

**Parsonage Cottage Senior Residence
Limited Partnership**

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2017

Parsonage Cottage Senior Residence Limited Partnership

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Balance Sheet	4
Statement of Operations	6
Statement of Changes in Partners' Capital (Deficit)	7
Statement of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	
Schedule of Certain Income and Expenses	16

Independent Auditor's Report

To the Partners
Parsonage Cottage Senior Residence Limited Partnership

We have audited the accompanying financial statements of Parsonage Cottage Senior Residence Limited Partnership, which comprise the balance sheet as of December 31, 2017, and the related statements of operations, changes in partners' capital (deficit) and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parsonage Cottage Senior Residence Limited Partnership as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 16 and 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Boston, Massachusetts
September 13, 2018

Parsonage Cottage Senior Residence Limited Partnership

**Balance Sheet
December 31, 2017**

Assets

Current assets	
Cash	\$ 8,509
Tenant accounts receivable	61,720
Prepaid expenses	16,667
Due from affiliates	103
	<hr/>
Total current assets	86,999
	<hr/>
Restricted deposits and funded reserves	
Replacement reserve	129,468
	<hr/>
Total restricted deposits and funded reserves	129,468
	<hr/>
Rental property	
Building and improvements	4,533,051
Site improvements	19,013
Furniture and equipment	449,135
	<hr/>
	5,001,199
Accumulated depreciation	(2,551,500)
	<hr/>
Total rental property	2,449,699
	<hr/>
Total assets	\$ 2,666,166
	<hr/> <hr/>

Parsonage Cottage Senior Residence Limited Partnership

**Balance Sheet
December 31, 2017**

Liabilities and Partners' Capital (Deficit)

Current liabilities	
Accounts payable	\$ 15,470
Accrued expenses	195,084
Notes payable, current portion	<u>43,956</u>
Total current liabilities	<u>254,510</u>
Long-term liabilities	
Notes payable, less current portion	892,219
Deferred management fees	1,561,897
Advances from affiliates	<u>519,506</u>
Total long-term liabilities	<u>2,973,622</u>
Partners' capital (deficit)	<u>(561,966)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 2,666,166</u>

See Notes to Financial Statements.

Parsonage Cottage Senior Residence Limited Partnership

**Statement of Operations
Year Ended December 31, 2017**

Revenue	
Rental income	\$ 2,093,839
Vacancies and concessions	(146,537)
Other operating income	75
	<hr/>
Total revenue	1,947,377
	<hr/>
Operating expenses	
Salaries and employee benefits	1,029,545
Repairs and maintenance	114,089
Utilities	73,243
Property management fee	116,838
Property insurance	47,139
Miscellaneous operating expenses	463,583
	<hr/>
Total operating expenses	1,844,437
	<hr/>
Net operating income	102,940
	<hr/>
Other income (expense)	
Interest income	734
Interest expense - first mortgage	(6,459)
Miscellaneous other income (expense)	30,595
Annual fee to affiliate of limited partner	(2,500)
Depreciation	(147,736)
	<hr/>
Total other income (expense)	(125,366)
	<hr/>
Net loss	\$ (22,426)
	<hr/>

See Notes to Financial Statements.

Parsonage Cottage Senior Residence Limited Partnership

**Statement of Changes in Partners' Capital (Deficit)
Year Ended December 31, 2017**

	<u>General partner</u>	<u>Limited partner</u>	<u>Total partners' capital (deficit)</u>
Balance, January 1, 2017	\$ (8,671)	\$ (530,869)	\$ (539,540)
Net loss	<u>(22)</u>	<u>(22,404)</u>	<u>(22,426)</u>
Balance, December 31, 2017	<u>\$ (8,693)</u>	<u>\$ (553,273)</u>	<u>\$ (561,966)</u>
Partners' percentage of losses	<u>0.10%</u>	<u>99.90%</u>	<u>100.00%</u>

See Notes to Financial Statements.

Parsonage Cottage Senior Residence Limited Partnership

**Statement of Cash Flows
Year Ended December 31, 2017**

Cash flows from operating activities	
Net loss	\$ (22,426)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	147,736
Changes in:	
Tenant accounts receivable	10,239
Prepaid expenses	(104)
Due from affiliates	(103)
Accounts payable	(3,653)
Accrued expenses	(10,711)
Deferred management fees	97,038
	<u>218,016</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Expenditures on rental property	(132,946)
Change in replacement reserve	151
	<u>(132,795)</u>
Net cash used in investing activities	
Cash flows from financing activities	
Principal payments on mortgage payable	(43,664)
Advances from affiliate	(72,365)
	<u>(116,029)</u>
Net cash used in financing activities	
Net decrease in cash	(30,808)
Cash, beginning	<u>39,317</u>
Cash, end	<u>\$ 8,509</u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u>\$ 6,459</u>

See Notes to Financial Statements.

Parsonage Cottage Senior Residence Limited Partnership

Notes to Financial Statements December 31, 2017

Note 1 - Organization and nature of operations

Nature of operations

Parsonage Cottage Senior Residence Limited Partnership (the "Partnership") is a Connecticut limited partnership formed in 1995 to construct, rehabilitate and operate a 40-unit residential rental apartment building known as Parsonage Cottage in Greenwich, Connecticut. The project is a Licensed Home for the Aged under the State of Connecticut requirements. A certain number of units are to be occupied by qualifying tenants under the Low-Income Housing Tax Credit Program. Parsonage Cottage was completed and available for rental in March 1997. The general partner, Town Hall Annex Corporation, has agreed to fund operating deficits.

The term of the Partnership shall continue until December 31, 2094, unless sooner dissolved in accordance with the provision of the Partnership Agreement.

The Partnership has received an allocation of credits from the state allocating agency, calculated at 8.44% of qualified rehabilitation costs. The annual credit, totaling \$286,425, may be claimed each year for 10 years and is subject to adjustment. To qualify for the tax credits, the Partnership must meet certain requirements including attaining a qualified eligible basis sufficient to support the allocation.

The major activities of the Partnership are governed by the Limited Partnership Agreement and Internal Revenue Code Section 42. The project has qualified for and been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. The project must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the Investor Limited Partner. In addition, the Partnership has executed an extended use regulatory agreement and declaration of restrictive covenants which requires the utilization of the project pursuant to Section 42 for a minimum of 30 years, even if the Partnership disposes of the project.

Note 2 - Summary of significant accounting policies

Tenant accounts receivable

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America ("GAAP") require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Parsonage Cottage Senior Residence Limited Partnership

Notes to Financial Statements December 31, 2017

Rental property

Rental property is recorded at cost. Depreciation of rental property is computed primarily using the following methods and estimated useful lives:

	Method	Estimated useful lives
Building and improvements	Straight-line	15 - 40 years
Site improvements	Straight-line	15 years
Furniture and equipment	Straight-line	5 - 10 years

Expenditures for maintenance and repairs are charged to expense as incurred; expenditures for renewals and betterments which add to the value of the related assets or materially extend the life of the assets are capitalized. When sold, retired, or otherwise disposed of, the costs of assets and related accumulated depreciation will be removed from the accounts and any gain or loss credited or charged to income.

Impairment of long-lived assets

The Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended December 31, 2017.

Rental income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases.

Advertising costs

The Partnership's policy is to expense advertising costs when incurred.

Income taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes, and the Partnership has no other tax positions which must be considered for disclosure. Income tax returns filed by the Partnership are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2014 remain open.

Parsonage Cottage Senior Residence Limited Partnership

Notes to Financial Statements December 31, 2017

Use of estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Leasing arrangements

The Partnership built Parsonage Cottage on land leased from the Town of Greenwich. The lease is an operating lease and will expire 99 years after the issuance of an occupancy permit with respect to the Parsonage Cottage. The Partnership is responsible for all taxes, insurance, utilities, and maintenance on the property. Annual lease payments due on the lease are \$1.00 per year.

Note 4 - Replacement reserve

The Partnership Agreement requires that a replacement reserve account be established and funded each year from the date of construction completion. At December 31, 2017, the balance of the replacement reserve was \$129,468.

Note 5 - Related party transactions

Identity of interest

An identity of interest exists between the Partnership and the Housing Authority of the Town of Greenwich (an affiliate). The majority of direct expenses for the Partnership, as well as shared costs such as accounting, computer costs, maintenance, etc. are paid through the HATG revolving fund and reimbursed by the Partnership. All costs paid by HATG and subsequently reimbursed by the Partnership are without any mark-up or profit.

The financial position and activities of the Partnership are included in the financial statements of HATG.

Developer fee

Under the terms of the Partnership Agreement, a developer fee of \$250,000 was to be paid to HATG, the project's developer. HATG caused the Partnership's general partner, Town Hall Annex Corporation, to be formed and given control over the operations of the Partnership. During the year ended December 31, 1997, HATG was paid \$244,104 of the developer's fee, and no payments have been made subsequently. The Partnership may execute a note in the amount of the unpaid fee to HATG, which will accrue interest at 7% per annum. For the year ended December 31, 2017, no interest has been charged.

Property management services

The general partner has contracted HATG to provide property management services to the project. For these services, a management fee of 6% of the project's gross rents will be paid to HATG. HATG is also reimbursed by the project for payroll and related costs as well as for other administrative costs. During 2017, property management fees of \$116,838 were charged to operations. As of December 31, 2017, \$1,561,897 remains payable.

Parsonage Cottage Senior Residence Limited Partnership

Notes to Financial Statements December 31, 2017

Due to affiliate

Additionally, at December 31, 2017, outstanding advances from the general partner and management agent to cover operating deficits of the Partnership totaled \$519,506. These advances are noninterest-bearing.

Unpaid amounts due to the general partner and management agent for these services and advances detailed above will be paid from available cash flow and/or a sale or refinancing of the property.

Partnership supervision fee

In accordance with the Partnership Agreement, a partnership supervision fee is to be paid to the Special Limited Partner for its services in monitoring the operations of the Partnership. The fee is \$2,500 per year and payable from cash flow in accordance with the Partnership Agreement. At December 31, 2017, unpaid fees of \$52,500 were included in accrued expenses.

Note 6 - Long-term debt

On April 17, 1997, the Partnership entered into a 30-year loan agreement with the Town of Greenwich (the "Town Loan") in the original amount of \$1,148,324. The loan accrued interest at 6% per annum and required monthly payments of interest and principal of \$6,885. On May 18, 2016, the Project had the loan modified to reduce the interest rate from 6% to 1% per annum and requires monthly payments of interest and principal of \$2,848. The modification was retroactively effective in January 2016 and the maturity date was amended from the original 30-year period to 22-years from January 2016. The outstanding principal as of December 31, 2017 was \$316,861. Interest expense incurred and paid on this note totaled \$6,459 in 2017. All principal and accrued interest is due at maturity in December 2037.

The Partnership has an additional promissory note payable to the Town of Greenwich with an original outstanding balance of \$348,548. The loan is funded through a Community Development Block Grant ("CDBG") received in connection with the rehabilitation of the project. The note, entered into on April 17, 1997, was for 30 years with monthly interest and principal payments of \$3,226. On May 18, 2016, the Project had the loan modified to reduce the interest rate from 4% to 0% per annum and required monthly payments of principal of \$1,320. The modification was retroactively effective in January 2016 and the maturity date was amended from the original 30-year period to 22-years from January 2016. The outstanding principal as of December 31, 2017 was \$316,861. There was no interest expensed or incurred on this note in 2017. All principal and accrued interest is due at maturity in December 2037.

The above-mentioned notes are secured by mortgages and security agreements covering the property. Certain of the notes are also secured by assignments of leases, rents and profits. The liability of the Partnership under the notes is limited to the underlying value of the real estate collateral.

Parsonage Cottage Senior Residence Limited Partnership

Notes to Financial Statements December 31, 2017

As of December 31, 2017, estimated principal payments due on the Partnership's notes for the ensuing five years and thereafter are as follows:

December 31, 2018	\$	43,956
2019		44,239
2020		44,524
2021		44,812
2022		45,103
Thereafter		<u>713,541</u>
	\$	<u>936,175</u>

Note 7 - Capital contributions

The general partner, Town Hall Annex Corporation, contributed \$100 in exchange for a 1.0% ownership interest. The special limited partner, EC-SLP, Inc., contributed \$100 in exchange for a .01% ownership interest. The investor limited partner, Corporations for Affordable Housing L.P. II, contributed \$1,758,077, subject to adjustment, in exchange for a 98.99% ownership interest. During 1999, there was a transfer of ownership interest and Town Hall Annex Corporation's interest became 0.10% and Corporations for Affordable Housing L.P. II's interest became 99.90%.

On December 3, 2012, EC-SLP, Inc. and Corporations for Affordable Housing L.P. II executed an Assignment and Substitution Agreement of Limited Partner Interest and Special Partner Interest transferring their respective interest in profits, losses, distributions and capital and any claim of the respective partner against, or to the assets of the Partnership, to Housing Authority of the Town of Greenwich, an affiliate of the general partner.

Profits, losses, tax credits, and cash distributions are allocated among the partners in accordance with the terms of the Partnership Agreement.

Note 8 - Taxable income

The Partnership's income reported on its tax return differs from the financial statement income due to the difference in depreciation methods. The net income reported on the tax return was \$58,822 for the year ended December 31, 2017. For the year ended December 31, 2017, the tax income was \$81,248 more than the financial statement loss.

Note 9 - Rental income

The State of Connecticut, Department of Social Services, provides rental subsidy to the project. Rent subsidy of \$1,688,839 was received in 2017, representing 87% of net rental income.

Note 10 - Concentration of credit risk

The Partnership maintains its cash balances in several accounts in one bank. 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; however, the Partnership has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2017.

Parsonage Cottage Senior Residence Limited Partnership

Notes to Financial Statements December 31, 2017

Note 11 - Schedule of surplus cash

The Partnership Agreement defines the priority in which cash can be distributed. Prior to distributions of operating cash flow to partners, gross cash receipts from operations shall be used to pay Partnership expenses in the following order of priority:

- (i) Payment of the debt service due and payable on the Town Loan and the CDBG Loan and other Partnership Expenses, including any required additions to the Capital Replacement Reserve, except for Partnership Expenses listed in clauses (ii) through (v) below;
- (ii) Payment of the Partnership Supervision Fee;
- (iii) Payment of any Operating Deficit Loan;
- (iv) Payment of any current and accrued interest on the Non-Profit Loan (PCHA); and
- (v) Payment of any principal payments due on the Non-Profit Loan (PCHA).

The calculation of excess cash is as follows:

Net income	\$ (22,426)
Add back: Partnership supervision fee	2,500
Add back: Depreciation expense	<u>147,736</u>
Net income from operations	127,810
Principal payments on loans	<u>(43,664)</u>
Excess (deficit) cash	<u><u>\$ 84,146</u></u>

Distributions from a sale or refinancing shall be allocated in accordance with the Partnership Agreement.

Note 12 - Economic dependency

The Partnership operates the property located in Greenwich, Connecticut. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in low-income housing subsidies or the demand for such housing.

Note 13 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Partnership through September 13, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Supplementary Information

Parsonage Cottage Senior Residence Limited Partnership

**Schedule of Certain Income and Expenses
Year Ended December 31, 2017**

Rental income	
Rent revenue - gross potential	\$ 2,093,839
Total rental income	<u>\$ 2,093,839</u>
Vacancies and concessions	
Apartments vacancies	\$ 146,537
Total vacancies and concessions	<u>\$ 146,537</u>
Other operating income	
Tenant charges	\$ 75
Total other operating income	<u>\$ 75</u>
Salaries and employee benefits	
Salaries - administrative	\$ 636,055
Salaries - maintenance	80,130
Health insurance and other benefits	289,359
Workmen's compensation insurance	24,001
Total salaries and employee benefits	<u>\$ 1,029,545</u>
Repairs and maintenance	
Supplies	\$ 27,780
Repairs and maintenance - other than contracts	650
Repairs and maintenance - contracts	85,659
Total repairs and maintenance	<u>\$ 114,089</u>
Utilities	
Electricity	\$ 45,778
Water	8,919
Gas	18,546
Total utilities	<u>\$ 73,243</u>

Parsonage Cottage Senior Residence Limited Partnership

**Schedule of Certain Income and Expenses
Year Ended December 31, 2017**

Miscellaneous operating expenses	
Office supplies and expense	\$ 14,153
Training and travel	2,299
Telephone and answering service	7,547
Computer supplies and expense	2,433
Other rent expense	397,070
Miscellaneous administrative	13,490
Advertising and newspaper	2,160
Legal	10,268
Audit	7,700
Accounting	6,463
	<hr/>
Total miscellaneous operating expenses	\$ 463,583
	<hr/> <hr/>
Miscellaneous other income (expense)	
Donations and grants	\$ 30,595
	<hr/>
Total miscellaneous other income (expense)	\$ 30,595
	<hr/> <hr/>

See Independent Auditor's Report.

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com