due date. Rental payments received in advance of the due dates are deferred until earned. All leases between the properties and the tenants of the property are operating leases.

Sale of Properties - MHA recognizes revenue earned from the construction or rehabilitation and sale of housing properties when properties are sold and any rescission period, if applicable, has expired.

Cash Contributions - MHA reports contributions received or pledged as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Non-Cash Contributions - MHA records the estimated fair value of the donated materials, equipment and usage of assets (i.e., rent) as both revenues and expenses in the period in which the donation is received.

Donated Services - MHA recognizes donated services if they create or enhance non- financial assets or require specialized skills and would typically be purchased if not provided by donation. The Organization values volunteer services based upon an hourly rate determined by an estimated standard market rate multiplied by the number of volunteer hours. During the year ended December 31, 2017, the value of contributed services meeting the requirements for recognition in the consolidated financial statements was not material and has not been recorded.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**B. Revenue Recognition – (Continued)**

Grants - MHA was the recipient of various grants and contracts from Federal, state and local agencies and other institutions. Such amounts were reflected as support and expenses in the accompanying consolidated financial statements when conditions for usage were met. Under the terms and conditions of these grants, expenditures and compliance with their provisions are subject to audit by the governmental agency. Management does not anticipate that there would be material changes as a result of any grant audits.

**C. Use of Estimates**

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

**D. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit with financial institutions and other debt securities that are readily convertible into cash and purchased with original maturities of three months or less.

**E. Concentrations of Credit Risk**

MHA has various government subsidized properties owned by various partnerships and limited liability companies. The operations of these entities are concentrated in the multifamily real estate market, which is a heavily regulated environment. The operations of these entities are subject to the administrative directives, rules and regulations of Federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an Act of Congress or these regulatory agencies. These 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.

The Organization maintains its cash balances in several accounts at various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, these balances may exceed the Federal insurance limits. At December 31, 2017, MHA had balances of approximately \$132,000 in excess of FDIC insurance limits.

**F. Investments**

The Organization maintains accounts with a brokerage firm. The accounts contain cash and securities, which are insured by the Securities Investor Protection Corporation. The Organization's investments include cash equivalents, exchange traded funds and fixed income securities managed by professional investment advisors, designed to minimize market concentration risks. Amounts over \$500,000 are not insured by the Securities Investor Protection Corporation.

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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**G. Fair Value Measurements**

Investments in equity securities with readily determinable fair values and investments in debt securities are carried at fair value in the consolidated statement of financial position. Realized and unrealized gains and losses on these investments are reported in the consolidated statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

MHA has adopted the fair value accounting standards on financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring or nonrecurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

**H. Tenant Accounts Receivable and Bad Debts**

The face amount of accounts receivable is reduced by an allowance for doubtful accounts. The allowance for doubtful accounts of \$97,054 at December 31, 2017 reflects management's best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. It is reasonably possible that management's estimate of the allowance will change. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts.

**I. Property and Equipment**

MHA follows the practice of capitalizing all expenditures for property and equipment in excess of \$2,000; the fair value of donated assets is similarly capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives as follows:

Buildings	15-40 years
Land and Building Improvements	7-40 years
Equipment	3-7 years

Expenditures for renewals and betterments, which extend the useful lives of property and equipment, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation on construction in progress will begin when the asset is placed in service.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**J. Impairment of Long-Lived Assets**

MHA reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis or other valuation techniques. There were no impairment losses recognized during 2017.

**K. Deferred Costs and Amortization**

Deferred costs consist of tax credit fees for low-income-housing-tax-credit (LIHTC) properties in the amount of \$108,161, organization costs in the amount of \$55,132, and syndication costs in the amount of \$27,835. Tax credit fees are amortized over the tax credit compliance period (15 years). Organization costs are being amortized over periods ranging from fifteen to forty years. Costs incurred to syndicate the partnership are not amortized. Amortization expense for the year ended December 31, 2017 aggregated \$11,829.

**L. Debt Issuance Costs**

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense. Debt issuance costs are amortized over the life of the permanent mortgage using the straight-line method, which approximates the effect interest method. For the year ended December 31, 2017 the amortization of debt issuance costs included in interest expense was \$13,957. At December 31, 2017, the accumulated amortization amounted to \$73,520.

**M. Loans and Allowances for Credit Losses**

The Revolving Loan Fund (“RLF”) makes home improvement loans in its target neighborhoods to homeowners who are generally unable to qualify for credit from banks. The RLF also makes loans to commercial property owners within these target neighborhoods for commercial improvements or acquisition for their own businesses. Loans are made with repayment terms and at interest rates based on each borrower's financial condition. Loans are reflected at amortized cost (unpaid principal balances reduced by any partial charge-offs or specific valuation allowances) less a general allowance for credit losses.

Loan funds are provided to MHA by various sources pursuant to contracts that stipulate that the funds are to be maintained in revolving loan funds to be used for the purpose noted above.

The RLF considers a loan to be impaired when, in management's judgment, current information and events indicate it was probable that collection of all amounts due according to the contractual terms of the loan agreement will not be met. Impaired loans are reflected at fair value, which is generally determined based on collateral values.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**M. Loans and Allowances for Credit Losses – (Continued)**

Interest on loans is reflected as revenue based on rates applied to principal amounts outstanding. The accrual of interest revenue is generally discontinued when a loan becomes past due 90 days or more as to contractual payments of principal or interest, or is determined to be impaired.

An allowance for credit losses has been established by provisions charged to expense, decreased by charge-offs, net of recoveries. This allowance represents an amount which, in management's judgment, was adequate to absorb possible losses on loans that may become uncollectible based on such factors as past loan loss experience, changes in the nature and volume of the loan portfolio, current and prospective economic conditions that may affect the borrowers' ability to pay, overall portfolio quality and review of specific problem loans. An allowance for impaired loans is provided, when appropriate, if carrying values exceed collateral values.

**N. Below Market Loans**

MHA's activities include the development of low-income housing. Various government agencies, foundations and other not-for-profit organizations having a similar mission to foster low-income housing have lent money to MHA at advantageous terms. MHA has not discounted these below market loans.

**O. Functional Expenses**

Direct expenses are charged to each program benefited. Any expenditure not directly chargeable is allocated among the programs.

**P. Income Taxes**

The following entities are classified by the Internal Revenue Service ("IRS") as public charitable organizations exempt from income tax under Section 501(c) (3) of the Internal Revenue Code:

MHA of Southwestern, Connecticut, Inc.  
Trinity Park Mutual Housing Association, Inc.  
Maplewood Court Mutual Housing Association, Inc.  
Yale Street Mutual Housing Association, Inc.  
Greenfield Commons, Inc.  
Wilton Commons GP, Inc.  
MHA Merton House LLC  
MHA Fairfield Commons I, Inc.

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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**P. Income Taxes – (Continued)**

The following entities are considered disregarded entities for income tax purposes. All income or loss of the companies is recorded on the tax return of Mutual Housing Association of Southwestern Connecticut, Inc.

MHA Conger House, LLC  
MHA Yale Street, LLC  
Trinity Park Mutual Housing Limited Partnership

The following corporations account for Federal income taxes in accordance with the guidance on accounting for income taxes. The guidance requires the use of an asset and liability approach that provides for the recognition of deferred tax assets and liabilities for the expected future consequences or events that have been recognized in the corporations' consolidated financial statements or tax returns. In estimating future tax consequences, the standard generally considers all expected future events other than enactment of changes in the law or rate. Income taxes are provided for the tax effect of transactions reported in the financial statements and consist of taxes currently due. The corporations have passive loss and net operating loss carryforwards of approximately \$56,000, which expire at various dates between 2019 and 2036. The corporations' total deferred tax asset arising from passive loss and net operating loss carryforwards is approximately \$18,000, which has been fully reserved. There was no increase in the valuation allowance for the year ended December 31, 2017.

NNI/MHA Friendship, Inc. - non-stock corporation that has elected to be taxed as a corporation.  
Woodward Cliffs Development Corporation - a for-profit C corporation.  
Wilton Commons II, Inc.

The following entities have been organized as limited partnerships or limited liability companies. Accordingly, the partners or members are taxed individually on their pro-rata share of the entity's earnings, and no provision for income taxes has been made.

Friendship House Apartments Limited Partnership  
Huntington Senior Housing Limited Partnership  
Maplewood School Apartments Limited Partnership  
Trinity Park Apartments Limited Partnership  
Yale Street Limited Partnership  
Woodward Cliffs Limited Partnership  
Wilton Commons Apartments Limited Partnership  
Wilton Commons 2, LLC  
Spruce Street Townhomes, LLC

MHA has no unrecognized tax benefits at December 31, 2017. MHA's Federal information returns prior to fiscal year 2014 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**P. Income Taxes – (Continued)**

If applicable, MHA would recognize interest and penalties associated with tax matters as part of interest expense in the consolidated statement of activities and include accrued interest and penalties in accrued expenses in the consolidated statement of financial position. MHA did not recognize any interest or penalties associated with tax matters for the year ended December 31, 2017.

**Q. Subsequent Events**

Management has reviewed subsequent events through September 19, 2018, which is the date the consolidated financial statements were approved and available for issuance.

**NOTE 3 – LIQUIDITY AND MANAGEMENT’S PLANS**

For the year ended December 31, 2017, MHA had a consolidated net loss of \$3,490,294 (MHA’s net loss excluding the non-controlling interest for the year was \$2,490,876.) The Organization has net assets of \$27,116,239 as of December 31, 2017. The Organization has a working capital deficit of \$931,686 as of December 31, 2017. Management anticipates paying down payables of \$1.5 million with construction financing, future rental operations and other financing to be received for development projects and limited partnerships. In addition, the CompuLedger, LLC loan of \$447,663 and related accrued interest /liabilities of \$70,701 for MHA Conger House, LLC will be repaid upon sale of the property in 2018 and is presented in current liabilities.

**NOTE 4 – RESTRICTED CASH**

Mortgage Escrows, Replacement Reserves and Other Reserves - In accordance with the mortgage agreements, certain projects are required to make deposits into mortgage escrows (restricted for tax and insurance payments), replacement reserves (restricted to repairs and maintenance) and other reserves (restricted for a specific purpose). At December 31, 2017, the mortgage escrows, replacement reserves and other reserves were funded with a balance of \$3,351,779.

Resident Security Deposits - Resident security deposits are held in a separate account in the name of the project. These accounts are restricted to refunding security deposits due to the residents. At December 31, 2017, the resident security deposits accounts had a balance of \$315,247.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 – INVESTMENTS**

Investments consist of the following:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
<u>Parkside Gables Fund</u>			
Government securities	\$ 6,847	\$ 7,438	\$ 591
<u>Trinity Park Apartments, L.P.</u>			
Government securities	787	844	57
<u>Capital Projects Fund</u>			
Exchange-traded & closed-end funds	744	627	(117)
Government securities	<u>1,164</u>	<u>1,167</u>	<u>3</u>
	<u>\$ 9,542</u>	<u>\$ 10,076</u>	<u>\$ 534</u>

The following schedule summarizes the investment return of these investments, which is included in investment income on the consolidated statement of activities for the year ended December 31, 2017.

	Parkside Gables	Trinity Park	Capital Projects	Total
Interest and dividends	\$ 425	\$ 93	\$ 132	\$ 650
Realized loss	(12)	(1)	(15)	(28)
Unrealized gain (loss)	591	57	(114)	534
Investment fees	<u>(170)</u>	<u>(120)</u>	<u>(170)</u>	<u>(460)</u>
	<u>\$ 834</u>	<u>\$ 29</u>	<u>\$ (167)</u>	696
Interest on cash accounts				<u>18,018</u>
				<u>\$ 18,714</u>

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value hierarchy distinguishes three levels of inputs that may be utilized when measuring fair value including Level 1 inputs (the highest priority, using quoted prices in active markets for identical assets or liabilities), Level 2 inputs (using inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability) and Level 3 inputs (the lowest priority, unobservable inputs supported by little or no market activity based on management's assumptions used to measure assets and liabilities). A financial asset or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

Government securities are valued at the closing price reported on the active market on which the individual securities are traded.

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

Fair Value Measurements at Reporting Date Using

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government securities	\$ 10,076	\$ 10,076	\$ -	\$ -

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MHA recognizes transfers into and out of levels as of the date an event or change in circumstance causes the transfer. There were no transfers during the year.

**NOTE 7 – GRANT RECEIVABLE**

The grant receivable balance consists of various federal, state and local grants owed to MHA and its consolidated entities. At December 31, 2017, the grant receivable balance amounted to \$42,955.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 – MORTGAGES RECEIVABLE**

Each outstanding loan bears interest at various rates with specific maturity dates determined at the time the loan is made. Management has estimated an allowance for doubtful accounts on these receivables in the amount of \$516,776, of which \$109,527 is eliminated in consolidation, as of December 31, 2017. Loans receivable by funding source at December 31, 2017 were as follows:

Community Development Block Grant	\$	201,546
City of Bridgeport		373,245
NeighborWorks America		217,000
Other		170,983

Additional mortgages receivable consists of the following:

Revolving Loan Fund has nineteen (19) notes receivable from the buyers of the Spruce Street Townhomes, LLC units for a total amount of \$144,950. The notes are due upon the earlier of i) sale to a non-qualified buyer, ii) refinancing (except for the purpose of obtaining a lower rate), or iii) forty years (2045). In forty years, if the owner is at or below 80% of the Area Median Income, the notes will be forgiven. The loans are secured by mortgages on the properties subordinate to other mortgages. Management has estimated an allowance for doubtful accounts of \$72,475. 72,475

Revolving Loan Fund has a note receivable from an unrelated buyer of a property for \$24,000. The loan is noninterest bearing and is due and payable at the earlier of i) sale to a non-qualified buyer, ii) refinancing (except for the purpose of obtaining a lower rate), or iii) thirty years (2034). The loan is secured by a mortgage on the property. 24,000

Operating Fund has a note receivable from Wilton Commons Apartments LP, a subsidiary of MHA, for \$190,598. The mortgage is payable in monthly installments of interest only at .5% through the close of permanent financing. Principal and interest payments are due monthly until April 2052 when the entire balance is due and payable. The loan is secured by a mortgage on the property. 190,598

Operating Fund has a note receivable from Trinity Park Apartments LP, a subsidiary of MHA, for \$106,173. The mortgage is payable from net cash flow in monthly installments of interest only at .5%, compounded annually. The note matures in August 2055 when the entire principal and accrued interest balance is due and payable. The loan is secured by a mortgage on the property. 106,173

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 – MORTGAGES RECEIVABLE – (Continued)**

Operating Fund has a note receivable from Trinity Park Apartments LP, a subsidiary of MHA, for \$105,000. The mortgage is payable from net cash flow in monthly installments of interest only at .5%, compounded annually. The note matures in August 2055 when the entire principal and accrued interest balance is due and payable. The loan is secured by a mortgage on the property. 105,000

Trinity Park Mutual Housing, L.P. has a note receivable from Trinity Park Apartments LP, a subsidiary of MHA, for \$2,756,500. The note bears interest at 2.82%, compounded annually and shall be paid from Operating Cash Flow, to the extent available. The note matures in August 2055 when the entire principal and accrued interest balance is due and payable. The loan is secured by a mortgage on the property. 2,756,500

Revolving Loan Fund has various notes receivable from the buyers of the units for a total amount of \$250,000. The notes are due upon the earlier of i) sale to a non-qualified buyer, ii) refinancing (except for the purpose of obtaining a lower interest rate), or iii) forty years (2044). In forty years, if the owner is at or below 80% of the Area Median Income, the note will be forgiven. The loans are secured by mortgages on the properties subordinate to other mortgages. Management has estimated an allowance for doubtful accounts of \$125,000. 125,000

	4,342,520
Less current portion	<u>23,096</u>
Non-current mortgages receivable	<u>\$ 4,319,424</u>
Total mortgage receivable	\$ 4,342,520
Due from subsidiaries, eliminated in consolidation	<u>(3,267,798)</u>
	<u>\$ 1,074,722</u>

Various loans are collateralized by real estate located in Southwestern Connecticut. Accordingly, the ability to collect on the loan portfolio is susceptible to changes in real estate market conditions in the area.

The total amount of mortgage receivables on nonaccrual status is approximately \$1,310,000. There are no mortgage receivables that are past due more than 90 days that still accrue interest.

Annual principal payments are as follows:

2018	\$	23,096
2019		21,341
2020		15,128
2021		14,351
2022		13,188
Thereafter		<u>987,618</u>
		<u>\$1,074,722</u>

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 – MORTGAGES RECEIVABLE – (Continued)**

The Organization received a \$300,000 grant from the Human Services Council of Mid- Fairfield County, Inc. for the purpose of loaning the money to Forty South Main Street Limited Partnership (an affordable housing project funded by City of Norwalk loans and equity from low-income housing tax credits). The loan accrued interest at 3% (1% was paid annually), was payable in full on June 28, 2026 and was secured by a third mortgage on the property. The loan was recorded at its net present value at the date of issuance in the amount of \$203,224. During the year ended December 31, 2017, the loan was forgiven and corresponding loan loss reserve balance was reduced in the same amount.

Woodward Cliffs Limited Partnership is wholly owned by MHA. MHA has made loans to Woodward Cliffs Limited Partnership in the amount of \$109,527. The loans are included in mortgages receivable and have been eliminated in consolidation.

Pursuant to the Neighbor Works Restricted Capital (NRC) contract with the Organization, any earnings on NRC net assets may be used to fund the costs of operating the revolving loan fund so long as the revolving loan fund balance does not go below \$100,000. Pursuant to the grant agreement with Connecticut Light & Power, the first \$5,000 of income earned for each period may be used to fund the costs of operating the loan fund.

**NOTE 9 – DEVELOPER FEES RECEIVABLE**

The Organization entered into agreements to provide consulting and developing services to various subsidiaries. The amounts due have no specific repayment terms and are noninterest bearing. The total amount due to MHA that have been eliminated in consolidation is as follows:

	<u>Amount</u>
Huntington Senior Housing, LP	\$ 334,119
Maplewood School Apt LP	92,974
Trinity Park Apts., LP	53,014
Wilton Commons Apts., LP	474,463
Yale Street, LP	<u>139,704</u>
	<u>\$ 1,094,274</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
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**NOTE 10 – OTHER NOTES RECEIVABLE**

Capital Projects Fund has a note receivable from NNI/MHA Friendship, Inc. for \$100,000. The funds are to be used to complete the renovations of Friendship House. The loan is noninterest bearing and is due and payable in forty (40) years (June 2049). \$ 100,000

Capital Projects Fund has a note receivable from Stamford Affordable Housing, Inc. (“SAHI”) for the development of Friendship House. The payment on the loan is equal to 49.99% of the loan proceeds received by SAHI on its underlying acquisition note to Friendship House Apartments Limited Partnership (“Friendship House”) for \$5,473,491. SAHI is only obligated to make payment on this note to the extent it receives proceeds on the acquisition note with Friendship House. The acquisition note between SAHI and Friendship House bears interest at 4.50% and is payable from Operating Cash Flow of Friendship House. The note is due and payable on March 19, 2049. The acquisition note is secured by the property owned by Friendship House. 3,584,831

Capital Projects Fund has a note receivable from Maplewood School Apartments Limited Partnership for funds advanced for capital improvements. The loan is noninterest bearing and has no specific repayment terms. 289,750

\$ 3,974,581

All balances have been eliminated in consolidation.

Capital Projects Fund has a note receivable from Habitat for Humanity of Coastal Fairfield County. The loan is non-interest bearing. Payments of \$571 are made quarterly. The loan is due and payable in 2045. \$ 65,150

**NOTE 11 – LINE OF CREDIT**

MHA has a line of credit with Patriot Bank, which allowed borrowings up to \$300,000. The line bears interest at prime plus .5% with a floor of 3.75%, (3.75% at December 31, 2017) and matures on October 1, 2018. The outstanding balance is due on demand and is secured by the assets of the Organization. The outstanding balance at December 31, 2017 was \$291,117. During the year ended December 31, 2017, MHA incurred interest and paid interest in the amount of \$13,860.

Beginning in December 2017, Patriot Bank converted the line of credit to a non-revolving facility with annual renewals. Repayments are being made in the monthly amount of \$500 and no further withdrawals are permitted. There were no additional borrowings during year ended December 31, 2017.

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**NOTE 12 – MORTGAGES PAYABLE**

	<u>Amortizing</u>	<u>Non- Amortizing</u>
<p><u>MHA 20-28 Fairfield Commons LLC</u> had received a mortgage from NeighborWorks Capital for \$1,250,000. The loan was payable in monthly installments of principal and interest (6%) over a 30-year amortization schedule. The loan was due and payable on November 18, 2016. The loan was secured by the real property. The agreement required 75% of all Project units to be affordable to households with incomes at 80% or less of the AMGI and either at least 40% of the units were affordable to households with incomes 60% or less of AMGI or at least 20% of units were affordable to households with incomes of 50% or less of AMGI. The loan was refinanced in January 2017.</p>	\$ -	\$ -
<p><u>MHA 20-28 Fairfield Commons LLC</u> has received a mortgage from Housing Development Fund, Inc. for \$1,225,000. The loan is payable in monthly installments of principal and interest (5%) over a 30-year amortization schedule. The loan is due and payable on February 1, 2047. The loan is secured by the real property. The agreement requires that at least 30% of Project units must be used as low to moderate income units or special needs units.</p>	1,210,002	-
<p><u>MHA 20-28 Fairfield Commons LLC</u> has received an additional mortgage from Housing Development Fund, Inc. for \$100,000. The loan accrues interest at 3% and interest only payments are to be made during the term of the loan. The loan along with accrued interest is due and payable on December 1, 2019. The loan is secured by the real property.</p>		71,650
<p><u>MHA 20-28 Fairfield Commons LLC</u> has assumed loans of \$44,900 and \$45,000 from the City of Stamford. The loans are noninterest bearing and are secured by a certain property. The loans are due and payable on August 1, 2028.</p>	-	89,900
<p>The carrying value of the properties securing the Fairfield Commons loans is \$1,988,600.</p>		
<p><u>Parkside Gables</u> has a loan with the City of Stamford HOME Program that allows for borrowings up to \$100,000. The loan is noninterest bearing and is due on July 10, 2043. The loan is secured by the property.</p>	-	100,000
<p>The carrying value of the properties securing the Parkside Gables loan is \$3,746,952.</p>		

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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

	<u>Amortizing</u>		<u>Non- Amortizing</u>
<p><u>MHA Fairfield Commons I, Inc.</u> has a promissory note with the City of Stamford that provides for a loan of \$80,000 for the rehabilitation of 4 rental housing units located at 22 Fairfield Avenue in Stamford, Connecticut. The loan is noninterest bearing and is due on June 24, 2040. The loan is secured by the property.</p>	\$	-	\$ 80,000
<p><u>MHA Fairfield Commons I, Inc.</u> has a promissory note with the City of Stamford that provides for a loan of \$120,000 for the purpose of constructing the first 6 unit phase of a two phase project comprised of 12 rental housing units located at 20-28 Fairfield Avenue in Stamford, Connecticut. The loan is noninterest bearing and is due in 2041. The loan is secured by the property.</p>		-	120,000
<p>The carrying value of the properties securing the Fairfield Commons I loans is \$1,573,167.</p>			
<p><u>MHA Fairfield Commons II, LLC</u> has a loan with the State of Connecticut that provides for a loan of \$1,187,000 for the purpose of constructing the second 6 unit phase of a two phase project comprised of 12 rental housing units located at 20-28 Fairfield Avenue in Stamford, Connecticut. The loan is noninterest bearing and is due in 2047. The loan is secured by the property.</p>		-	364,919
<p><u>MHA Fairfield Commons II, LLC</u> has a promissory note with the City of Stamford that provides for a loan of \$120,000 for the purpose of constructing the second 6 unit phase of a two phase project comprised of 12 rental housing units located at 20-28 Fairfield Avenue in Stamford, Connecticut. The loan is noninterest bearing and is due in 2041. The loan is secured by the property.</p>		-	29,236
<p><u>MHA Conger House, LLC</u> has received 3 notes with CompuLedger, LLC in the amount of \$507,000. The notes bear interest ranging from 7.00% to 8.00%. Installments of \$3,544 of principal and interest are due and payable monthly. A final balloon payment equal to the unpaid principal and interest is due on July 1, 2027. The notes are secured by the property.</p>	447,663		-
<p>The carrying value of the properties securing the Conger House loans is \$400,000.</p>			
<p><u>MHA Merton House LLC</u> has a note payable of \$200,000 with the City of Bridgeport. The HOME loan is noninterest bearing and is secured by a certain property. The loan is due and payable on August 27, 2029.</p>		-	200,000

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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

	<u>Amortizing</u>	<u>Non- Amortizing</u>
<p><u>MHA Merton House LLC</u> has a loan with CHFA that allows for borrowings up to \$6,375,521. Principal advances are accruing interest at a rate of 4% per year. The note shall mature upon the earlier of i) a “Capital Transaction”, or ii) November 1, 2040. No payments of interest or principal are due and payable during the term of the loan until maturity unless there is surplus cash present. The note is secured by the property.</p>	\$ -	\$ 6,375,120
<p>The carrying value of the properties securing the MHA Merton House loans is \$5,105,671.</p>		
<p><u>Yale Street Limited Partnership</u> has a loan with the City of Bridgeport HOME program bearing interest at a rate of 6.02% per year. Principal and accrued interest is due and payable in June 2030. Deferred interest is \$598,233 at December 31, 2017. The buildings are pledged as collateral on the loan.</p>	-	500,000
<p><u>Yale Street Limited Partnership</u> has a permanent mortgage loan with CHFA for the original amount of \$1,505,000. The loan is payable in monthly installments of principal and 4% interest of \$6,474 through April 1, 2040. The buildings are pledged as collateral on the loan.</p>	1,146,023	-
<p>The carrying value of the properties securing the Yale Street loans is \$1,637,483.</p>		
<p><u>Trinity Park Apartments, LP</u> has assumed a loan along with accrued interest from Trinity Park Mutual Housing, LP payable to the City of Stamford. The note bore interest at 6.83%. The building is pledged as collateral on the loan. In December 2017, the partnership entered into a Modification and Subordination Agreement with the City. Under this Agreement, the interest rate was replaced with 0% and the maturity date is December 1, 2047, at which time the entire principal balance will be due. At December 31, 2017, the accrued interest balance in the amount of \$199,615 was written off, and a forgiveness on City of Stamford loan was recognized as an infrequent item on the statement of operations.</p>	-	143,500
<p><u>Trinity Park Apartments, LP</u> has entered into a loan agreement with the City of Stamford to receive \$350,000 under the City of Stamford Affordable Housing Linkage Program. The loan will bear no interest and will be due and payable on August 14, 2045. The loan will be secured by the building. At December 31, 2017 the unreleased portion of the loan was \$35,000.</p>	-	315,000

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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

	<u>Amortizing</u>	<u>Non- Amortizing</u>
<u>Trinity Park Apartments, LP</u> has a \$220,000 noninterest bearing loan with the City of Stamford HOME program. The loan matures on September 12, 2054. The note is secured by a mortgage on 78 Spruce Street in Stamford.	\$ -	\$ 220,000
<u>Trinity Park Apartments, LP</u> has received a note from Trinity Park Mutual Housing Limited Partnership (Seller) as part of financing agreement for purchase of the property. The note accrues interest at 2.82% compounded annually. Annual principal and interest payments due from operating cash flow, if available. All unpaid principal and accrued interest shall become due in August 2055. The buildings are pledged as collateral on the loan.	-	2,756,500
<u>Trinity Park Apartments, LP</u> had a construction loan with CHFA, which permitted borrowings up to \$4,440,000. During the construction term, the loan was payable in monthly installments of interest only on the outstanding principal balance at the rate of 4% per annum. The loan was due and payable on August 1, 2017 and was secured by a mortgage on the property. The loan was repaid in December 2017 from permanent loan proceeds.	-	-
<u>Trinity Park Apartments, LP</u> has a 4.50% permanent mortgage loan with People’s United Bank, National Association in the amount of \$1,000,000. Commencing on February 1, 2018, principal and interest are payable in monthly installments of \$5,105 through December 2037. The building is pledged as collateral for the loan.	1,000,000	-
<u>Trinity Park Apartments, LP</u> has a loan with CHFA in the amount of \$673,000. The loan accrues interest at 1% annually with a maturity date of December 1, 2047. No payments of interest or principal are due and payable during the term of the loan until maturity unless there is surplus cash present. 20% of surplus cash, as defined, shall be applied to reduce any outstanding accrued interest and principal. The building is pledged as collateral for the loan.	-	673,000
<u>Trinity Park Apartments, LP</u> has a loan due to MHA. The loan is payable in monthly installments of interest only at .5%, compounded annually. The loan is due and payable on August 14, 2055. The loan is secured by a mortgage on the property.	-	106,173
<u>Trinity Park Apartments, LP</u> has a loan due to MHA. The loan is payable in monthly installments of interest only at .5%, compounded annually. The loan is due and payable on August 14, 2055. The loan is secured by a mortgage on the property.	-	105,000

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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

	<u>Amortizing</u>		<u>Non- Amortizing</u>
The carrying value of the properties securing the Trinity Park Apartments loans is \$7,517,338.			
<u>Maplewood School Apartments Limited Partnership</u> has a loan with the City of Bridgeport. The loan is noninterest bearing and is due and payable in September 2023. The buildings are pledged as collateral on the loan.	\$	-	\$ 125,000
<u>Maplewood School Apartments Limited Partnership</u> has a loan with the Bridgeport HOME Program. The loan is noninterest bearing. Principal is due and payable July 15, 2037. The buildings are pledged as collateral on the loan.		-	150,000
<u>Maplewood School Apartments Limited Partnership</u> has received a note under the Community Development Block Grant Program through the City of Bridgeport. The note is noninterest bearing. Principal is due and payable in July 2037. The buildings are pledged as collateral on the loan.		-	225,000
<u>Maplewood School Apartments Limited Partnership</u> has received a note from the Housing Authority of the City of Bridgeport. The note is noninterest bearing. Principal payments in the amount of \$2,000 per annum are due from available cash flow. All unpaid principal shall become due in November 2037. The buildings are pledged as collateral on the loan.		-	720,000
<u>Maplewood School Apartments Limited Partnership</u> has a note with EHI Development Fund (a related party of the limited partner). The note is noninterest bearing and is to be paid from excess cash, cash from sales or cash from refinancing. Any unpaid principal is due and payable in July 2032. The buildings are pledged as collateral on the loan.		-	150,000
<u>Maplewood School Apartments Limited Partnership</u> has a 3% permanent mortgage loan with CHFA for the original amount of \$878,700. Principal and interest are payable in monthly installments of \$3,146 through September 2042. The buildings are pledged as collateral on the loan. The Partnership has not been able to make all required payments on the mortgage and related reserve accounts. The Partnership is in the process of re-syndicating with CHFA with an anticipated closing during 2018.	742,254		-
<u>Maplewood School Apartments Limited Partnership</u> has a note with MHA funded by NeighborWorks America. The note is noninterest bearing and will be due in the event of default of the agreement.		-	289,750
The carrying value of the properties securing the Maplewood loans is \$2,114,187.			

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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

	<u>Amortizing</u>	<u>Non- Amortizing</u>
<u>Huntington Senior Housing Limited Partnership</u> has a note payable to the Department of Economic and Community Development under the HOME loan program. The loan accrues interest at 1%. The entire outstanding principal balance and accrued interest of \$103,220 are due and payable April 2042. The loan is secured by the building.	\$ -	\$ 1,433,000
<u>Huntington Senior Housing Limited Partnership</u> has a 4% permanent mortgage loan with CHFA for the original amount of \$1,094,300. Principal and interest are payable in monthly installments of \$4,845 through June 2044. The buildings are pledged as collateral on the loan.	949,094	-
The carrying value of the properties securing the Huntington Senior loans is \$4,659,460.		
<u>Woodward Cliffs Limited Partnership</u> has a 3% permanent mortgage loan with CHFA. Principal and interest are payable in monthly installments of \$1,476 through October 2026. The apartment project is pledged as collateral on the loan.	137,316	-
<u>Woodward Cliffs Limited Partnership</u> has a note payable to MHA. The loan bears interest at 3% and is payable in monthly installments of principal and interest through April 1, 2015. The loan is secured by a mortgage on the property. The loan is currently in default and has been reflected as a current liability. However, no payment can be made unless surplus cash is available.	-	11,732
<u>Woodward Cliffs Limited Partnership</u> has a note payable due to MHA. The note is payable in monthly installments of interest only at 6% through August 2011 when the entire balance is due and payable. The loan is secured by a mortgage on the property. The loan is currently in default and has been reflected as a current liability. However, no payment can be made unless surplus cash is available.	-	60,000
<u>Woodward Cliffs Limited Partnership</u> has a note payable due to MHA. The note is payable in monthly installments of interest only at 6% through October 2015 when the entire balance is due and payable. The loan is secured by a mortgage on the property. The loan is currently in default and has been reflected as a current liability. However, no payment can be made unless surplus cash is available.	-	37,795
The carrying value of the properties securing the Woodward Cliffs loans is \$260,000.		

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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

	<u>Amortizing</u>	<u>Non- Amortizing</u>
<u>Wilton Commons Apartments Limited Partnership</u> has a loan with Wilton Commons, Inc. The loan is payable in monthly installments of interest only at 0.5% annually. The unpaid principal amount is due in 2052. The loan is secured by a mortgage on the property.	\$ -	\$ 650,000
<u>Wilton Common Apartments Limited Partnership</u> has a loan due to MHA. The loan is payable in monthly installments of interest only at .5% through April 11, 2052 when the entire balance is due and payable. The loan is secured by a mortgage on the property.	-	190,598
<u>Wilton Common Apartments Limited Partnership</u> has a loan to the State of Connecticut Department of Economic and Community Development under the HOME loan program. The loan is non-interest bearing and no payments are due under the term of the loan. The balance is due in full on April 22, 2052. The loan is secured by a mortgage on the property.	-	3,200,000
<u>Wilton Common Apartments Limited Partnership</u> has a permanent mortgage with CHFA in the amount of \$2,100,000. Principal and interest are payable in monthly installments of \$9,781 at an interest rate of 4.75% per annum. The loan is due and payable on June 1, 2054 and is secured by a mortgage on the property.	2,033,047	-
The carrying value of the properties securing the Wilton Common loans is \$8,966,439.		
<u>Friendship House Apartments Limited Partnership</u> signed a permanent mortgage with CHFA which requires principal and interest at a per annum rate of 5.50% and is due and payable in equal monthly installments. All remaining unpaid indebtedness and unpaid interest are due February 1, 2051. The loan is secured by a mortgage on the property.	7,577,341	-
<u>Friendship House Apartments Limited Partnership</u> has an (unsecured) note payable with Stamford Affordable Homes, Inc., a related party, for an original balance of \$5,473,491. Interest accrues and is added to the outstanding balance at 4.50% per annum. No payments of principal or interest shall be made unless there is surplus cash as defined in the Partnership Agreement. The entire principal balance is due in 2049. Surplus cash available in 2017 for payments on loan was \$625,833.	-	7,169,664

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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

	<u>Amortizing</u>	<u>Non- Amortizing</u>
<u>Friendship House Apartments Limited Partnership</u> assumed a loan payable to the City of Stamford, Connecticut in conjunction with the acquisition of the land and building. The loan bears no interest, therefore the loan balance was discounted to \$51,509. Interest is imputed at 3.52%, which was the applicable Federal rate at the time of the assumption, for the term of the loan. Principal is due on September 24, 2054.	\$ -	\$ 69,382
<u>Friendship House Apartments Limited Partnership</u> has a note with the City of Stamford, Connecticut for Community Development Block Grant funds received. The loan will be forgiven in 40 years as long as the property remains as a residence for low income persons, as defined by HUD. If not, the entire principal balance and 10% interest is immediately due and payable.	-	250,000
<u>Friendship House Apartments Limited Partnership</u> has a mortgage with the Connecticut Department of Economic and Community Development for \$2,000,000. No payments shall be made, or interest shall accrue, on the note as long as the Partnership remains in compliance with the terms of the Assistance Agreement. The entire principal balance is due March 19, 2049. The loan is secured by the property.	-	<u>2,000,000</u>
The carrying value of the properties securing the Friendship House loans is \$18,124,488.		
	15,242,740	28,981,919
Due to MHA, eliminated in consolidation	-	<u>(7,242,379)</u>
Total mortgages payable to third parties	15,242,740	21,739,540
Less: current portion	(657,361)	-
Less: debt issuance costs	<u>(419,385)</u>	<u>(65,745)</u>
	<u>\$ 14,165,994</u>	<u>\$ 21,673,795</u>

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 12 – MORTGAGES PAYABLE – (Continued)**

Maturities of mortgages payable to third parties for the next five years and thereafter are as follows:

<u>Year Ending December 31,</u>		
2018	\$	657,361
2019		292,564
2020		231,259
2021		242,104
2022		253,479
Thereafter		<u>35,305,513</u>
Total Principal Payments		36,982,280
Debt Issuance Costs, Net		<u>(485,130)</u>
		<u>\$ 36,497,150</u>

**NOTE 13 – OTHER NOTES PAYABLE**

Operating Fund financed the purchase of two trucks in August 2016. The term of the note is for six years and requires monthly payments of principal and interest. The notes are secured by the vehicles. \$ 78,838

Capital Projects Fund has received an unsecured working capital advance equity equivalent from RBS National Bank. The advance requires semi-annual interest payments of 2% through March 2015. The entire outstanding balance was due March 2015 and was renewed through 2018. The note automatically renews for successive three-year terms. 150,000

Capital Projects Fund has received an unsecured working capital advance equity equivalent from RBS National Bank. The advance requires semi-annual interest payments of 2% through October 2016. The entire outstanding balance is due October 2016 and automatically renews for successive three- year terms. 350,000

Total other notes payable	578,838
Less: current portion	<u>(16,608)</u>
	<u>\$ 562,230</u>

**NOTE 14 – MEMBERSHIP FEES**

In addition to a security deposit, residents of some properties must pay a \$2,500 refundable membership fee. The balance of refundable membership fee was \$237,848 at December 31, 2017. When the fee is fully paid by the resident, it earns interest for the resident. Accrued interest totaling \$132,196 is included on the consolidated statement of financial position.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 15 – CAPITAL ADVANCES AND HOUSING TRUST FUND PROGRAMS**

Parkside Gables was financed by the State of Connecticut through a capital grant. The property is to be held for the benefit of low and moderate income residents subject to a state lien on the property.

Greenfield Commons entered into a Capital Advance mortgage note and regulatory agreement with HUD. The agreements provided for a capital advance of \$1,308,400 to renovate the property for use. The mortgage note bears no interest and requires no repayment so long as the property remains available for persons that are very low-income, elderly or disabled. The capital advance is secured by a mortgage on the property, which matures July 28, 2048. The capital advance is included in unrestricted net assets on the consolidated statement of financial position.

Fairfield Commons was awarded a Capital Advance mortgage note and regulatory agreement with HUD under Section 811 of the National Affordable Housing Act. The agreement provides for a capital advance of \$903,500 to renovate the property at 20-28 Fairfield Avenue for use. The mortgage note bears no interest and requires no repayment so long as the property remains available for very low-income persons with disabilities for 40 years. The capital advance is secured by a mortgage on the property and matures August 2053. During the year ended December 31, 2017, the remaining portion of capital advance of \$99,889 was released.

Wilton Commons 2, LLC was awarded a capital grant from the State of Connecticut Department of Housing under the Affordable Housing Program. The grant funds are available to finance the construction of the development in the amount of \$5,691,764. The company is required to rent the twenty-three units to persons whose incomes do not exceed 80% of the Area Median Income (AMI) as determined by HUD in perpetuity. During the year ended December 31, 2017, the Company received \$4,651,271 and expended \$5,348,918 of grant funds. During the year ended December 31, 2017, the Company received the remaining grant funds of \$787,646.

**NOTE 16 – HUD INVESTMENT IN VARIOUS PROJECTS**

At December 31, 2017, the U.S. Department of Housing and Urban Development (“HUD”) has approximately \$3.9 million in grants and outstanding loans invested in various projects owned and operated by MHA.

**NOTE 17 – NET ASSETS**

Temporarily restricted net assets are comprised of the following:

NeighborWorks Capital grants	<u>\$ 50,000</u>
Total	<u><u>\$ 50,000</u></u>

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**NOTE 17 – NET ASSETS – (Continued)**

Permanently restricted net assets are comprised of the following:

Revolving loan funds	\$ 1,157,026
NeighborWorks Capital Grants	<u>3,260,741</u>
Total	<u>\$ 4,417,767</u>

**NOTE 18 – FUNCTIONAL CLASSIFICATION OF NON-OPERATING EXPENSES**

Non-operating expenses by function for the year ended December 31, 2017 were as follows:

General and administrative expenses	\$ 61,618
Program expenses, net	3,477,200
Fundraising expenses	<u>-</u>
	<u>\$ 3,538,818</u>

**NOTE 19 – MANAGEMENT FEES**

MHA provides certain management services to the Properties. The agreements provide for various monthly fees and salary and expense reimbursements. The management contracts continue until cancelled by either party. Management fees earned for the year ended December 31, 2017 were \$240,792, all of which were eliminated in consolidation.

Yale Street Limited Partnership has entered into a partnership management agreement with MHA, which allows for an annual fee of \$15,000 to the extent excess cash is available. Any unpaid fees shall accrue without interest and be paid in subsequent years. Management fees for any year shall not remain unpaid under the agreement for more than ten years. The agreement expires upon dissolution of the Partnership. Unpaid partnership management fees totaled \$150,000, which is the maximum allowable accrual of the partnership management fee. This amount is included in long-term accrued expenses.

Maplewood School Apartments Limited Partnership has entered into a partnership management agreement with MHA, which allows for an annual fee of \$10,000 to the extent excess cash is available. The agreement expires upon dissolution of the Partnership. There was no fee earned for 2017.

Trinity Park Mutual Housing Limited Partnership has entered into a partnership management agreement with MHA, which allows for an annual fee of \$20,000 to the extent excess cash is available. The agreement expires upon dissolution of the Partnership. Unpaid partnership management fees totaled \$360,000, which is the maximum allowable accrual of the partnership management fee. This amount is included in long-term accrued expenses.

Wilton Commons Apartments Limited Partnership has entered into a partnership management agreement with MHA, which allows for an annual fee of \$10,000 (increased 3% annually) to the extent excess cash is available. The agreement expires upon dissolution of the Partnership. Unpaid partnership management fees totaled \$30,909 and is included in accrued expenses.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 20 – RETIREMENT PLAN**

The Organization has adopted a tax deferred annuity plan subject to Internal Revenue Code Section 403(b) covering all of its employees except those covered under a collective bargaining agreement if retirement benefits were the subject of good faith bargaining and if 2% or less of the employees covered by that agreement are professionals as defined in the plan. There are no minimum age or service requirements for employee contributions.

Employer contributions are discretionary. The minimum age requirement is 21 with one year of consecutive service (1,000 hours) required for employer contributions. No employer matching contributions are allowed under the plan. There was no retirement benefit expense for the year ended December 31, 2017.

**NOTE 21 – LAND – ELY AVENUE**

Norwalk Revolving Loan Fund owns a parcel of land located at 192 Ely Avenue. Norwalk Revolving Loan Fund leases the land to a homeowner at no cost for ninety-nine years expiring in 2090.

**NOTE 22 – GROUND LEASES**

MHA entered into a ground lease with Huntington Senior Housing Limited Partnership (“HSHLP”) for the property known as Trumbull Senior. HSHLP redeveloped the property in exchange for an annual lease payment of \$1 for seventy-five years. The leases expires on June 1, 2080.

MHA Merton House LLC has paid a sum of \$100,000 to the Bridgeport Roman Catholic Diocesan Corporation for the lease of the land for a period of 75 years terminating on January 1, 2086. Under the operating lease agreement, the property is required to consist of 22 units of affordable rental housing units to support chronically homeless clients of the Catholic Charities and Thomas Merton Homes. The prepaid lease has been capitalized and is amortized over the life of the lease. The remaining balance is \$92,002 at December 31, 2017. Annual amortization for the year ended December 31, 2017 amounted to \$1,333.

MHA Merton House LLC entered into a ground lease with the Housing Authority of the City of Bridgeport. MHA Merton House LLC redeveloped the property in exchange for an annual rent payment of \$10 through August 27, 2084 for the use of certain premises situated in the City of Bridgeport, Connecticut.

Woodward Cliffs Limited Partnership has entered into a ground lease agreement with Fairfield County Mutual Housing, Inc. The lease term is 99 years terminating on March 1, 2095. The Partnership has the option to extend the lease period for an additional 99 years. In consideration of continued use and occupancy of the leased property, the Partnership will pay an annual fee of \$100.

MHA/Action Housing, Inc. entered into 57 individual ground leases with unit owners in San Vincenzo Place that expire on May 1, 2091, with an option to renew for another 99 years. MHA/Action Housing, Inc. shall use the land to provide decent, affordable housing in exchange for a monthly fee of \$10 plus 1/12 of the insurance and other property expenses. MHA has decided not to bill or collect the \$10 monthly fee.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 23 – RENTAL ASSISTANCE CONTRACTS**

MHA 20-28 Fairfield Commons, LLC has a supportive housing contract with HUD. The contract provided for supportive services, operating costs and administrative costs of approximately \$176,000. The contract expired on September 30, 2017. Effective October 1, 2017, the contract was transferred to Laurel House, Inc., the supportive services provider at the property. Total funds received for the year ended December 31, 2017 were \$143,951.

MHA Conger House, LLC has a supportive housing contract with the State of Connecticut Department of Social Services (“DSS”). The contract provides for rental assistance payments through September 30, 2028. Total funds received for the year ended December 31, 2017 were \$89,502.

MHA Conger House, LLC has a supportive housing contract funded by HUD through Catholic Charities of Fairfield County. The contract continues until cancelled by either party. Total funds received for the year ended December 31, 2017 were \$63,920.

MHA Merton House LLC has a supportive housing contract with the State of Connecticut Department of Social Services (“DSS”). The contract provides for rental assistance payments through April 30, 2028. Total funds received for the year ended December 31, 2017 were \$315,012.

Wilton Commons 2, LLC has entered into a contract with the State of Connecticut Department of Housing (DOH) to provide congregate services for all 23 units. The contract is in effect for a period of fifty years, expiring in 2066. Total funds received for the year ended December 31, 2017 were \$211,068.

On October 26, 2011, Friendship House Limited Partnership signed a twenty-year rental assistance contract with HUD, which subsidizes all units of the Project for low-income families. Total funds received for the year ended December 31, 2017 were \$1,721,649.

Greenfield Commons, Inc. has entered into a Project Rental Assistance Contract (“PRAC”) with HUD to make housing assistance payments to the Project on behalf of qualified tenants. The contract renewal expires June 30, 2018 and covers all 10 units of the project. Total funds received for the year ended December 31, 2017 were \$75,696.

Fairfield Commons I, Inc. has entered into a Project Rental Assistance Contract (“PRAC”) with HUD to make housing assistance payments to the Project on behalf of qualified tenants. The contract expires August 31, 2018 and covers all 6 units of the project. Total funds received for the year ended December 31, 2017 were \$45,369.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 24 – COMMITMENTS AND CONTINGENCIES**

MHA Conger House, LLC has entered into a loan agreement with the City of Bridgeport. The agreement provides for a loan in the amount of \$387,000 under HUD's HOME Investment Partnership Program. The loan bears interest at 5.29% annually and is deferred until the due date of July 2036. No repayment is required on the loan and accrued interest as long as the property remains affordable for a period of 20 years from the date of project completion. Management believes that the loan principal balance and related accrued interest will be forgiven at the end of the compliance period as a result, no interest is being accrued on this loan. At December 31, 2017, the property is held for sale and management anticipates that the affordable commitment will be transferred to the buyer.

MHA Yale Street, LLC has entered into a loan agreement with the City of Bridgeport. The agreement provides for a loan in the amount of \$160,000 under HUD's HOME Investment Partnership Program. The loan bears interest at 5.29% annually and is deferred until the due date of November 2036. No repayment is required on the loan and accrued interest as long as the property remains affordable for a period of 20 years from the date of project completion. Management believes that the loan principal balance and related accrued interest will be forgiven at the end of the compliance period as a result, no interest is being accrued on this loan. At December 31, 2017, the property is held for sale and management anticipates that the affordable commitment will be transferred to the buyer.

In accordance with the Amended and Restated Limited Partnership Agreement, Wilton Commons GP, Inc. is obligated to fund operating deficits of Wilton Commons Apartments Limited Partnership in excess of the operating deficit reserve beginning with the date of achievement of breakeven operations and ending upon the date which the Partnership achieves an average debt service coverage ratio of 1.2 or better for thirty-six consecutive calendar months commencing on or after the second anniversary of the achievement of stabilized occupancy. The achievement of breakeven operations has been met. The guaranty ends on either 1) 5th anniversary of the achievement of stabilized occupancy, 2) 5th anniversary of permanent loan conversion or 3) breakeven (as noted above). The Project achieved stabilized occupancy on October 31, 2014.

As part of the purchase, Friendship House Limited Partnership assumed four forgivable notes payable to the City of Stamford, Connecticut in the aggregate amount of \$449,000. These notes are secured with a mortgage on the Project. The notes do not bear interest and are forgivable upon maturity, which occurs in 2017 through 2026, as long as certain requirements are met, including providing the building to low-income tenants. Management believes the Partnership will meet these requirements to have the debt forgiven, and has elected not to record the liability in the financial statements.

The Partnership Agreement of Friendship House Limited Partnership establishes the Operating Deficit Guarantee Period, which continues until the expiration of the compliance period. NNI/MHA Friendship, Inc. is responsible to fund any shortfalls during this period. The operating deficit for the fiscal year is the amount by which Partnership expenses for the fiscal year exceed the sum of the Partnership's gross cash receipts from operations, plus amounts drawn from any reserves for such fiscal year.

The limited partnerships (other than Friendship House) have entered into agreements to provide a right of first refusal to MHA to purchase the properties upon receipt of a bona fide offer to purchase. In addition, MHA is given the option to purchase the property at any time after the close of the fifteen-year tax credit compliance period.

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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 24 – COMMITMENTS AND CONTINGENCIES – (Continued)**

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

**NOTE 25 – EXTENDED USE AGREEMENTS**

Yale Street Limited Partnership has entered into extended use agreements with CHFA whereby the entities will continue to operate the Projects as qualified low-income housing projects for an additional fifteen years after the tax credit compliance period. In addition, the entities have entered into Agreements of Restricted Covenants, which requires the entities to continue to operate the Projects as qualified low-income housing projects for at least thirty years beyond the term of the mortgage.

Maplewood School Apartments Limited Partnership and Huntington Senior Housing Limited Partnership have entered into extended use agreements with CHFA whereby the Partnerships will continue to operate the Projects as qualified low-income housing projects for an additional thirty years after the tax credit compliance period. In addition, the Partnerships have entered into Agreements of Restricted Covenants, which requires the Partnerships to continue to operate the Projects as a qualified low-income housing project for at least thirty years beyond the term of the mortgages.

Woodward Cliffs Limited Partnership has entered into an extended use agreement with CHFA whereby the Partnership will continue to operate the Project as a qualified low-income housing project for an additional fifteen years after the tax credit compliance period (2026).

Wilton Commons Limited Partnership has entered into an extended use agreement with CHFA whereby the Partnership will continue to operate the Project as a qualified low-income housing project for an additional fifteen years after the tax credit compliance period (2043). In addition, the Partnership has entered into an Agreement of Restricted Covenants, which requires the Partnership to continue to operate the Project as a qualified low-income housing project for at least fifteen years beyond the term of the mortgage.

MHA Merton House, LLC has entered into an Agreement of Restricted Covenants, which requires the Company to continue to operate the Project as a qualified low-income housing project for at least thirty years beyond the term of the mortgage.

Trinity Park Apartments Limited Partnership has entered into an extended use agreement with the Connecticut Housing Finance Authority whereby the Partnership will continue to operate the Project as a qualified low-income housing project for an additional fifteen years after the tax credit compliance period.

As part of the financial assistance provided by the State of Connecticut Department of Housing for the construction of Wilton Commons 2, LLC, the company is required to rent the twenty-three units to persons whose incomes do not exceed 80% of the Area Median Income (AMI) as determined by HUD in perpetuity.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 26 – DISTRIBUTABLE FUNDS**

The limited partnerships, MHA Merton House, LLC, Greenfield Commons, Inc. and Fairfield Commons I, Inc., have regulatory agreements that limit annual distributions of net operating receipts to surplus cash available at the end of the year. MHA Merton House, LLC had \$15,105 of surplus cash available for distribution, MHA Fairfield Commons I, Inc. had \$3,288 of surplus cash available for deposit into residual receipts, and Friendship House Limited Partnership had \$634,788 of surplus cash available for distribution. There was no surplus cash available for distribution for the remaining limited partnerships and Greenfield Commons, Inc.

**NOTE 27 – EASEMENTS**

In exchange for valuable consideration received, MHA has provided an easement with certain conditions in favor of Connecticut Light & Power and Yankee Gas in perpetuity.

**NOTE 28 – DISCONTINUED OPERATIONS**

On March 1, 2018, the Catholic Charities of Fairfield County terminated their supportive housing contract with MHA Conger House, LLC and relocated existing tenants to other projects. Due to the circumstances, MHA has decided to sell the property. The property is held for sale at a listing price of \$400,000 and is expected to be sold in 2018 pending lender approval.

In addition, MHA is also working on selling the property held by MHA Yale Street, LLC. The property is held for sale at a listing price of \$190,000 and is expected to be sold in 2018.

In conjunction with the discontinuation of operations, MHA Conger House, LLC and MHA Yale Street, LLC recognized a loss on disposal during 2017 to write down the related carrying amounts to their fair value less estimated cost to sell in the amount of \$904,511 and \$276,523, respectively. The assets and liabilities of the discontinued operations are as follows:

	<u>MHA Conger House, LLC</u>	<u>MHA Yale Street, LLC</u>
Property and Equipment	\$ 1,736,625	\$ 641,018
Accumulated Depreciation	<u>(432,155)</u>	<u>(166,911)</u>
	1,304,470	474,107
Add: Total assets	25,017	17,828
Less: Total liabilities	(24,976)	(25,412)
Less: Net realizable value of assets held for sale	<u>(400,000)</u>	<u>(190,000)</u>
Loss from disposal of assets due to discontinued operations	<u>\$ 904,511</u>	<u>\$ 276,523</u>

The loss from discontinued operations presented in the statement of activities for the year ended December 31, 2017 is as follows:

Revenues	\$ (180,872)	\$ (56,562)
Operating expenses	108,539	49,138
Other expenses	<u>76,856</u>	<u>16,028</u>
Loss from discontinued operations	<u>\$ 4,523</u>	<u>\$ 8,604</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 29 – PRIOR PERIOD ADJUSTMENTS – CORRECTION OF AN ERROR**

Prior period adjustments are the net effect of changes resulting from the correction of an error. Because such amounts are the errors from a prior period, they are not properly included as part of the results of operations of the current period. Instead, such adjustments are properly reported as a direct adjustment to the Beginning Net Assets to restate that amount to which it would have been had the error not occurred. The prior period adjustments for the period ending December 31, 2017 resulted in an aggregate decrease of total net assets of \$36,544. This represents accrual of subsidy receivable and related revenue in prior years for Wilton Commons 2, LLC, and an decrease in accounts payable, operations in the amount of \$26,000 relating to return on equity distribution for Parkside Gables.

Beginning Net Assets - 1/1/2017	\$ 28,326,054
Decrease in accounts receivable, HUD - Wilton Commons 2, LLC	(10,544)
Decrease in accounts payable, operations - Parkside Gables	<u>(26,000)</u>
Beginning Net Assets, As restated	<u>\$ 28,289,510</u>

**NOTE 30 – SUBSEQUENT EVENT**

Effective January 1, 2018, Mutual Housing Association of Southwestern Connecticut, Inc. changed its name under which it operates to Connecticut Housing Partners. There was no change to legal name or structure of the Organization.

**SUPPLEMENTAL INFORMATION**

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINANCIAL POSITION - NEIGHBORWORKS® AMERICA CAPITAL FUND  
December 31, 2017**

**ASSETS**

Cash in bank	\$ 13,647
Loans receivable	217,000
Investment in:	
Trinity Park Mutual Housing, L.P.	233,488
Trinity Park Apartments, L.P.	187,200
Maplewood Schools Mutual Housing	561,537
Yale Street Mutual Housing, L.P.	247,110
Investment in Spruce Street - homebuyer mortgages	30,000
Investment in Huntington Senior	180,106
Investment in Stillwater Avenue Apartments	10,000
Investment in Fairfield Avenue	332,658
Investment in 13 Taylor Street	48,318
Investment in West Main Street	68,278
Trumbull Townhomes- homebuyer Mortgages	250,000
Investment in Washington Park - various properties	149,449
Investment in 33 Yale Street	50,000
Investment in Conger House	75,000
Investment in Wilton Commons	296,324
Investment in West Side Commons II (Spruce Street)	65,219
Investment in Friendship House	100,000
Investment in Parkside Gables	15,429
Investment in Wilton Commons II	129,978
Investment in Truman Place	<u>50,000</u>
Total Investment in:	3,080,094
<b>Total Assets</b>	<b><u>\$ 3,310,741</u></b>

**LIABILITIES AND NET ASSETS**

Net assets - temporarily restricted	\$ 50,000
Net assets - permanently restricted	<u>3,260,741</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 3,310,741</u></b>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**STATEMENT OF ACTIVITIES - NEIGHBORWORKS® AMERICA CAPITAL FUND  
For the Year Ended December 31, 2017**

**Revenue, Gains and Other Support:**

Capital Grant - NeighborWorks® America - Beginning Balance	\$ 3,260,741
Additions:	
NeighborWorks® America Temporarily Restricted Funds	50,000
Reductions:	
NeighborWorks® America Permanently or Temporarily Restricted to Unrestricted Release	<u>                  -</u>
Net assets at end of year	<u>\$ 3,310,741</u>

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
December 31, 2017

	Wholly-Owned Operating Properties	Wholly-Owned Development Properties	MHA Operations	Limited Partnerships / Limited Liability Companies	Total	Eliminations	Total After Eliminations
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash	\$ 117,825	\$ 164,680	\$ 99,835	\$ 822,578	\$ 1,204,918	\$ -	\$ 1,204,918
Grants receivable	-	-	42,955	-	42,955	-	42,955
Tenant accounts receivable, net of allowance for doubtful accounts of \$93,554	18,360	-	-	53,721	72,081	-	72,081
Accounts receivable, HUD, net of allowance for doubtful accounts of \$10,689	25,070	-	-	114,022	139,092	-	139,092
Accounts receivable, other	-	-	3,993	1,663	5,656	-	5,656
Mortgage receivable -current portion	-	-	23,096	-	23,096	-	23,096
Accrued interest receivable	-	-	7,100	-	7,100	-	7,100
Assets held for sale	590,000	-	-	-	590,000	-	590,000
Prepaid expenses	21,269	-	129,555	99,800	250,624	-	250,624
<b>Total Current Assets</b>	<u>772,524</u>	<u>164,680</u>	<u>306,534</u>	<u>1,091,784</u>	<u>2,335,522</u>	<u>-</u>	<u>2,335,522</u>
<b>PROPERTY AND EQUIPMENT</b>							
Land and land improvements	599,948	-	70,000	3,515,521	4,185,469	-	4,185,469
Buildings and improvements	21,598,531	-	23,454	59,254,244	80,876,229	-	80,876,229
Equipment	162,341	-	239,706	853,318	1,255,365	-	1,255,365
Construction in progress	72,134	999,474	4,909	500,425	1,576,942	-	1,576,942
Less Accumulated depreciation	(8,709,169)	-	(128,424)	(15,622,985)	(24,460,578)	-	(24,460,578)
<b>Net Property and Equipment</b>	<u>13,723,785</u>	<u>999,474</u>	<u>209,645</u>	<u>48,500,523</u>	<u>63,433,427</u>	<u>-</u>	<u>63,433,427</u>
<b>OTHER ASSETS</b>							
Restricted cash	695,388	-	291,293	2,680,345	3,667,026	-	3,667,026
Investments	7,438	-	1,794	844	10,076	-	10,076
Other assets	92,002	-	-	1,350	93,352	-	93,352
Development fees receivable	-	-	1,094,274	-	1,094,274	(1,094,274)	-
Mortgages receivable, net of current portion	2,756,500	-	1,562,924	-	4,319,424	(3,267,798)	1,051,626
Loan loss reserve	-	-	(516,776)	-	(516,776)	109,527	(407,249)
Affiliate notes receivable & accrued interest	189,796	-	-	-	189,796	(189,796)	-
Other notes receivable	-	-	4,039,731	-	4,039,731	(3,974,581)	65,150
Deferred costs	-	-	-	191,128	191,128	-	191,128
Accumulated amortization	-	-	-	(73,520)	(73,520)	-	(73,520)
Investments in partnerships	-	-	551,172	-	551,172	(551,172)	-
Due from (to) affiliates	(405,070)	(257,802)	1,786,681	(1,674,981)	(551,172)	551,172	-
<b>Total Other Assets</b>	<u>3,336,054</u>	<u>(257,802)</u>	<u>8,811,093</u>	<u>1,125,166</u>	<u>13,014,511</u>	<u>(8,416,922)</u>	<u>4,597,589</u>
<b>TOTAL ASSETS</b>	<u>\$ 17,832,363</u>	<u>\$ 906,352</u>	<u>\$ 9,327,272</u>	<u>\$ 50,717,473</u>	<u>\$ 78,783,460</u>	<u>\$ (8,416,922)</u>	<u>\$ 70,366,538</u>

See Independent Auditor's Report

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - (Continued)

December 31, 2017

	Wholly-Owned Operating Properties	Wholly-Owned Development Properties	MHA Operations	Limited Partnerships / Limited Liability Companies	Total	Eliminations	Total After Eliminations
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES</b>							
Cash overdraft	\$ 5,106	\$ -	\$ -	\$ 28,091	\$ 33,197	\$ -	\$ 33,197
Accounts payable - operations	285,925	847	161,497	1,239,937	1,688,206	(207,400)	1,480,806
Accounts payable - construction	-	347,082	-	20,708	367,790	-	367,790
Accounts payable - subsidy	-	-	-	30,768	30,768	-	30,768
Accrued expenses	30,374	-	35,296	78,376	144,046	-	144,046
Prepaid revenue	13,361	-	25,000	15,002	53,363	-	53,363
Deferred subsidy	7,018	-	-	-	7,018	-	7,018
Line of credit	-	-	291,117	-	291,117	-	291,117
Accrued interest - current portion	56,226	-	-	128,908	185,134	-	185,134
Notes payable - current portion	-	-	16,608	-	16,608	-	16,608
Mortgages payable - amortizing, current portion	466,504	-	-	190,857	657,361	-	657,361
<b>Total Current Liabilities</b>	<u>864,514</u>	<u>347,929</u>	<u>529,518</u>	<u>1,732,647</u>	<u>3,474,608</u>	<u>(207,400)</u>	<u>3,267,208</u>
<b>LONG-TERM LIABILITIES</b>							
Deferred developer fees	-	-	-	1,094,274	1,094,274	(1,094,274)	-
Security deposits	62,174	-	-	220,960	283,134	-	283,134
Accrued expenses	360,400	-	-	150,000	510,400	-	510,400
Mortgages payable - amortizing, net of current portion	1,159,923	-	-	13,006,071	14,165,994	-	14,165,994
Mortgages payable - non-amortizing, net of current portion	6,970,925	394,155	-	21,551,094	28,916,174	(7,242,379)	21,673,795
Membership fee and accrued interest	-	-	370,044	-	370,044	-	370,044
Other notes payable	-	-	562,230	-	562,230	-	562,230
Accrued interest, net of current portion	1,480,604	-	95,972	1,030,714	2,607,290	(189,796)	2,417,494
Total long-term liabilities	<u>10,034,026</u>	<u>394,155</u>	<u>1,028,246</u>	<u>37,053,113</u>	<u>48,509,540</u>	<u>(8,526,449)</u>	<u>39,983,091</u>
<b>TOTAL LIABILITIES</b>	<u>10,898,540</u>	<u>742,084</u>	<u>1,557,764</u>	<u>38,785,760</u>	<u>51,984,148</u>	<u>(8,733,849)</u>	<u>43,250,299</u>
<b>NET ASSETS</b>							
Mutual Housing Association of Southwestern Connecticut, Inc. net assets/partners' capital	-	-	-	5,045,216	5,045,216	(5,045,216)	-
Partners' capital	-	-	-	5,045,216	5,045,216	(5,045,216)	-
Unrestricted	6,476,165	99,049	3,824,618	-	10,399,832	5,362,143	15,761,975
Temporarily Restricted	-	-	50,000	-	50,000	-	50,000
Permanently restricted	457,658	65,219	3,894,890	-	4,417,767	-	4,417,767
	<u>6,933,823</u>	<u>164,268</u>	<u>7,769,508</u>	<u>5,045,216</u>	<u>19,912,815</u>	<u>316,927</u>	<u>20,229,742</u>
Noncontrolling interest	-	-	-	6,886,497	6,886,497	-	6,886,497
<b>TOTAL NET ASSETS</b>	<u>6,933,823</u>	<u>164,268</u>	<u>7,769,508</u>	<u>11,931,713</u>	<u>26,799,312</u>	<u>316,927</u>	<u>27,116,239</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 17,832,363</u>	<u>\$ 906,352</u>	<u>\$ 9,327,272</u>	<u>\$ 50,717,473</u>	<u>\$ 78,783,460</u>	<u>\$ (8,416,922)</u>	<u>\$ 70,366,538</u>

See Independent Auditor's Report

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2017

	Wholly-Owned Operating Properties	Wholly-Owned Development Properties	MHA Operations	Limited Partnerships / Limited Liability Companies	Total	Eliminations	Total After Eliminations
<b>PUBLIC SUPPORT</b>							
Foundation grants and corporate contributions	\$ -	\$ -	\$ 44,814	\$ -	\$ 44,814	\$ -	\$ 44,814
Federal, state and local grants	-	-	266,100	-	266,100	-	266,100
<b>REVENUES</b>							
Rental income	1,466,622	-	-	5,502,175	6,968,797	-	6,968,797
Other income	19,162	210	51,816	190,352	261,540	(31,248)	230,292
Management fees and reimbursements	-	-	240,792	-	240,792	(240,792)	-
Developer fees	-	-	16,014	-	16,014	-	16,014
Investment income	3,310	12	64	15,328	18,714	-	18,714
Interest income on notes receivable	82,461	-	160,920	-	243,381	(241,129)	2,252
<b>TOTAL REVENUE</b>	<u>1,571,555</u>	<u>222</u>	<u>780,520</u>	<u>5,707,855</u>	<u>8,060,152</u>	<u>(513,169)</u>	<u>7,546,983</u>
<b>EXPENSES</b>							
General and administrative expenses	-	245	446,859	-	447,104	-	447,104
Program expenses	1,405,533	-	709,706	4,000,772	6,116,011	(272,040)	5,843,971
Fundraising expenses	-	-	13,223	-	13,223	-	13,223
<b>Total expenses</b>	<u>1,405,533</u>	<u>245</u>	<u>1,169,788</u>	<u>4,000,772</u>	<u>6,576,338</u>	<u>(272,040)</u>	<u>6,304,298</u>
<b>Change in Net Assets from Operations</b>	166,022	(23)	(389,268)	1,707,083	1,483,814	(241,129)	1,242,685
<b>Non-operating income (expenses)</b>							
Depreciation and amortization	(628,327)	-	(36,138)	(1,691,573)	(2,356,038)	-	(2,356,038)
Interest expense	(312,230)	-	(35,480)	(1,250,468)	(1,598,178)	241,129	(1,357,049)
Entity expense	-	-	-	(25,346)	(25,346)	-	(25,346)
Forgiveness of interest	-	-	-	199,615	199,615	-	199,615
<b>Total non-operating income (expenses)</b>	<u>(940,557)</u>	<u>-</u>	<u>(71,618)</u>	<u>(2,767,772)</u>	<u>(3,779,947)</u>	<u>241,129</u>	<u>(3,538,818)</u>
<b>Change in Net Assets from Continuing Operations</b>	(774,535)	(23)	(460,886)	(1,060,689)	(2,296,133)	-	(2,296,133)
<b>Discontinued Operations</b>							
	(1,194,161)	-	-	-	(1,194,161)	-	(1,194,161)
Loss from operations of discontinued operations	(1,194,161)	-	-	-	(1,194,161)	-	(1,194,161)
<b>Change in Net Assets</b>	<u>\$ (1,968,696)</u>	<u>\$ (23)</u>	<u>\$ (460,886)</u>	<u>\$ (1,060,689)</u>	<u>\$ (3,490,294)</u>	<u>\$ -</u>	<u>\$ (3,490,294)</u>
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>							
	\$ 8,833,519	\$ 164,291	\$ 8,230,394	\$ 10,744,379	\$ 27,972,583	\$ 316,927	\$ 28,289,510
Net asset transfers/capital funding	69,000	-	-	-	69,000	-	69,000
Capital contributions	-	-	-	2,248,023	2,248,023	-	2,248,023
<b>Change in net assets</b>	<u>(1,968,696)</u>	<u>(23)</u>	<u>(460,886)</u>	<u>(1,060,689)</u>	<u>(3,490,294)</u>	<u>-</u>	<u>(3,490,294)</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 6,933,823</u>	<u>\$ 164,268</u>	<u>\$ 7,769,508</u>	<u>\$ 11,931,713</u>	<u>\$ 26,799,312</u>	<u>\$ 316,927</u>	<u>\$ 27,116,239</u>

See Independent Auditor's Report

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

Wholly-Owned Operating Properties

December 31, 2017

	MHA 20-28 Fairfield Commons, LLC	MHA Fairfield Commons I, Inc.	Parkside Gables Fund	MHA Conger House, LLC	MHA Yale Street, LLC	MHA Merton House, LLC	Greenfield Commons, Inc.	Trinity Park Mutual Housing Limited Partnership	Total
<b>ASSETS</b>									
<b>CURRENT ASSETS</b>									
Cash and cash equivalents	\$ -	\$ 18,059	\$ 14,195	\$ -	\$ -	\$ 78,678	\$ 6,893	\$ -	\$ 117,825
Tenant accounts receivable, net of allowance for doubtful accounts of \$28,048	289	671	14,869	-	-	2,531	-	-	18,360
Accounts receivable, HUD, net of allowance for doubtful accounts of \$3,500	12,037	7,843	3,789	-	-	510	891	-	25,070
Assets held for sale	-	-	-	400,000	190,000	-	-	-	590,000
Prepaid expenses	-	-	8,200	-	-	9,238	3,831	-	21,269
<b>Total Current Assets</b>	<u>12,326</u>	<u>26,573</u>	<u>41,053</u>	<u>400,000</u>	<u>190,000</u>	<u>90,957</u>	<u>11,615</u>	<u>-</u>	<u>772,524</u>
<b>PROPERTY AND EQUIPMENT</b>									
Land and land improvements	376,845	223,103	-	-	-	-	-	-	599,948
Buildings and improvements	2,652,396	1,432,682	8,956,802	-	-	6,850,758	1,705,893	-	21,598,531
Equipment	-	-	152,670	-	-	-	9,671	-	162,341
Construction in progress	2,000	-	70,134	-	-	-	-	-	72,134
Less Accumulated depreciation	(1,042,641)	(82,618)	(5,432,654)	-	-	(1,745,087)	(406,169)	-	(8,709,169)
<b>Net Property and Equipment</b>	<u>1,988,600</u>	<u>1,573,167</u>	<u>3,746,952</u>	<u>-</u>	<u>-</u>	<u>5,105,671</u>	<u>1,309,395</u>	<u>-</u>	<u>13,723,785</u>
<b>OTHER ASSETS</b>									
Restricted cash	11,263	50,624	213,495	3,006	-	347,812	69,188	-	695,388
Investments	-	-	7,438	-	-	-	-	-	7,438
Other assets	-	-	-	-	-	92,002	-	-	92,002
Mortgages receivable, net of current portion	-	-	-	-	-	-	-	2,756,500	2,756,500
Accrued interest receivable	-	-	-	-	-	-	-	189,796	189,796
Due from (to affiliates)	(593,161)	44,034	119,115	125,125	(165,130)	31,414	(77,724)	111,257	(405,070)
<b>Total Other Assets</b>	<u>(581,898)</u>	<u>94,658</u>	<u>340,048</u>	<u>128,131</u>	<u>(165,130)</u>	<u>471,228</u>	<u>(8,536)</u>	<u>3,057,553</u>	<u>3,336,054</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,419,028</u>	<u>\$ 1,694,398</u>	<u>\$ 4,128,053</u>	<u>\$ 528,131</u>	<u>\$ 24,870</u>	<u>\$ 5,667,856</u>	<u>\$ 1,312,474</u>	<u>\$ 3,057,553</u>	<u>\$ 17,832,363</u>

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MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - (Continued)  
Wholly-Owned Operating Properties  
December 31, 2017

	MHA 20-28 Fairfield Commons, LLC	MHA Fairfield Commons I, Inc.	Parkside Gables Fund	MHA Conger House, LLC	MHA Yale Street, LLC	MHA Merton House, LLC	Greenfield Commons, Inc.	Trinity Park Mutual Housing Limited Partnership	Total
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>									
<b>CURRENT LIABILITIES</b>									
Cash overdraft	\$ 5,106	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,106
Accounts payable - operating	68,788	22,479	119,288	-	-	19,840	55,530	-	285,925
Accrued expenses	14,726	-	-	14,475	-	-	1,173	-	30,374
Prepaid rent	1,672	-	6,447	-	-	-	5,242	-	13,361
Deferred subsidy	-	-	-	-	-	-	7,018	-	7,018
Mortgages payable - amortizing, current portion	18,841	-	-	447,663	-	-	-	-	466,504
Accrued interest - current portion	-	-	-	56,226	-	-	-	-	56,226
<b>Total Current Liabilities</b>	<u>109,133</u>	<u>22,479</u>	<u>125,735</u>	<u>518,364</u>	<u>-</u>	<u>19,840</u>	<u>68,963</u>	<u>-</u>	<u>864,514</u>
<b>LONG-TERM LIABILITIES</b>									
Security deposits	6,999	1,556	46,214	-	-	4,917	2,488	-	62,174
Accrued expenses	-	-	-	-	-	400	-	360,000	360,400
Mortgages payable - amortizing, net of current portion	1,159,923	-	-	-	-	-	-	-	1,159,923
Mortgages payable - non-amortizing, net of current portion	161,550	200,000	100,000	-	-	6,509,375	-	-	6,970,925
Accrued interest, net of current portion	-	-	-	-	-	1,480,604	-	-	1,480,604
<b>Total Long-Term Liabilities</b>	<u>1,328,472</u>	<u>201,556</u>	<u>146,214</u>	<u>-</u>	<u>-</u>	<u>7,995,296</u>	<u>2,488</u>	<u>360,000</u>	<u>10,034,026</u>
<b>TOTAL LIABILITIES</b>	<u>1,437,605</u>	<u>224,035</u>	<u>271,949</u>	<u>518,364</u>	<u>-</u>	<u>8,015,136</u>	<u>71,451</u>	<u>360,000</u>	<u>10,898,540</u>
<b>NET ASSETS (DEFICIT)</b>									
Unrestricted	(18,577)	1,137,705	3,856,104	(65,233)	(25,130)	(2,347,280)	1,241,023	2,697,553	6,476,165
Permanently restricted	-	332,658	-	75,000	50,000	-	-	-	457,658
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>(18,577)</u>	<u>1,470,363</u>	<u>3,856,104</u>	<u>9,767</u>	<u>24,870</u>	<u>(2,347,280)</u>	<u>1,241,023</u>	<u>2,697,553</u>	<u>6,933,823</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u>\$ 1,419,028</u>	<u>\$ 1,694,398</u>	<u>\$ 4,128,053</u>	<u>\$ 528,131</u>	<u>\$ 24,870</u>	<u>\$ 5,667,856</u>	<u>\$ 1,312,474</u>	<u>\$ 3,057,553</u>	<u>\$ 17,832,363</u>

See Independent Auditor's Report

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES  
Wholly-Owned Operating Properties  
For the Year Ended December 31, 2017

	MHA 20-28 Fairfield Commons, LLC	MHA Fairfield Commons I, Inc.	Parkside Gables Fund	MHA Conger House, LLC	MHA Yale Street, LLC	MHA Merton House, LLC	Greenfield Commons, Inc.	Trinity Park Mutual Housing Limited Partnership	Total
<b>REVENUES</b>									
Net rental income	\$ 327,202	\$ 65,773	\$ 571,355	\$ -	\$ -	\$ 397,474	\$ 104,818	\$ -	\$ 1,466,622
Other income	4,653	433	7,931	-	-	3,473	2,672	-	19,162
Investment income	7	7	445	-	-	2,838	13	-	3,310
Interest income on notes receivable	-	-	-	-	-	-	-	82,461	82,461
<b>TOTAL REVENUE</b>	<u>331,862</u>	<u>66,213</u>	<u>579,731</u>	<u>-</u>	<u>-</u>	<u>403,785</u>	<u>107,503</u>	<u>82,461</u>	<u>1,571,555</u>
<b>EXPENSES</b>									
Repairs and maintenance	35,314	1,597	96,296	-	-	101,792	24,129	-	259,128
Utilities	39,587	13,027	66,644	-	-	78,277	11,795	-	209,330
Real estate taxes	40,475	17,635	114,041	-	-	-	10,435	-	182,586
Resident support services	73,808	-	-	-	-	-	-	-	73,808
Salaries and benefits	38,850	12,222	190,701	-	-	68,707	33,898	-	344,378
Insurance	16,117	5,542	52,201	-	-	16,472	9,093	-	99,425
Management fees	16,593	3,624	-	-	-	21,768	5,456	-	47,441
Miscellaneous	26,608	8,912	13,859	-	-	1,605	2,446	-	53,430
Professional Fees	10,292	6,648	22,262	-	-	14,937	12,740	-	66,879
Consultants	3,512	1,200	8,950	-	-	-	-	-	13,662
Snow removal	586	185	2,129	-	-	971	993	-	4,864
Office and postage	2,164	2,403	8,779	-	-	5,153	6,289	-	24,788
Rubbish	-	-	1,100	-	-	2,974	3,540	-	7,614
Bad debt	6,404	2,431	-	-	-	8,390	975	-	18,200
<b>TOTAL EXPENSES</b>	<u>310,310</u>	<u>75,426</u>	<u>576,962</u>	<u>-</u>	<u>-</u>	<u>321,046</u>	<u>121,789</u>	<u>-</u>	<u>1,405,533</u>
<b>Change in net assets from operations</b>	21,552	(9,213)	2,769	-	-	82,739	(14,286)	82,461	166,022
<b>Non-operating expenses</b>									
Depreciation	(70,441)	(41,309)	(223,920)	-	-	(249,365)	(43,292)	-	(628,327)
Interest expense	(55,228)	-	-	-	-	(257,002)	-	-	(312,230)
<b>Total non-operating expenses</b>	<u>(125,669)</u>	<u>(41,309)</u>	<u>(223,920)</u>	<u>-</u>	<u>-</u>	<u>(506,367)</u>	<u>(43,292)</u>	<u>-</u>	<u>(940,557)</u>
<b>Change in net assets from continuing operations</b>	(104,117)	(50,522)	(221,151)	-	-	(423,628)	(57,578)	82,461	(774,535)
<b>Discontinued Operations</b>									
Loss from operations of discontinued operations	-	-	-	(909,034)	(285,127)	-	-	-	(1,194,161)
<b>Change in net assets</b>	<u>\$ (104,117)</u>	<u>\$ (50,522)</u>	<u>\$ (221,151)</u>	<u>\$ (909,034)</u>	<u>\$ (285,127)</u>	<u>\$ (423,628)</u>	<u>\$ (57,578)</u>	<u>\$ 82,461</u>	<u>\$ (1,968,696)</u>
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>	\$ 85,540	\$ 1,520,885	\$ 4,008,255	\$ 918,801	\$ 309,997	\$ (1,923,652)	\$ 1,298,601	\$ 2,615,092	\$ 8,833,519
Net asset transfers/capital funding	-	-	69,000	-	-	-	-	-	69,000
<b>Change in net assets</b>	<u>(104,117)</u>	<u>(50,522)</u>	<u>(221,151)</u>	<u>(909,034)</u>	<u>(285,127)</u>	<u>(423,628)</u>	<u>(57,578)</u>	<u>82,461</u>	<u>(1,968,696)</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ (18,577)</u>	<u>\$ 1,470,363</u>	<u>\$ 3,856,104</u>	<u>\$ 9,767</u>	<u>\$ 24,870</u>	<u>\$ (2,347,280)</u>	<u>\$ 1,241,023</u>	<u>\$ 2,697,553</u>	<u>\$ 6,933,823</u>

See Independent Auditor's Report

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
Wholly-Owned Development Properties  
December 31, 2017

	MHA Fairfield Commons II, LLC	Spruce Street Townhomes, LLC	Wilton Commons Development	Total
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 140,542	\$ 24,138	\$ -	\$ 164,680
<b>Total Current Assets</b>	<u>140,542</u>	<u>24,138</u>	<u>-</u>	<u>164,680</u>
<b>Property and equipment</b>				
Construction in progress	<u>999,273</u>	<u>201</u>	<u>-</u>	<u>999,474</u>
<b>Other assets</b>				
Due to affiliates	<u>(59,858)</u>	<u>(197,944)</u>	<u>-</u>	<u>(257,802)</u>
<b>Total other assets</b>	<u>(59,858)</u>	<u>(197,944)</u>	<u>-</u>	<u>(257,802)</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,079,957</u>	<u>\$ (173,605)</u>	<u>\$ -</u>	<u>\$ 906,352</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable -operations	\$ -	\$ 847	\$ -	\$ 847
Accounts payable - construction	<u>347,082</u>	<u>-</u>	<u>-</u>	<u>347,082</u>
<b>Total current liabilities</b>	<u>347,082</u>	<u>847</u>	<u>-</u>	<u>347,929</u>
<b>Long-term liability</b>				
Mortgages payable - non amortizing, net of current portion	<u>394,155</u>	<u>-</u>	<u>-</u>	<u>394,155</u>
<b>Total long term liability</b>	<u>394,155</u>	<u>-</u>	<u>-</u>	<u>394,155</u>
<b>TOTAL LIABILITIES</b>	<u>741,237</u>	<u>847</u>	<u>-</u>	<u>742,084</u>
<b>NET ASSETS (DEFICIT)</b>				
Unrestricted	338,720	(239,671)	-	99,049
Permanently restricted	<u>-</u>	<u>65,219</u>	<u>-</u>	<u>65,219</u>
<b>Total net assets (deficit)</b>	<u>338,720</u>	<u>(174,452)</u>	<u>-</u>	<u>164,268</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS (DEFICIT)</b>	<u>\$ 1,079,957</u>	<u>\$ (173,605)</u>	<u>\$ -</u>	<u>\$ 906,352</u>

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES

Wholly-Owned Development Properties

For the Year Ended December 31, 2017

	MHA Fairfield Commons II, LLC	Spruce Street Townhomes, LLC	Wilton Commons Development	Total
<b>REVENUES</b>				
Interest income	\$ -	\$ 12	\$ -	\$ 12
Other income	-	-	210	210
<b>TOTAL REVENUE</b>	<u>-</u>	<u>12</u>	<u>210</u>	<u>222</u>
<b>EXPENSES</b>				
Miscellaneous	<u>245</u>	<u>-</u>	<u>-</u>	<u>245</u>
<b>TOTAL EXPENSES</b>	<u>245</u>	<u>-</u>	<u>-</u>	<u>245</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (245)</u>	<u>\$ 12</u>	<u>\$ 210</u>	<u>\$ (23)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	\$ 338,965	\$ (174,464)	\$ (210)	\$ 164,291
<b>Change in net assets</b>	<u>(245)</u>	<u>12</u>	<u>210</u>	<u>(23)</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 338,720</u>	<u>\$ (174,452)</u>	<u>\$ -</u>	<u>\$ 164,268</u>

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

MHA Operations

December 31, 2017

	Operating Fund	Capital Projects Fund	Revolving Loan Funds	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,434	\$ 97,401	\$ -	\$ 99,835
Grant receivable	42,955	-	-	42,955
Accounts receivable	3,993	-	-	3,993
Mortgages receivable, current portion	-	-	23,096	23,096
Accrued interest receivable	-	-	7,100	7,100
Prepaid expenses	58,355	71,200	-	129,555
<b>Total Current Assets</b>	<u>107,737</u>	<u>168,601</u>	<u>30,196</u>	<u>306,534</u>
<b>PROPERTY AND EQUIPMENT</b>				
Land and land improvements	-	-	70,000	70,000
Buildings and improvements	23,454	-	-	23,454
Equipment	239,706	-	-	239,706
Construction in progress	-	4,909	-	4,909
Less Accumulated depreciation	(128,424)	-	-	(128,424)
<b>Net Property and Equipment</b>	<u>134,736</u>	<u>4,909</u>	<u>70,000</u>	<u>209,645</u>
<b>OTHER ASSETS</b>				
Restricted cash	-	-	291,293	291,293
Investments	-	1,794	-	1,794
Development fee receivable	1,094,274	-	-	1,094,274
Mortgages receivable, net of current portion	401,771	-	1,161,153	1,562,924
Loan loss reserve	-	-	(516,776)	(516,776)
Notes receivable	-	4,039,731	-	4,039,731
Investments in partnerships	-	495,520	55,652	551,172
Due from affiliates	382,605	942,235	461,841	1,786,681
<b>Total Other Assets</b>	<u>1,878,650</u>	<u>5,479,280</u>	<u>1,453,163</u>	<u>8,811,093</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,121,123</u>	<u>\$ 5,652,790</u>	<u>\$ 1,553,359</u>	<u>\$ 9,327,272</u>

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION - (Continued)

MHA Operations

December 31, 2017

	Operating Fund	Capital Projects Fund	Revolving Loan Funds	Total
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable - operating	\$ 158,703	\$ 2,794	\$ -	\$ 161,497
Accrued expenses	35,296	-	-	35,296
Prepaid revenue	25,000	-	-	25,000
Line of credit	291,117	-	-	291,117
Notes payable - current portion	16,608	-	-	16,608
<b>Total Current Liabilities</b>	<u>526,724</u>	<u>2,794</u>	<u>-</u>	<u>529,518</u>
<b>LONG-TERM LIABILITIES</b>				
Membership fees and accrued interest	370,044	-	-	370,044
Other notes payable	62,230	500,000	-	562,230
Accrued interest	-	21,885	74,087	95,972
<b>Total long-term liabilities</b>	<u>432,274</u>	<u>521,885</u>	<u>74,087</u>	<u>1,028,246</u>
<b>TOTAL LIABILITIES</b>	<u>958,998</u>	<u>524,679</u>	<u>74,087</u>	<u>1,557,764</u>
<b>NET ASSETS</b>				
Unrestricted	1,162,125	2,340,247	322,246	3,824,618
Temporarily Restricted	-	50,000	-	50,000
Permanently Restricted	-	2,737,864	1,157,026	3,894,890
<b>TOTAL NET ASSETS</b>	<u>1,162,125</u>	<u>5,128,111</u>	<u>1,479,272</u>	<u>7,769,508</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,121,123</u>	<u>\$ 5,652,790</u>	<u>\$ 1,553,359</u>	<u>\$ 9,327,272</u>

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES

MHA Operations

For the Year Ended December 31, 2017

	Operating Fund	Capital Projects Fund	Revolving Loan Funds	Total
<b>PUBLIC SUPPORT</b>				
Foundation grants and corporate contributions	\$ 13,149	\$ 31,665	\$ -	\$ 44,814
Federal, state and local grants	266,100	-	-	266,100
<b>REVENUES</b>				
Investment income	-	-	64	64
Interest income on notes receivable	-	158,906	2,014	160,920
Other income	51,440	376	-	51,816
Management fees and reimbursements	240,792	-	-	240,792
Developer fees	16,014	-	-	16,014
<b>TOTAL REVENUE</b>	<u>587,495</u>	<u>190,947</u>	<u>2,078</u>	<u>780,520</u>
<b>EXPENSES</b>				
Salaries and benefits	592,878	-	-	592,878
Consultants	66,273	-	-	66,273
Lease expense	9,816	-	-	9,816
Insurance	40,739	-	-	40,739
Professional fees	86,967	-	-	86,967
Office and postage	117,803	340	23	118,166
Real estate taxes	817	-	-	817
Fundraising expense	13,223	-	-	13,223
Miscellaneous	113,092	122,016	5,801	240,909
<b>TOTAL EXPENSES</b>	<u>1,041,608</u>	<u>122,356</u>	<u>5,824</u>	<u>1,169,788</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	(454,113)	68,591	(3,746)	(389,268)
<b>NON-OPERATING EXPENSES</b>				
Depreciation	(36,138)	-	-	(36,138)
Interest expense	(25,480)	(10,000)	-	(35,480)
<b>TOTAL NON-OPERATING EXPENSES</b>	<u>(61,618)</u>	<u>(10,000)</u>	<u>-</u>	<u>(71,618)</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (515,731)</u>	<u>\$ 58,591</u>	<u>\$ (3,746)</u>	<u>\$ (460,886)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	\$ 1,677,856	\$ 5,069,520	\$ 1,483,018	\$ 8,230,394
Change in net assets	(515,731)	58,591	(3,746)	(460,886)
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,162,125</u>	<u>\$ 5,128,111</u>	<u>\$ 1,479,272</u>	<u>\$ 7,769,508</u>

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**Limited Partnerships / Limited Liability Companies**  
**December 31, 2017**

	Yale Street Limited Partnership	Maplewood School Apartments Limited Partnership	Huntington Senior Housing Limited Partnership	Woodward Cliffs Limited Partnership	Wilton Commons Apartments Limited Partnership	Friendship House Apartments Limited Partnership	Trinity Park Apartments Limited Partnership	Wilton Commons 2, LLC	Total
<b>ASSETS</b>									
<b>CURRENT ASSETS</b>									
Cash and cash equivalents	\$ 19,188	\$ 13,744	\$ 8,614	\$ -	\$ 2,936	\$ 716,322	\$ -	\$ 61,774	\$ 822,578
Tenant accounts receivable, net of allowance for doubtful accounts of \$65,506	13,215	-	3,209	164	-	12,523	21,030	3,580	53,721
Accounts receivable, HUD net of allowance for doubtful accounts of \$7,189	462	5,136	210	-	5,316	-	4,054	98,844	114,022
Accounts receivable, other	-	-	-	-	-	1,663	-	-	1,663
Prepaid expenses	-	-	9,213	-	1,387	53,580	35,620	-	99,800
<b>Total Current Assets</b>	<u>32,865</u>	<u>18,880</u>	<u>21,246</u>	<u>164</u>	<u>9,639</u>	<u>784,088</u>	<u>60,704</u>	<u>164,198</u>	<u>1,091,784</u>
<b>PROPERTY AND EQUIPMENT</b>									
Land and land improvements	389,677	10,000	76,000	260,000	85	1,251,359	1,450,000	78,400	3,515,521
Buildings and improvements	4,566,133	4,135,966	7,722,549	222,112	10,097,989	21,191,288	6,148,539	5,169,668	59,254,244
Equipment	5,000	43,982	35,000	6,000	50,719	280,011	244,650	187,956	853,318
Construction in progress	-	500,425	-	-	-	-	-	-	500,425
Less Accumulated depreciation	(3,323,327)	(2,576,186)	(3,174,089)	(228,112)	(1,182,354)	(4,598,170)	(325,851)	(214,896)	(15,622,985)
<b>Net Property and Equipment</b>	<u>1,637,483</u>	<u>2,114,187</u>	<u>4,659,460</u>	<u>260,000</u>	<u>8,966,439</u>	<u>18,124,488</u>	<u>7,517,338</u>	<u>5,221,128</u>	<u>48,500,523</u>
<b>OTHER ASSETS</b>									
Restricted cash	204,884	57,524	363,394	27,781	550,049	1,113,358	348,827	14,528	2,680,345
Investments	-	-	-	-	-	-	844	-	844
Other assets	-	-	-	1,350	-	-	-	-	1,350
Deferred costs	28,559	-	-	-	24,838	91,384	46,347	-	191,128
Accumulated amortization	(12,913)	-	-	-	(7,728)	(48,756)	(4,123)	-	(73,520)
Due from (to) affiliates	(33,890)	(562,582)	(280,591)	(49,791)	(367,324)	-	(284,881)	(95,922)	(1,674,981)
<b>Total Other Assets</b>	<u>186,640</u>	<u>(505,058)</u>	<u>82,803</u>	<u>(20,660)</u>	<u>199,835</u>	<u>1,155,986</u>	<u>107,014</u>	<u>(81,394)</u>	<u>1,125,166</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,856,988</u>	<u>\$ 1,628,009</u>	<u>\$ 4,763,509</u>	<u>\$ 239,504</u>	<u>\$ 9,175,913</u>	<u>\$ 20,064,562</u>	<u>\$ 7,685,056</u>	<u>\$ 5,303,932</u>	<u>\$ 50,717,473</u>

See Independent Auditor's Report

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION - (Continued)**  
**Limited Partnerships / Limited Liability Companies**  
**December 31, 2017**

	Yale Street Limited Partnership	Maplewood School Apartments Limited Partnership	Huntington Senior Housing Limited Partnership	Woodward Cliffs Limited Partnership	Wilton Commons Apartments Limited Partnership	Friendship House Apartments Limited Partnership	Trinity Park Apartments Limited Partnership	Wilton Commons 2, LLC	Total
<b>LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)</b>									
<b>CURRENT LIABILITIES</b>									
Cash overdraft	\$ -	\$ -	\$ -	\$ 417	\$ -	\$ -	\$ 27,674	\$ -	\$ 28,091
Accounts payable - operations	67,531	639,132	112,476	56,256	149,211	107,039	79,418	28,874	1,239,937
Accounts payable - construction	-	-	-	-	-	-	20,708	-	20,708
Accounts payable - government	-	-	-	-	-	-	-	30,768	30,768
Accrued expenses	-	-	20,621	-	57,755	-	-	-	78,376
Prepaid rent	477	-	776	185	4,077	-	9,101	386	15,002
Mortgages payable - amortizing, current portion	32,426	15,824	20,554	13,778	21,260	71,823	15,192	-	190,857
Accrued interest - current portion	3,820	114,555	3,163	-	7,370	-	-	-	128,908
<b>Total Current Liabilities</b>	<u>104,254</u>	<u>769,511</u>	<u>157,590</u>	<u>70,636</u>	<u>239,673</u>	<u>178,862</u>	<u>152,093</u>	<u>60,028</u>	<u>1,732,647</u>
<b>LONG-TERM LIABILITIES</b>									
Deferred developer fees	139,704	92,974	334,119	-	474,463	-	53,014	-	1,094,274
Security deposits	31,014	10,352	19,776	3,361	47,550	67,118	41,789	-	220,960
Accrued expenses	150,000	-	-	-	-	-	-	-	150,000
Mortgages payable - amortizing, net of current portion	1,099,134	679,045	876,998	123,538	1,953,265	7,366,670	907,421	-	13,006,071
Mortgages payable - non-amortizing, net of current portion	500,000	1,659,750	1,433,000	109,527	4,040,598	9,489,046	4,319,173	-	21,551,094
Accrued interest, net of current portion	598,233	-	148,428	81,598	12,659	-	189,796	-	1,030,714
<b>Total Long-Term Liabilities</b>	<u>2,518,085</u>	<u>2,442,121</u>	<u>2,812,321</u>	<u>318,024</u>	<u>6,528,535</u>	<u>16,922,834</u>	<u>5,511,193</u>	<u>-</u>	<u>37,053,113</u>
<b>TOTAL LIABILITIES</b>	<u>2,622,339</u>	<u>3,211,632</u>	<u>2,969,911</u>	<u>388,660</u>	<u>6,768,208</u>	<u>17,101,696</u>	<u>5,663,286</u>	<u>60,028</u>	<u>38,785,760</u>
<b>Partners' Capital (Deficit)</b>	<u>(765,351)</u>	<u>(1,583,623)</u>	<u>1,793,598</u>	<u>(149,156)</u>	<u>2,407,705</u>	<u>2,962,866</u>	<u>2,021,770</u>	<u>5,243,904</u>	<u>11,931,713</u>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)</b>	<u>\$ 1,856,988</u>	<u>\$ 1,628,009</u>	<u>\$ 4,763,509</u>	<u>\$ 239,504</u>	<u>\$ 9,175,913</u>	<u>\$ 20,064,562</u>	<u>\$ 7,685,056</u>	<u>\$ 5,303,932</u>	<u>\$ 50,717,473</u>

See Independent Auditor's Report

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**Limited Partnerships / Limited Liability Companies**  
**For the Year Ended December 31, 2017**

	Yale Street Limited Partnership	Maplewood School Apartments Limited Partnership	Huntington Senior Housing Limited Partnership	Woodward Cliffs Limited Partnership	Wilton Commons Apartments Limited Partnership	Friendship House Apartments Limited Partnership	Trinity Park Apartments Limited Partnership	Wilton Commons 2, LLC	Total
<b>REVENUES</b>									
Net rental income	\$ 511,038	\$ 200,495	\$ 427,786	\$ 55,003	\$ 632,687	\$ 2,411,812	\$ 781,986	\$ 481,368	\$ 5,502,175
Other income	2,266	114,087	10,625	6,349	8,621	33,264	11,499	3,641	190,352
Investment income	701	-	2,813	122	2,117	7,985	1,561	29	15,328
<b>TOTAL REVENUE</b>	<u>514,005</u>	<u>314,582</u>	<u>441,224</u>	<u>61,474</u>	<u>643,425</u>	<u>2,453,061</u>	<u>795,046</u>	<u>485,038</u>	<u>5,707,855</u>
<b>EXPENSES</b>									
Repairs and maintenance	49,671	92,581	110,733	8,542	38,856	332,254	100,094	107,265	839,996
Utilities	48,607	42,768	55,825	2,122	76,231	197,361	94,386	28,659	545,959
Real estate taxes	112,471	55,825	57,826	12,031	93,149	154,074	71,420	23,305	580,101
Salaries and benefits	128,309	86,005	58,438	14,824	92,859	232,907	129,655	175,781	918,778
Insurance	48,703	48,925	20,890	14,098	66,802	59,811	37,137	34,694	331,060
Management fees	26,940	13,145	19,800	3,180	33,852	119,879	41,724	15,539	274,059
Miscellaneous	4,889	2,136	18,096	2,179	40,430	53,614	9,838	3,088	134,270
Professional fees	15,427	14,858	15,583	10,961	9,000	33,157	32,019	10,235	141,240
Snow removal	3,725	1,923	3,718	52	-	7,445	4,389	200	21,452
Office and postage	7,153	4,233	14,421	495	15,511	10,035	15,915	8,957	76,720
Consultants	-	-	4,629	-	-	33,703	4,785	-	43,117
Rubbish	1,100	4,341	5,970	-	9,162	11,971	23,133	-	55,677
Bad debts	3,900	28,715	-	5,728	-	-	-	-	38,343
<b>TOTAL EXPENSES</b>	<u>450,895</u>	<u>395,455</u>	<u>385,929</u>	<u>74,212</u>	<u>475,852</u>	<u>1,246,211</u>	<u>564,495</u>	<u>407,723</u>	<u>4,000,772</u>
<b>Operating Income (Loss)</b>	63,110	(80,873)	55,295	(12,738)	167,573	1,206,850	230,551	77,315	1,707,083
<b>Non-operating income (expenses)</b>									
Depreciation and amortization	(135,693)	(82,426)	(284,083)	-	(255,856)	(572,809)	(188,789)	(171,917)	(1,691,573)
Interest expense	(76,512)	(24,869)	(52,541)	(10,556)	(104,071)	(742,423)	(239,496)	-	(1,250,468)
Entity expense	-	-	-	-	(16,391)	(8,955)	-	-	(25,346)
Forgiveness of interest	-	-	-	-	-	-	199,615	-	199,615
<b>Total non-operating income (expenses)</b>	<u>(212,205)</u>	<u>(107,295)</u>	<u>(336,624)</u>	<u>(10,556)</u>	<u>(376,318)</u>	<u>(1,324,187)</u>	<u>(228,670)</u>	<u>(171,917)</u>	<u>(2,767,772)</u>
<b>Net Income (Loss)</b>	<u>\$ (149,095)</u>	<u>\$ (188,168)</u>	<u>\$ (281,329)</u>	<u>\$ (23,294)</u>	<u>\$ (208,745)</u>	<u>\$ (117,337)</u>	<u>\$ 1,881</u>	<u>\$ (94,602)</u>	<u>\$ (1,060,689)</u>
<b>PARTNERS' CAPITAL (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>									
	\$ (616,256)	\$ (1,395,455)	\$ 2,074,927	\$ (125,862)	\$ 2,616,450	\$ 3,072,660	\$ (220,591)	\$ 5,338,506	\$ 10,744,379
Capital contributions	-	-	-	-	-	7,543	2,240,480	-	2,248,023
<b>Change in net assets</b>	<u>(149,095)</u>	<u>(188,168)</u>	<u>(281,329)</u>	<u>(23,294)</u>	<u>(208,745)</u>	<u>(117,337)</u>	<u>1,881</u>	<u>(94,602)</u>	<u>(1,060,689)</u>
<b>PARTNERS' CAPITAL (DEFICIT), END OF YEAR</b>	<u>\$ (765,351)</u>	<u>\$ (1,583,623)</u>	<u>\$ 1,793,598</u>	<u>\$ (149,156)</u>	<u>\$ 2,407,705</u>	<u>\$ 2,962,866</u>	<u>\$ 2,021,770</u>	<u>\$ 5,243,904</u>	<u>\$ 11,931,713</u>

See Independent Auditor's Report

MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended December 31, 2017

	<u>CFDA Number</u>	<u>Direct Award</u>	<u>Pass-Through Agency</u>	<u>Pass-Through Award Number</u>	<u>Amounts Provided to Sub-recipients</u>	<u>Federal Financial Assistance Expenditures</u>	
U.S. Department of Housing and Urban Development							
Supportive Housing for the Elderly - Capital Advance	14.157	Yes	N/A		\$ -	\$ 1,308,400	*
Supportive Housing for the Elderly - PRAC	14.157	Yes	N/A		-	75,696	
					-	1,384,096	
Continuum of Care Program	14.267	Yes	N/A		73,800	143,951	
Supportive Housing for Persons with Disabilities - Capital Advance	14.181	Yes	N/A		-	903,500	*
Supportive Housing for Persons with Disabilities - PRAC	14.181	Yes	N/A		-	45,369	
					-	948,869	
Lead Based Paint Hazard Control in Privately-Owned Housing	14.900	No	City of Stamford		-	45,000	*
HOME Investment Partnership Program	14.239	No	City of Stamford		-	607,544	*
HOME Investment Partnership Program	14.239	No	City of Bridgeport		-	747,000	*
					-	1,354,544	
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	No	Local Initiatives Support Corporation		-	138,620	
Total U.S. Department of Housing and Urban Development					73,800	4,015,080	
U.S. Department of the Treasury							
NeighborWorks® Capital Grant Funds	21.000	No	NeighborWorks® America		-	50,000	
NeighborWorks® Expendable Grant Funds	21.000	No	NeighborWorks® America		-	77,480	
Total U.S. Department of the Treasury					-	127,480	
<b>Total Major Programs</b>					-	2,332,965	
<b>Total Non- Major Programs</b>					73,800	1,809,595	
<b>Total All Programs</b>					\$ 73,800	\$ 4,142,560	

\* Represents outstanding loan balances or capital advance balances

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
December 31, 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries under various programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – INDIRECT COST RATE**

For the year ended December 31, 2017, the Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries did not elect to use the 10% de minimis indirect cost rate allowed in the Uniform Guidance, section 414.

**NOTE 4 – OTHER ASSISTANCE**

For the year ended December 31, 2017, the Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries did not receive or expend federal awards in the form of non-cash assistance, insurance or loan guarantees; however, there were loan proceeds in the amount of \$159,125 during the year ended December 31, 2017. At December 31, 2017, Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries had outstanding loans in the amount of \$3,611,444. The Home Investment Partnership Program loans passed through the City of Stamford consists of 5 separate loans and the loans passed through the City of Bridgeport consists of 3 separate loans.

**INDEPENDENT AUDITORS' 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**

To The Board of Directors  
Mutual Housing Association of Southwestern Connecticut, Inc.  
Bridgeport, Connecticut

We have audited, 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, the financial statements of Mutual Housing Association of Southwestern Connecticut, Inc. as of and for the years ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Mutual Housing Association of Southwestern Connecticut, Inc.'s basic financial statements and have issued our report thereon dated September 19, 2018. The financial statements of certain subsidiaries and affiliates were not audited in accordance with Government Auditing Standards and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these certain subsidiaries and affiliates.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mutual Housing Association of Southwestern Connecticut, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mutual Housing Association of Southwestern Connecticut, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Mutual Housing Association of Southwestern Connecticut, Inc.'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 entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

### **Management's Responses to the Findings**

Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries' responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Braintree, Massachusetts  
September 19, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To The Board of Directors  
Mutual Housing Association of Southwestern Connecticut, Inc.  
Bridgeport, Connecticut

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017. Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Mutual Housing Association of Southwestern Connecticut, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mutual Housing Association of Southwestern Connecticut, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' compliance.

### **Basis for Qualified Opinion on Supportive Housing for Persons with Disabilities Program**

As described in Findings 2017-002 through 2017-004 in the accompanying schedule of findings, questioned costs, and recommendations, Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program Name</b>	<b>Compliance Requirement</b>
2017-002	14.181	Supportive Housing for Persons with Disabilities	Reporting
2017-003	14.181	Supportive Housing for Persons with Disabilities	Activities Allowed/Unallowed
2017-004	14.181	Supportive Housing for Persons with Disabilities	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries to comply with requirements applicable to that program.

### **Qualified Opinion on Supportive Housing for Persons with Disabilities Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Supportive Housing for Persons with Disabilities Program for the year ended December 31, 2017.

### **Unmodified Opinion on Compliance for Each of the Other Major Federal Programs**

In our opinion, Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal Programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2017.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2017-005. Our opinion on each major federal program is not modified with respect to these matters.

The Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Mutual Housing Association of Southwestern Connecticut, Inc. and subsidiaries' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control over Compliance**

Management of the Mutual Housing Association of Southwestern Connecticut, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mutual Housing Association of Southwestern Connecticut, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mutual Housing Association of Southwestern Connecticut, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-002 through 2017-004 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-005 to be significant deficiencies.

Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries' responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mutual Housing Association of Southwestern Connecticut, Inc. and Subsidiaries' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Guyden Herby" followed by "PC" in a smaller font.

Braintree, Massachusetts  
September 19, 2018

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2017**

**I. Summary of Audit Results**

**Financial Statements**

1. Type of report issued on the financial statements - Unmodified
2. The report on internal control over financial reporting did not disclose any material weaknesses.
3. The report on internal control over financial reporting did disclose significant deficiencies.
4. The report on compliance did not disclose instances of non-compliance material to the financial statements.

**Federal Programs**

5. Type of report issued on compliance for major programs:
  - Supportive Housing for the Elderly Program – Unmodified
  - Supportive Housing for Persons with Disabilities Program - Qualified
6. The report on internal control over major programs did disclose material weaknesses.
7. The report on internal control over major programs did disclose significant deficiencies.
8. There are audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a).
9. Major federal assistance programs are identified in the schedule of federal expenditures. The dollar threshold to distinguish type A and type B programs was \$750,000.
10. The following programs were tested as major programs in accordance with Uniform Guidance:

	<u><b>CFDA Number</b></u>
Supportive Housing for the Elderly Program	14.157
Supportive Housing for Persons with Disabilities	14.181

11. The auditee did not qualify as a low-risk auditee.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (Continued)  
December 31, 2017**

**II. Findings related to the Financial Statements which are required to be reported in accordance with GAGAS**

***Finding 2017-001 – Internal Control over Financial Reporting***

**Criteria**

Management and those charged with governance have a responsibility to understand the five components of internal control and design either formal or informal systems that address each component sufficiently relative to the size and complexity of the organization in such a way that reduces the risk that financial statements will be materially misstated and keep the risk of noncompliance with laws and regulations relating to the administration of government programs and grants to a relatively low level.

The five components of internal control that collectively provide an entity with assurance that financial statements are fairly stated and they are:

1. Control environment
2. Risk assessment
3. Communication
4. Control activities
5. Monitoring

**Condition and Context**

As part of our audit, we documented and tested the entity's control systems, performed analytical review procedures and substantive tests of transactions and account balances. As a result of these procedures, we made certain observations that illustrate a lack of proper controls over financial reporting and a control environment that is not sufficient to properly reduce the risk of misstatement in the financial statements. Our observations are as follows:

- Prior year audit adjustments were not recorded for a wholly-owned property on the general ledger. Prior to audit adjustments, total assets and partner's capital account balances were understated by approximately \$117,000.
- Transactions pertaining to refinancing of mortgage for a wholly-owned operating property was not recorded properly on the general ledger. Prior to audit adjustments, total liabilities and related expense were overstated by approximately \$18,000. In addition, financing costs related to old loan were not properly written off.
- Prepaid insurance and related insurance expense was not properly adjusted for shared costs allocated to the managed properties.
- Loan receivable from an affiliated limited partnership in the amount of \$105,000 was not recorded as of year-end close of books.
- Management fees were overcharged to a wholly-owned operating property by approximately \$6,000.
- Intercompany balances and transactions were not properly recorded and reconciled.
- Interest income on a loan due from an affiliated limited partnership in the amount of \$82,461 was not accrued as of year-end close of books.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**II. Findings related to the Financial Statements which are required to be reported in accordance with GAGAS – (Continued)**

*Finding 2017-001 – Internal Control over Financial Reporting (Continued)*

**Effect or Potential Effect**

The risk of a material misstatement or fraud that is not prevented or detected and corrected is not at a sufficiently low level.

**Cause**

Management has not implemented a system of internal control over financial reporting that would reduce the risk of misstatement or fraud to an appropriate level.

**Recommendation**

We recommend that the management consider making the following improvements to control activities:

- Evaluate the completeness and effectiveness of cut-off procedures to ensure that transactions are accounted for in the appropriate period.
- Providing key staff with training in development accounting and compliance to improve organizational competency in this area.
- Evaluating the completeness controls necessary to identify and record non-routine transactions.
- Adopting a comprehensive accounting/internal control policy to improve internal controls over financial reporting.

**Auditee's Response and Planned Corrective Action**

See Corrective Action Plan.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 200.516(a)**

*Finding 2017-002 – Reporting*

**Federal Program**

U.S. Department of Housing and Urban Development  
CFDA # 14.181 – Supportive Housing for Persons with Disabilities

**Criteria**

In accordance with HUD’s Uniform Financial Reporting Standards rule, an owner is required to submit financial statements annually, prepared in accordance with generally accepted accounting principles (GAAP), in the electronic format prescribed by HUD. The unaudited financial statement is due 2 months after the owner's fiscal year end and an audited financial statement is due 9 months after its fiscal year end (24 CFR section 5.801).

**Condition**

The Owner did not submit its December 31, 2016 annual audited financial statements to HUD in an electronic format prescribed by HUD.

**Questioned Costs**

None identified.

**Context**

The Owner is only required to submit its audited financial statements to HUD annually.

**Effect or Potential Effect**

The Owner is not in compliance with reporting requirements under HUD’s Uniform Financial Reporting Standards rule.

**Cause**

The Owner no longer has access to HUD’s Financial Assessment Subsystem (FASSUB) due to a turnover in key management personnel.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined  
in paragraph 200.516(a) – (Continued)**

*Finding 2017-002 - Reporting – (Continued)*

**Recommendation**

We recommend that the Owner contact HUD to regain access to HUD's Financial Assessment Subsystem (FASSUB) and submit annual audited financial statements retroactively.

**Auditee's Response and Planned Corrective Action**

See Corrective Action Plan.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 200.516(a) – (Continued)**

*Finding 2017-003 – Activities Allowed / Unallowed*

**Federal Program**

U.S. Department of Housing and Urban Development  
CFDA # 14.181 – Supportive Housing for Persons with Disabilities

**Criteria**

In accordance with HUD regulations, PRAC projects funds must be used only for expenses that are reasonable and necessary to the operation of the project. (24 CFR Section 891.400(e)).

**Condition**

In a prior fiscal year, the Owner had advanced funds to affiliates for which it has not been refunded. The Owner received payments of \$31,286 from affiliates during the year and advanced additional funds of \$42,000. As of December 31, 2017, net advances to affiliates amounted to \$44,034.

**Questioned Costs**

None identified.

**Context**

The Owner is only allowed to use project funds for the operation of the project and to make required deposits to the replacement reserve or the residual receipts account.

**Effect or Potential Effect**

The Project was unnecessarily encumbered.

**Cause**

Sufficient Internal controls were not in place to prevent unallowable distributions of PRAC project funds.

**Repeat Finding**

This finding is repeated from Finding 2016-002.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined  
in paragraph 200.516(a) – (Continued)**

*Finding 2017-003 – Activities Allowed / Unallowed – (Continued)*

**Recommendation**

We recommend that the Project request repayment from affiliates for advanced funds, and no loans or advances be made to affiliates without HUD Approval.

**Auditee's Response and Planned Corrective Action**

See Corrective Action Plan.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 200.516(a) – (Continued)**

*Finding 2017-004 - Special Tests and Provisions*

**Federal Program**

U.S. Department of Housing and Urban Development  
CFDA # 14.181 – Supportive Housing for Persons with Disabilities

**Criteria**

In accordance with HUD regulations, any funds in the project funds account (including earned interest) at the end of the fiscal year shall be deposited in a federally insured account within 60 days following the end of the fiscal year. Withdrawals from this account may be made only for project purposes and with the approval of HUD (24 CFR section 891.400(e)).

**Condition**

The Project had surplus cash of \$24,077 at December 31, 2016, which was required to be deposited into a separate residual receipts account within 60 days following year end. The Project did not establish a residual receipts account to make the required annual deposit during 2017.

**Questioned Costs**

None identified.

**Context**

The Project is only required to make deposits annually into residual account based on surplus cash computation.

**Effect or Potential Effect**

The Project is not in compliance with HUD requirements.

**Cause**

Sufficient Internal controls were not in place which resulted in failure to deposit the required funds into the residual receipts account.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined  
in paragraph 200.516(a) – (Continued)**

*Finding 2017-004 - Special Tests and Provisions – (Continued)*

**Recommendation**

We recommend that the Project implement procedures to calculate surplus cash at year end. We also recommend the Project establish a residual receipts account and make the required residual receipts deposit within 60 days after the fiscal year end.

**Auditee's Response and Planned Corrective Action**

See Corrective Action Plan.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 200.516(a)**

*Finding 2017-005 – Special Tests and Provisions*

**Federal Program**

U.S. Department of Housing and Urban Development  
CFDA #: 14.157 – Supportive Housing for the Elderly Program

**Criteria**

The PRAC contract requires that the Project make the required monthly deposits to its replacement reserve.

**Condition**

During the year ended December 31, 2017, the Project did not make the required monthly deposits to the replacement reserve. At December 31, 2017, the replacement reserve was underfunded by \$3,347.

**Questioned Costs**

None identified.

**Context**

The Project is required to make the monthly deposits into its replacement reserve based on HUD approved annual required deposit amount.

**Effect or Potential Effect**

Failure to make monthly deposits in the proper amount resulted in underfunding of the replacement reserve in violation of the PRAC contract.

**Cause**

The Project does not generate sufficient cash flow to make the required monthly deposits.

**Repeat Finding**

This finding is repeated from Finding 2016-004.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)  
December 31, 2017**

**III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined  
in paragraph 200.516(a) – (Continued)**

*Finding 2017-005 - Special Tests and Provisions – (Continued)*

**Recommendation**

Management should review the Project's budget to ensure that the replacement reserve is funded in accordance with PRAC contract.

**Auditee's Response and Planned Corrective Action**

See Corrective Action Plan.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2017**

**Summary of Audit Results**

**Financial Statements**

1. Type of report issued on the financial statements - Unmodified
2. The report on internal control over financial reporting did not disclose material weaknesses.
3. The report on internal control over financial reporting did disclose significant deficiencies.
4. The report on compliance did not disclose instances of non-compliance material to the financial statements.

**Federal Programs**

5. Type of report issued on compliance for major programs:
  - Supportive Housing for the Elderly Program – Unmodified
  - HOME Investment Partnership Program – Unmodified
  - Supportive Housing for Persons with Disabilities Program - Qualified
6. The report on internal control over major programs did disclose material weaknesses.
7. The report on internal control over major programs did disclose significant deficiencies.

***Finding 2016-001 – Internal Control over Financial Reporting***

**Condition and Context**

As part of our audit, we documented and tested the entity's control systems, performed analytical review procedures and substantive tests of transactions and account balances. As a result of these procedures, we made certain observations that illustrate a lack of proper controls over financial reporting and a control environment that is not sufficient to properly reduce the risk of misstatement in the financial statements. Our observations are as follows:

- Tenant security deposits for a wholly-owned operating property is not maintained in a separate bank account in the Corporation's name.
- Investment income on a loan due from a limited partnership in the amount of \$165,000 was not accrued as of year-end close of books.
- Development fee income due from a limited partnership and wholly owned entity in the aggregate amount of \$469,761 was not accrued as of year-end close of books.
- City of Bridgeport HOME Loan in the amount of \$387,000 for MHA Conger House, LLC was not recognized as grant income in prior years, while interest was being accrued on the loan. Management believes that the principal and related accrued interest will be forgiven upon maturity.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF PRIOR AUDIT FINDINGS- (Continued)  
December 31, 2017**

*Finding 2016-001 – Internal Control over Financial Reporting (Continued)*

**Condition and Context – (Continued)**

- Intercompany balances and transactions were not properly recorded and reconciled.
- Mortgages receivable, and the related allowance schedule was not reconciled to the general ledger.

**Status**

See Finding 2017-001.

*Finding 2016-002 – Activities Allowed / Unallowed*

**Federal Program**

CFDA # 14.181 – Supportive Housing for Persons with Disabilities

**Condition and Context**

In a prior fiscal year, the project had advanced funds to affiliates for which it has not been refunded. The Project received payments of \$41,820 from affiliates during the year and did not advance any additional funds. As of December 31, 2016, advances to affiliates amounted to \$27,477.

The management agreement allows for a management fee of 6% of residential income collected to be paid to the management agent and does not allow for any special fees. In the current fiscal year, the management agent charged to project \$648 of bookkeeping fees and overcharged the management fee by \$1,076.

Certain indirect expenses are allocated between the Project and an adjacent property, also owned by the management agent. These expenses are allocated based on the number of units at each property. In the current year, the expenses allocated to the Project was not consistent with the unit allocation between the Project and the adjacent property. The Project was overcharged by \$2,384.

The Project does not maintain a separate tenant security deposit bank account.

**Status**

During the year ended December 31, 2017, the Organization advanced additional funds to affiliates. The management fees and bookkeeping fees charged to project during the year were reasonable. We also noted that the project maintains a separate tenant security deposits bank account as of December 31, 2017. See Finding 2017-003 related to unauthorized advances made to affiliates.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**SCHEDULE OF PRIOR AUDIT FINDINGS- (Continued)  
December 31, 2017**

*Finding 2016-003 – Eligibility*

**Federal Program**

CFDA #: 14.157 – Supportive Housing for the Elderly Program

**Condition and Context**

On March 1, 2016, the Project leased out a unit to a tenant that did not qualify as elderly at the time of move-in. In September 2016, the new project management staff discovered that a unit was occupied by a tenant that did not meet the eligibility criteria. Management informed HUD and commenced legal proceedings to evict the tenant.

**Status**

There was not a reoccurrence of this matter for the year ended December 31, 2017. This finding has been resolved.

*Finding 2016-004 – Special Tests and Provisions*

**Federal Program**

CFDA #: 14.157 – Supportive Housing for the Elderly Program

**Condition and Context**

During the year ended December 31, 2016, the Project did not make the required monthly deposits to the replacement reserve. At December 31, 2016, the replacement reserve was underfunded \$7,150.

**Status**

Management started making additional payments effective July 1, 2016 to replenish the replacement reserve over a period of one year for the delinquent amount. As of December 31, 2017, the replacement reserve was not fully funded. See Finding 2017-005.

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CORRECTIVE ACTION PLAN  
December 31, 2017**

*Finding 2017-001 – Internal Control over Financial Reporting*

**Auditee’s Response and Planned Corrective Action**

[Effective July 1, 2018, Management has outsourced all of the financial functions of the agency to Knight, Rolleri and Sheppard CPA’s to provide daily financial functions and institute adequate internal controls.

**Planned Implementation Date of Corrective Action:** July 1, 2018

**Person Responsible for Corrective Action:** Renee Dobos, Chief Executive Officer

*Finding 2017-002 – Reporting*

**Auditee’s Response and Planned Corrective Action**

We are currently working with our Asset Manager at HUD to rectify this situation. Target date for solution is December 31, 2018.

**Planned Implementation Date of Corrective Action:** January 1, 2018

**Person Responsible for Corrective Action:** Renee Dobos, Chief Executive Officer

*Finding 2017-003 – Activities Allowed / Unallowed*

**Auditee’s Response and Planned Corrective Action**

Internal controls have been implemented to prevent this situation from occurring again and related entities are working to repay the funds advanced in error. Target date for repayment is December 31, 2018.

**Planned Implementation Date of Corrective Action:** January 1, 2018

**Person Responsible for Corrective Action:** Renee Dobos, Chief Executive Officer

**MUTUAL HOUSING ASSOCIATION OF SOUTHWESTERN CONNECTICUT, INC.  
AND SUBSIDIARIES**

**CORRECTIVE ACTION PLAN – (Continued)  
December 31, 2017**

*Finding 2017-004 – Special Tests and Provisions*

**Auditee’s Response and Planned Corrective Action**

Our HUD Asset Manager has agreed to consider allowing us to set these residual funds aside as a replacement reserve account this one time, as we are required to fund annually but have not established an account yet. Target date for resolution is December 31, 2018

**Planned Implementation Date of Corrective Action:** January 1, 2018

**Person Responsible for Corrective Action:** Renee Dobos, Chief Executive Officer

*Finding 2017-005 – Special Tests and Provisions*

**Auditee’s Response and Planned Corrective Action**

Property is continuing to make increased deposits to replacement reserve and 2018 budget has been adjusted to reflect this.

**Planned Implementation Date of Corrective Action:** January 1, 2018

**Person Responsible for Corrective Action:** Renee Dobos, Chief Executive Officer