

**Mifflin Mills Housing
Limited Partnership**

D/B/A Mifflin Mills Townhomes
PHFA No. N-0034

Financial Statements and
Supplementary Information

Years Ended December 31, 2018 and 2017
with Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

YEARS ENDED DECEMBER 31, 2018 AND 2017

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Independent Auditor's Report

**To the Partners
Mifflin Mills Housing
Limited Partnership**

Report on the Financial Statements

We have audited the accompanying financial statements of the Mifflin Mills Housing Limited Partnership, d/b/a Mifflin Mills Townhomes, PHFA No. N-0034 (Partnership), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of profit and loss, changes in partners' equity, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 16 to 21 is presented for purposes of additional analysis as required by the Pennsylvania Housing Finance Agency (PHFA) and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 16 to 21 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. Such 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 accompanying supplementary information shown on pages 16 to 21 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019 on our consideration of the Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, PHFA regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Partnership's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Partnership's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
March 22, 2019

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 31,736	\$ 54,979
Accounts receivable - tenant	1,053	944
Inventory	755	1,436
Total current assets	33,544	57,359
Deposits held in trust:		
Tenant security deposits	13,253	13,587
Total deposits held in trust	13,253	13,587
Restricted deposits and funded reserves:		
Tax and insurance escrow	35,239	34,637
Reserve for replacement	85,748	74,665
Operating reserve	41,598	40,887
Supportive services escrow	43,230	42,491
Total restricted deposits and funded reserves	205,815	192,680
Property and equipment:		
Land	90,775	90,775
Building	5,018,028	5,018,028
	5,108,803	5,108,803
Less: accumulated depreciation	1,535,710	1,368,310
Net property and equipment	3,573,093	3,740,493
Total Assets	\$ 3,825,705	\$ 4,004,119

(Continued)

	<u>2018</u>	<u>2017</u>
Liabilities and Partners' Equity		
<hr/>		
Current liabilities:		
Accounts payable	\$ 14,583	\$ 9,476
Total current liabilities	<u>14,583</u>	<u>9,476</u>
Deposit and prepayment liabilities:		
Tenant security deposits	13,253	13,587
Deferred rent credits	<u>2</u>	<u>35</u>
Total deposit and prepayment liabilities	<u>13,255</u>	<u>13,622</u>
Long-term liabilities:		
Mortgage payable	239,800	263,000
Long-term debt - Affordable Housing Loan	500,000	500,000
Long-term debt - City of Lebanon Loan	100,000	100,000
Accrued interest - Affordable Housing Loan	97,500	87,500
Less: Financing costs, net of accumulated amortization of \$72,666 and \$64,720	<u>(46,518)</u>	<u>(54,464)</u>
Total long-term liabilities	<u>890,782</u>	<u>896,036</u>
Total Liabilities	918,620	919,134
Partners' Equity:	<u>2,907,085</u>	<u>3,084,985</u>
Total Liabilities and Partners' Equity	<u><u>\$ 3,825,705</u></u>	<u><u>\$ 4,004,119</u></u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP

D/B/A MIFFLIN MILLS TOWNHOMES

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STATEMENTS OF PROFIT AND LOSS

YEARS ENDED DECEMBER 31, 2018 AND 2017

Part 1	Description of Account	Account #	2018	2017
Rental Income	Rental Income	5120	\$ 163,200	\$ 156,000
	Tenant Assistance Payments	5121	-	-
	Stores and Commercial Rent	5140	-	-
	Other Rental Income	5190	5,944	2,950
	Rent Concessions	5250	-	-
	Total Rental Income			169,144
Vacancies	Vacancies - Apartments	5220	8,147	3,822
	Vacancies - Commercial	5240	-	-
	Total Vacancy Loss		8,147	3,822
	Net Rental Income		160,997	155,128
Interest Income	Interest Income - Operations	5410	2,709	1,568
	Interest Income - Residual Receipts	5430	-	-
	Interest Income - Reserve for Replacement	5440	1,399	702
	Interest Income - Painting and Decorating	5450	-	-
	Total Interest Income		4,108	2,270
Other Income	Supportive Services Income	5300	-	-
	Grant Income	5510	-	-
	Service Income	5910	-	-
	NSF and Late Fees	5920	-	-
	Miscellaneous Income	5990	-	-
	Total Other Income		-	-
	Total Property Income		165,105	157,398
Administrative Expenses	Advertising and Renting Expense	6210	-	-
	Office and Telephone Expense	6311	564	452
	Model Apartment Expense	6312	-	-
	Management Fee (10%)	6320	16,404	15,712
	Legal Expense	6340	-	-
	Audit Expense	6350	6,083	5,957
	Administrative Fee (Section 8 only)	6351	-	-
	Bad Debts	6370	4,224	-
	Miscellaneous Administrative Expenses	6390	-	-
	Total Administrative Expenses		27,275	22,121
Utility Expenses	Fuel	6420	-	-
	Electricity	6450	519	126
	Water	6451	6,850	6,034
	Gas	6452	129	180
	Sewer	6453	8,238	7,268
	Total Utility Expenses		15,736	13,608
Operating and Maintenance Expenses	Janitor/Maintenance Supplies	6515	-	-
	Operating/Maintenance Contracts	6520	-	-
	Rubbish Removal	6525	3,144	3,144
	Security Payroll/Contract	6530	1,432	2,306
	Repairs Materials	6541	11,887	3,310
	Elevator Maintenance	6545	-	-
	Heating and Air Conditioning Maintenance	6546	-	121
	Grounds Maintenance/Snow Removal	6548	2,804	2,604
	Painting and Decorating	6560	4,028	-
	Vehicle Operation and Repairs	6570	-	-
	Miscellaneous Operating and Maintenance Expense	6590	286	-
Total Operating and Maintenance Expenses		23,581	11,485	

(Continued)

MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
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STATEMENTS OF PROFIT AND LOSS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Continued)

Part 1 (Continued)	Description of Account	Account #	2018	2017
Payroll Expenses	Office Salaries	6310	-	10,630
	Manager Salaries	6330	10,789	-
	Administrative Rent Free Unit	6331	-	-
	Janitor/Maintenance Payroll	6510	11,762	8,438
	Payroll Taxes	6711	424	688
	Workmen's Compensation	6722	-	-
	Health Insurance and Employee Benefits	6723	3,888	7,050
	Total Payroll Expenses		26,863	26,806
Taxes and Insurance	Real Estate Taxes	6710	35,231	34,213
	Property and Liability Insurance	6720	5,775	5,398
	Fidelity Bond Insurance	6721	-	-
	Miscellaneous Taxes and Insurance, Licenses/Permits	6729	-	-
	Total Taxes and Insurance Expenses		41,006	39,611
Financial Expenses	Mortgage Interest	6820	-	-
	PHFA Late Fees	6821	-	-
	Other Interest Payments	6830	10,000	10,000
	Mortgage Insurance Premiums	6850	-	-
	PHFA Services Fees	6851	-	-
	PHFA Self Insurance Fees	6855	-	-
	Other Service Fee	6860	-	-
	Investor Service Fee	6870	-	-
	Miscellaneous Financial Expense	6890	-	-
	Total Financial Expenses		10,000	10,000
Supportive Service Expenses	Supportive Service Payroll	6910	-	-
	Supportive Service Supplies	6920	-	-
	Total Supportive Service Expenses		-	-
	Total Cost of Operations Before Depreciation		144,461	123,631
	Profit (Loss) Before Depreciation		20,644	33,767
	Depreciation (Total) - 6600 Specify	6600	167,400	167,650
	Amortization	6610	7,946	7,943
	Operating Profit (Loss)		(154,702)	(141,826)
Entity Expenses	Interest Income - (Entity)	7100	-	-
	Legal Expenses - (Entity)	7120	-	-
	Taxes (Federal-State-Entity)	7130	-	-
	Other Expenses (Entity)	7190	-	-
	Total Entity Expenses		-	-
	Net Profit (Loss)		\$ (154,702)	\$ (141,826)

Part 2

1. Total principal payments required under the mortgage, even if payments under a Workout Agreement are less or more than those required under the mortgage.	\$ 23,200	\$ 14,600
2. Replacement Reserve deposits required by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.	\$ -	\$ -

(Concluded)

The accompanying notes are an integral part of these financial statements.

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
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STATEMENTS OF CHANGES IN PARTNERS' EQUITY

YEARS ENDED DECEMBER 31, 2018 AND 2017

	General Partner	Limited Partner	Total
Percentage Interest:	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>
Balance, December 31, 2016	\$ 15	\$ 3,226,796	\$ 3,226,811
Deduct:			
Net loss	<u>(14)</u>	<u>(141,812)</u>	<u>(141,826)</u>
Balance, December 31, 2017	1	3,084,984	3,084,985
Add:			
Capital contribution (Note 4)	2	-	2
Deduct:			
Equity distribution (Note 4)	(2)	(23,198)	(23,200)
Net loss	<u>(15)</u>	<u>(154,687)</u>	<u>(154,702)</u>
Balance (Deficit), December 31, 2018	<u>\$ (14)</u>	<u>\$ 2,907,099</u>	<u>\$ 2,907,085</u>

The accompanying notes are an integral part of these financial statements.

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Rental receipts	\$ 161,189	\$ 154,958
Interest receipts	4,108	2,270
Administrative expenses paid	(10,181)	(6,852)
Administrative salaries paid	(13,421)	(13,010)
Management fees paid	(16,404)	(15,712)
Utilities paid	(14,924)	(13,821)
Operating and maintenance expenses paid	(20,330)	(11,551)
Operating and maintenance payroll paid	(11,983)	(13,108)
Payroll taxes paid	(424)	(688)
Property taxes paid	(35,231)	(34,213)
Property insurance paid	(5,775)	(5,398)
Net cash provided by operating activities	36,624	42,875
Tenant security deposits	(334)	1,822
Net cash provided by operating activities	36,290	44,697
Cash Flows From Investing Activities:		
Deposits to tax and insurance escrow	(602)	(340)
Deposits to reserve for replacement	(11,083)	(10,386)
Deposits to operating reserve	(711)	(400)
Deposits to supportive services escrow	(739)	(416)
Net cash used in investing activities	(13,135)	(11,542)
Cash Flows From Financing Activities:		
Capital contribution	2	-
Equity distributions	(23,200)	-
Mortgage principal payments	(23,200)	(14,600)
Net cash used in financing activities	(46,398)	(14,600)
Net Increase (Decrease) in Cash and Cash Equivalents	(23,243)	18,555
Cash and Cash Equivalents:		
Beginning of year	54,979	36,424
End of year	\$ 31,736	\$ 54,979

(Continued)

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

	2018	2017
Reconciliation of Net Loss to Net Cash Provided by Operating Activities:		
Net loss	\$ (154,702)	\$ (141,826)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	175,346	175,593
Change in assets:		
Accounts receivable - tenant	(109)	2,956
Tenant security deposits	334	(1,822)
Inventory	681	(463)
Change in liabilities:		
Accounts payable	5,107	(259)
Tenant security deposits	(334)	1,822
Accrued interest	10,000	10,000
Deferred rent credits	(33)	(1,304)
Net cash provided by operating activities	\$ 36,290	\$ 44,697

(Concluded)

The accompanying notes are an integral part of these financial statements.

MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP D/B/A MIFFLIN MILLS TOWNHOMES

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Partnership Operations and Summary of Significant Accounting Policies

Partnership Operations

Mifflin Mills Housing Limited Partnership (Partnership) was formed on February 1, 2009 as a limited partnership under the laws of the Commonwealth of Pennsylvania for the purpose of acquiring, owning, maintaining, improving, and operating a twenty (20) unit affordable housing complex located in Lebanon County, Pennsylvania. Rental operations commenced on November 1, 2009. The apartments are marketed primarily to low-income, elderly individuals from Lebanon, Pennsylvania.

The Agreement of Limited Partnership stipulates the method to be used to distribute the Partnership's net income or loss and distributions to the partners. It also contains certain restrictions on the transfer or disposition of the general and limited partnership interest. The term of the Partnership shall continue until December 31, 2064, unless sooner dissolved by an act or event specified in the Partnership Agreement or by law.

The project qualifies and is entitled to 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 fifteen 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 limited partner.

The project's dwelling leases are structured so that at the end of the 15-year tax credit period the homes will be sold. Each tenant will be given the right of first refusal for purchase of the home. The "listed" sales price of the home will be the current appraisal value. The "cash" sales price of the home will be determined by taking into account various factors such as: 1) any remaining short-term debt associated with the home; 2) a fee to cover the costs associated with the sales process; 3) a minimum credit toward the purchase price of the home based on the number of years the tenant has resided in the home (not less than \$1,000 for each year of occupancy, nor exceed 20% of the fair market value of the home); 4) structuring the cash price so that purchasers monthly mortgage payment does not exceed approximately 30% of adjusted monthly gross income. The difference between the appraised

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YEARS ENDED DECEMBER 31, 2018 AND 2017

value and the cash price will be reflected as a second mortgage on the property. This second mortgage will be non-amortizing and will be forgiven at a rate of one-tenth per year over a ten-year period. Any remaining second mortgage balance will be due to the Partnership if the home is resold prior to the end of the ten-year period.

The general partner is the Non-Profit Housing Development Corporation of Lebanon County, Inc., a Pennsylvania nonprofit corporation (NHDC). The general partner contributed \$110 in cash for a 0.01% interest of the Partnership's income or loss.

The limited partner, Fulton Bank of Lebanon County, has contributed \$4,144,372 in cash, paid in installments as construction of the building progressed and certain stages of the construction were reached (as provided in the Partnership Agreement Section 5.1) for a 99.99% interest in the Partnership.

Pursuant to the Amended and Restated Agreement of Limited Partnership, cash flows shall be distributed or applied on an annual basis within 90 days after the end of each year in the following order: 1) to restore any amount expended from the Operating Reserve and Tax and Insurance Escrow accounts and then repayment of any operating deficit loans; 2) payment of any deferred development fees; and 3) the balance, if any, 50% to the limited partner and 50% to the general partner.

Principles of Accounting

The accounting policies of the Partnership conform to accounting principles generally accepted in the United States of America. The financial statements are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Partnership considers all unrestricted cash investments with a maturity date of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value. At times, such cash and cash equivalents may be in excess of the FDIC insurance limits.

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NOTES TO FINANCIAL STATEMENTS

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Accounts Receivable - Tenant

The Partnership records the total amount of tenant rent billed or accrued in accounts receivable. Uncollectible accounts receivable are expensed when, in the opinion of management, collection is unlikely. Recoveries of accounts previously written off are offset against bad debt expense in the year recovered. Tenant accounts receivable were \$1,053 and \$944 at December 31, 2018 and 2017, respectively.

Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method.

Tenant Security Deposits

Tenant security deposits are held in separate savings accounts in the name of the Partnership. Interest is credited to the tenants and increases the security deposit liability. Interest on these deposits is not income to the Partnership.

Restricted Deposits and Funded Reserves

Under the terms of the Partnership Agreement, the Partnership is required to set aside specified amounts for the replacement of property and other project expenditures. Tax and insurance escrow deposit accounts are held for payment of real estate taxes and insurance. The reserve for replacement represents funds required to be set aside for the major repairs, capital expenditures, and replacement of capital items at the facilities. The operating reserve represents funds used to cover operating deficits. The supportive services escrow deposits are held to pay for supportive services during the tax credit compliance period for the project pursuant to a supportive services agreement entered into between the Partnership management agent, as the supportive service provider.

Property and Equipment

Property and equipment are recorded at cost at the time of the purchase. Donated property and equipment are recorded at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from 7-30 years. Expenditures for repairs and maintenance and minor renewals are

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charged against income and expenses. Major renewals and betterments in excess of \$5,000 are capitalized. When property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

All twenty (20) of the dwelling's units are being leased to persons satisfying the income restrictions under Section 42(c)(1) of the Internal Revenue Code.

Long-Lived Assets

The Partnership evaluates the carrying value of long-lived assets. When indications of an impairment are present, the recoverability of the carrying value of the assets in question are assessed based on the future undiscounted cash flows expected to result from their use. If the carrying value cannot be recovered, impairment losses would be recognized to the extent the carrying value exceeds fair value. The Partnership does not have any indications of impairment at December 31, 2018 or 2017.

Non-Interest Bearing Loans

Non-interest bearing loans are measured by the cash proceeds exchanged when no other right or privilege is given. As such, no interest is imputed on the Partnership loans.

Rental Income

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

Income Taxes

As a Partnership, the entity is not directly liable for income taxes. Items of income and expense are passed through to the partners, who are liable for the taxes.

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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 certain reported amounts at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Pending Accounting Pronouncements

Accounting Standards Update (ASU) No. 2016-18, *“Statement of Cash Flows (Topic 230): Restricted Cash,”* is effective for the financial statements for the year ending December 31, 2019. This ASU requires that the statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606),”* is effective for the financial statements for the year ending December 31, 2019 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

Management has not yet determined the impact of these amendments on the Partnership’s financial statements.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor’s Report date, which is the date the financial statements were available to be issued.

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NOTES TO FINANCIAL STATEMENTS

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2. Concentration of Credit Risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of temporary cash investments and restricted deposits and funded reserves. The Partnership places its temporary cash investments and restricted deposits and funded reserve accounts with financial institutions and limits the amount of credit exposure to any one financial institution. Deposits at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Partnership held balances that exceeded this limit during the year ended December 31, 2018 and 2017.

3. Restricted Deposits and Funded Reserves

Under the terms of the Partnership Agreement, the Partnership is required to set aside specified amounts for the replacement of property and other project expenses. The restricted deposits and funded reserves are held in high-yield interest bearing accounts and are federally insured by the FDIC up to \$250,000. As of December 31, 2018 and 2017, restricted deposits and funded reserves amounted to \$205,815 and \$192,680 respectively, and are held in separate accounts and generally are not available for operating purposes.

4. Long-Term Debt Payable

The long-term debt payable at December 31 is as follows:

	2018	2017
Act 137 Loan	\$ 500,000	\$ 500,000
CDBG Loan	100,000	100,000
PHFA Mortgage	239,800	263,000
	<u>839,800</u>	<u>863,000</u>
Less: Current portion	-	-
	<u>\$ 839,800</u>	<u>\$ 863,000</u>

Based on the repayment terms disclosed below, maturity dates cannot be estimated.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

A loan in the amount of \$500,000 has been obtained from the Act 137 program funds of the County of Lebanon to assist with the acquisition of land and construction of twenty (20) affordable housing residential units. The loan accrues interest at a 2% rate for fifteen (15) years beginning March 30, 2009. The unpaid principal balance plus all accrued interest is due and payable on September 30, 2024, which is six (6) months after the expiration of the 15-year tax credit compliance period. At December 31, 2018 and 2017, the balance of the Act 137 Loan was \$500,000.

A no-interest loan in the amount of \$100,000 has been obtained from the City of Lebanon using proceeds from Community Development Block Grant (CDBG) funds (the CDBG Loan) for the construction of twenty (20) affordable housing residential units. The loan incurs no payment until thirty (30) years from the completion of construction of the project, which is November 2039. At December 31, 2018 and 2017, the balance of the CDBG Loan was \$100,000.

In March 2009, the Redevelopment Authority of the County of Lebanon (RACL) and the Partnership obtained a \$500,000 loan from the Commonwealth of Pennsylvania Department of Community and Economic Development to assist with the acquisition of land and construction of twenty (20) affordable housing residential units. In October 2009, RACL assigned the mortgage to the Pennsylvania Housing Finance Agency (PHFA). The PHFA Mortgage bears no interest. Payments are to be made from surplus of revenues over expenses generated by the project during any calendar year, applying 50% of such excess to the principal of the PHFA Mortgage and 50% to distributions to the partners. If the project does not generate any surplus revenue over expenses in any calendar year, payment of the current portion amount required each year will be deferred. Any unpaid balance will be due at the end of the thirty (30) year term, which is February 2039.

Based on review of the December 31, 2016 financial statements, PHFA authorized a principal payment on the mortgage of \$14,600 and a return on equity distribution of \$14,600. During the year ended December 31, 2017, the Partnership made the \$14,600 principal payment. There was no equity distribution payment made during the year ended December 31, 2017. Based on a review of the December 31, 2017 financial statements, PHFA authorized a principal payment on the mortgage of \$23,200 and a return on equity distribution of \$23,200. During the year ended December 31, 2018, the Partnership made the \$23,200 principal payment and a \$23,200 return on equity distribution to the partners. The \$2 equity

MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP D/B/A MIFFLIN MILLS TOWNHOMES

PHFA NO. N-0034

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

distribution to NHDC was treated as a capital contribution. At December 31, 2018 and 2017, the balance of the PHFA Mortgage was \$239,800 and \$263,000, respectively.

The mortgage and loans are collateralized by the property, plant, and equipment of the Partnership.

5. Transactions with Management Agent

The Housing Authority of the County of Lebanon (Housing Authority) through June 30, 2018, and Brick Property Services, LLC, effective July 1, 2018, provide property management services for a fee of 10% of the rent and ancillary income collected. Management fees for the years ended December 31, 2018 and 2017 amounted to \$16,404 and \$15,712, respectively, and are included in administrative expenses.

The Partnership shares both administrative and maintenance employees with the general partner, the Housing Authority, and Brick Property Services, LLC. These salaries are allocated to the Partnership by percentage on an individual employee basis. Amounts due to the Housing Authority at December 31, 2018 and 2017 were \$1,035 and \$0, respectively. There were no amounts due to or due from Brick Property Services, LLC at December 31, 2018 and 2017.

6. Current Vulnerability Due to Certain Concentrations

The Partnership's major asset is a 20-unit housing project. The Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, the Internal Revenue Service and PHFA. Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by a regulatory agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**SUPPLEMENTARY DATA
REQUIRED BY PHFA**

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2018

Accounts and Notes Receivable

None

Delinquent Tenant Accounts Receivable

None

MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES

PHFA NO. N-0034

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2018

(Continued)

Analysis of Required Reserve Funds and Escrows:

Schedule of Tax and Insurance Escrow

Balance at beginning of year	\$ 34,637
Total monthly deposits	-
Interest income	602
Approved withdrawals	-
Balance at end of year	<u>\$ 35,239</u>

Schedule of Reserve for Replacement

Balance at beginning of year	\$ 74,665
Total monthly deposits	9,684
Interest income	1,399
Approved withdrawals	-
Balance at end of year	<u>\$ 85,748</u>

Schedule of Operating Reserve

Balance at beginning of year	\$ 40,887
Total monthly deposits	-
Interest income	711
Approved withdrawals	-
Balance at end of year	<u>\$ 41,598</u>

Schedule of Supportive Services Escrow

Balance at beginning of year	\$ 42,491
Total monthly deposits	-
Interest income	739
Approved withdrawals	-
Balance at end of year	<u>\$ 43,230</u>

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2018

(Continued)

Changes in Property and Equipment Accounts:

	Assets			Balance December 31, 2018
	Balance January 1, 2018	Additions	Deletions	
Land	\$ 90,775	\$ -	\$ -	\$ 90,775
Building	5,018,028	-	-	5,018,028
Totals	\$ 5,108,803	\$ -	\$ -	\$ 5,108,803

	Accumulated Depreciation			Balance December 31, 2018
	Balance January 1, 2018	Additions	Deletions	
Building	\$ 1,368,310	\$ 167,400	\$ -	\$ 1,535,710

Schedule of Additions:

None

MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES

PHFA NO. N-0034

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2018
(Continued)

Itemization of Operating Payables:

<u>Name</u>	<u>Purpose</u>	<u>Amount</u>
Denmar Associates	Operating and maintenance expenses	\$ 3,062
Citibank	Operating and maintenance expenses	72
Cardmember Services	Operating and maintenance expenses	43
APR Supply	Operating and maintenance expenses	167
Lebanon County Housing Authority	Payroll expenses	1,035
City of Lebanon	Utility expenses	4,058
Met Ed	Utility expenses	66
Maher Duessel, CPAs	Administrative expenses	<u>6,080</u>
Total		<u>\$ 14,583</u>

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2018

(Continued)

PHFA's Computation of Surplus Cash and Return on Equity:

Surplus Cash Computation:

Add:	
Operating cash	\$ 31,736
Accounts receivable - tenant	1,053
Tenant security deposits	<u>13,253</u>
Total cash	<u>46,042</u>
Less:	
Accounts payable	14,583
Tenant security deposits	13,253
Deferred rent credits	<u>2</u>
Total current obligations	<u>27,838</u>
Surplus cash, end of year	<u><u>\$ 18,204</u></u>

Return on Equity Calculation:

a. Distributions unpaid as of the end of the prior fiscal period	\$ 4,028,828
b. Annual distribution earned during the fiscal period	530,613
c. Less: Distributions paid during the fiscal period	(23,200)
d. Less: Unauthorized payments	<u>-</u>
e. Cumulative unpaid distributions as of the balance sheet date	<u><u>\$ 4,536,241</u></u>

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2018

(Continued)

Calculation of Return on Equity:

Initial equity	\$ 3,492,027
Multiply - Consumer Price Index (101.3%)	1.013
Multiply - defined return on equity (15.0%)	<u>0.150</u>
Return on equity	<u><u>\$ 530,613</u></u>

**Mifflin Mills Housing
Limited Partnership**
D/B/A Mifflin Mills Townhomes
PHFA No. N-0034

Independent Auditor's Report in
Accordance with *Government
Auditing Standards*

Year Ended December 31, 2018

**Independent Auditor’s 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 Partners
Mifflin Mills Housing
Limited Partnership**

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 Mifflin Mills Housing Limited Partnership, d/b/a Mifflin Mills Townhomes, PHFA No. N-0034 (Partnership), which comprise the balance sheet as of December 31, 2018, and the related statements of profit and loss, changes in partners’ equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Partners
Mifflin Mills Housing Limited Partnership
Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, PHFA 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*.

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.

Maher Duessel

Harrisburg, Pennsylvania
March 22, 2019

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

NONE

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

NONE

ADDITIONAL INFORMATION

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

NAME AND ADDRESS OF LEAD AUDITOR

Tracey L. Rash
Partner
Maher Duessel, CPAs
3003 North Front Street
Suite 101
Harrisburg, PA 17110
717-232-1230
trash@md-cpas.com

CERTIFICATIONS

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

CERTIFICATION OF PROJECT OWNER

We hereby certify that we have examined the accompanying financial statements and supplementary information of Mifflin Mills Housing Limited Partnership, d/b/a Mifflin Mills Townhomes, PHFA No. N-0034, and, to the best of our knowledge and belief, the same are accurate and complete.

Non-Profit Housing Development Corporation of Lebanon County, Inc.

EIN Number: 25-1598402

General Partner

By: _____

Date: _____

**MIFFLIN MILLS HOUSING LIMITED PARTNERSHIP
D/B/A MIFFLIN MILLS TOWNHOMES**

PHFA NO. N-0034

MANAGEMENT AGENT'S SIGNED REPRESENTATION LETTER

We hereby certify that we have examined the accompanying financial statements and supplementary information of Mifflin Mills Housing Limited Partnership, d/b/a Mifflin Mills Townhomes, PHFA No. N-0034, and, to the best of our knowledge and belief, the same are accurate and complete.

Brick Property Services, LLC
EIN Number: 82-2344975

By: _____
Bryan Hoffman
Chief Executive Officer

Date: _____