

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

Consolidated Financial Statements and
Supplementary Information

Year Ended December 31, 2018 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

Independent Auditor's Report

Consolidated Financial Statements:

Consolidated Statement of Financial Position	1
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6

Supplementary Information:

Consolidating Statement of Financial Position	18
Consolidating Statement of Activities	20
Consolidating Statement of Functional Expenses	21
Consolidating Statement of Cash Flows	22

Independent Auditor's Report

**The Board of Directors
Non-Profit Housing
Development
Corporation of Lebanon
County, Inc.
and Affiliates**

We have audited the accompanying consolidated financial statements of the Non-Profit Housing Development Corporation of Lebanon County, Inc. (NHDC) (a nonprofit corporation) and Affiliates (collectively, Organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, 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 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 consolidated 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 consolidated 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Organization adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," which requires not-for-profit entities to use the placed-in-service approach for contributions related to long-lived assets, changes how nonprofit organizations classify net assets, and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements on pages 18 through 23 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Maher Duessel

Harrisburg, Pennsylvania
May 3, 2019

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

Assets	
Current assets:	
Cash and cash equivalents	\$ 241,430
Accounts receivable - tenant	2,827
Accounts receivable - other	2,786
Inventory	2,930
Total current assets	249,973
Deposits held in trust:	
Tenant security deposits	31,628
Total deposits held in trust	31,628
Restricted deposits and funded reserves:	
Insurance escrow	11,502
Real estate tax escrow	15,053
Reserve for replacement	217,700
Cash and cash equivalents - other reserves	10,010
Total restricted deposits and funded reserves	254,265
Property and equipment:	
Land	63,000
Land improvements	205,231
Building	4,290,905
Equipment	23,923
Site improvements	21,741
Furniture	37,309
	4,642,109
Less accumulated depreciation	2,107,496
Net property and equipment	2,534,613
Other assets:	
Loan receivable - Annville Partnership	79,973
Investment in limited partnerships	70,785
Total other assets	150,758
Total Assets	\$ 3,221,237

Liabilities and Net Assets

Liabilities:

Current liabilities:

Accounts payable	\$ 84,177
Advance	10,000
Notes payable, current portion	<u>27,828</u>
Total current liabilities	<u>122,005</u>

Deposit and prepayment liabilities:

Tenant security deposits	31,628
Deferred rent credits	<u>2,836</u>
Total deposit and prepayment liabilities	<u>34,464</u>

Long-term debt:

Notes payable, net of current portion	<u>1,642,670</u>
Total Liabilities	<u>1,799,139</u>

Net Assets:

Without donor restrictions	<u>1,422,098</u>
Total Net Assets	<u>1,422,098</u>
Total Liabilities and Net Assets	<u><u>\$ 3,221,237</u></u>

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

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

Revenues, Gains, and Other Support:	
Interest income	\$ 8,121
Net rental income	351,172
Capital contributions	53,129
Other income	4,746
Property management fee income	72,055
Personnel cost fee income	43,545
Loss on limited partnerships	(6)
Total revenues, gains, and other support	532,762
Expenses:	
Administrative expenses	39,322
Program expenses	603,049
Total expenses	642,371
Change in Net Assets Without Donor Restrictions	(109,609)
Net Assets:	
Beginning of year	1,531,707
End of year	\$ 1,422,098

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

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

Expenses:

<hr/>	
Administrative expenses:	
Professional services	\$ 11,180
Office expenses	12,454
Training, meeting, and travel expenses	1,505
Administrative contract expenses	1,200
Advertising expenses	382
Management fee expenses	<u>12,601</u>
Total administrative expenses	<u>39,322</u>
Program expenses:	
Utility expenses	70,729
Operating and maintenance expenses	116,718
Payroll expenses	194,236
Taxes and insurance	72,587
Financial expenses	9,263
Depreciation	<u>139,516</u>
Total program expenses	<u>603,049</u>
Total expenses	<u><u>\$ 642,371</u></u>

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

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities:

Interest received	\$ 7,326
Rental income received	360,888
Other income received	120,361
Cash paid to employees	(35,485)
Cash paid to suppliers	(445,383)
Net cash provided by operating activities	7,707

Cash Flows From Investing Activities:

Purchase of capital assets	(129,941)
Deposits into restricted reserve accounts	(71,442)
Withdrawals from restricted reserve accounts	66,041
Net cash used in investing activities	(135,342)

Cash Flows From Financing Activities:

Capital contributions	53,129
Mortgage principal payments	(23,501)
Net cash provided by financing activities	29,628
Net Decrease in Cash and Cash Equivalents	(98,007)

Cash and Cash Equivalents:

Beginning of year	349,447
End of year	\$ 251,440

Reconciliation of Change in Net Assets to Net Cash

Provided by Operating Activities:

Change in net assets	\$ (109,609)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	139,516
Investment in limited partnerships	6
Capital contributions	(53,129)
Change in assets:	
Accounts receivable - tenant	6,210
Accounts receivable - other	11,880
Accrued interest	(795)
Inventory	(2)
Tenant security deposits	(5,869)
Change in liabilities:	
Accounts payable	794
Advance	10,000
Deferred rent credits	2,836
Tenant security deposits	5,869
Net cash provided by operating activities	\$ 7,707

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

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies

Nature of Organization and Operations

The Non-Profit Housing Development Corporation of Lebanon County, Inc. (NHDC) was formed for the purpose of providing low income housing opportunities and other related social services to the residents of Lebanon County. NHDC also develops and manages the operations of three low-income housing developments: Sixth and Willow Streets Limited Partnership (Sixth and Willow Partnership); Annville Housing Limited Partnership (Annville Partnership); and Mifflin Mills Housing Limited Partnership (Mifflin Mills Partnership) (collectively, Partnerships). As a general partner, NHDC contributed \$10 in cash for a 1% interest of the Partnerships' income or loss in Sixth and Willow Partnership, contributed land valued at \$70,912 for a 0.01% interest of the Partnerships' income or loss in Annville Partnership, and contributed \$110 for a .01% interest of the Partnerships' income or loss in Mifflin Mills Partnership.

The Palmyra Housing Limited Partnership (Palmyra Partnership) was formed for the purpose of acquiring, owning, constructing, and operating a forty-one (41) unit low-income housing complex in compliance with Section 42 of the Code. The Partnership Agreement was entered into on November 15, 1994, and the complex was under construction from January 1, 1995 to May 8, 1996. Rental operations commenced on May 9, 1996.

On December 31, 2014, Fulton Financial (FF) (formerly Lebanon Valley Farmers Bank) and NHDC entered into an Assignment and Assumption Agreement of the Limited Partnership Interest whereby FF assigned and transferred, without recourse, its 99% limited partner interest in the Palmyra Partnership to NHDC, a "substituted limited partner."

On December 31, 2014, the Palmyra Partnership Agreement was amended under the First Amendment to the Agreement of Limited Partnership of Palmyra Housing Limited Partnership. The purpose of the amendment was to reflect the withdrawal of FF as a limited partner and to reflect the substitution of the Substitute Limited Partner, NHDC. In addition, the First Amendment amended the percentage interest of the general partner and the limited partner in the Palmyra Partnership. Under the amendment, the general partner, Palmyra Housing Development Corporation (PHDC), has a .01% interest in the Palmyra Partnership and the limited partner, NHDC, has a 99.99% interest in the Palmyra

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Partnership. For the year ended December 31, 2018, the losses and tax credits are allocated 99.99% to the limited partner and 0.01% to the general partner.

In August 2017, Brick Property Services, LLC (Brick Property Services) was established to serve as the management company for rental properties owned by NHDC and other entities.

During the year ended December 31, 2017, NHDC purchased two additional rental properties, the activity of which will be presented with NHDC in the consolidating financial statements. Beginning in July 2018, these properties were managed by Brick Property Services.

The accompanying consolidated financial statements (financial statements) include accounts of NHDC, Brick Property Services, and the Palmyra Partnership (collectively, Organization). All significant inter-company account balances and transactions have been eliminated.

Basis of Accounting

Assets, liabilities, revenues, and expenses are accounted for on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income Taxes

NHDC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from state income taxes under the provisions of the Pennsylvania Nonprofit Corporation Law. NHDC is the sole member of Brick Property Services. As such, Brick Property Services is treated as an entity disregarded as separate from NHDC for income tax purposes. Activities of Brick Property Services are included in NHDC's Form 990.

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

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Liquidity and Availability

The Organization manages its liquid resources primarily by monitoring the timing of tenant rental payments and management fee income and matching the timing of expenses, accordingly, to ensure the Organization has adequate funds to cover administrative and program expenses. The Organization's financial assets (cash and cash equivalents and accounts receivable) as of December 31, 2018, which are expected to be available within one year to meet cash needs for general expenses, are \$247,043.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all cash and investments with a maturity date of three months or less to be cash equivalents.

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 Brick Property Services and the Palmyra Partnership. Interest is credited to the tenants and increases the security deposit liability. Interest on these deposits is not income to Brick Property Services and the Palmyra Partnership.

Restricted Deposits and Funded Reserves

Under the terms of the Regulatory Agreement, the Palmyra Partnership is required to set aside specified amounts for the replacement of property and other project expenses. Mortgage escrow deposit accounts are held by Pennsylvania Housing Finance Agency (PHFA) for payment of real estate taxes and insurance. The reserve for replacement represents funds required to be set aside for the repairs and improvement of the facilities. Monthly required deposits were made in accordance with the PHFA Regulatory Agreement.

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Fair Value Measurements of Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves are reported at fair value with interest income included in the statement of activities. Valuation techniques and inputs used to develop fair value measurements are based on a fair value hierarchy.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. For Level 2 measurement, pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable, for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Palmyra Partnership. The Palmyra Partnership considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Palmyra Partnership's perceived risk of that instrument.

Valuation of Restricted Deposits and Funded Reserves

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans, and bridge loans, less liquid listed

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

equities, state, municipal, and provincial obligations, most physical commodities, certain loan commitments, and negotiable certificates of deposit. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

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 5 - 40 years. Expenses for repairs and maintenance and minor renewals are charged against income and expenses. Major renewals and betterments in excess of \$5,000 are capitalized. When capital assets 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 forty-one (41) of the Palmyra Partnership's dwelling units are being leased to persons satisfying the income restrictions under Section 42(c)(1) of the Internal Revenue Code.

Long-Lived Assets

The Organization 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 Organization does not have any indications of impairment at December 31, 2018.

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 Palmyra Partnership loans.

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Net Assets

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

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 Organization and the tenants of the property are operating leases.

Functional Expense Allocation

The cost of providing administrative and program services has been reported on a functional basis. All costs are either charged directly or allocated based on an estimate of the time committed to administrative versus program functions. Such allocations are determined by management on an equitable basis.

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 and disclosures in the financial statements. Actual results could differ from those estimates.

Adoption of Accounting Standard

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) were adopted during the year ended December 31, 2018:

ASU 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. As a result of adoption, the unrestricted net assets as of January 1, 2018 were transferred to net assets without donor restrictions.

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Pending Standards Update

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

ASU 2016-02, *“Leases (Topic 842),”* is effective for the Organization’s financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2018-08, *“Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,”* is effective for the Organization’s financial statements for the year ending December 31, 2019. This amendment clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendment clarifies how an entity determines whether a resource provider is participating in an exchange transaction.

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

Subsequent Events

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

2. Concentration of Credit Risk

Deposits that subject NHDC and Brick Property Services to concentrations of credit risk consist primarily of cash and cash equivalents.

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

At times during the year ended December 31, 2018, NHDC and Brick Property Services' cash and cash equivalents balances may have exceeded the federally insured limits.

Financial instruments that potentially subject the Palmyra Partnership to concentrations of credit risk consist principally of temporary cash investments and escrow accounts. The Palmyra Partnership places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. The escrow accounts are held by the mortgage company and are invested in direct U.S. Government securities and AAA rated money market funds.

3. Restricted Deposits and Funded Reserves

Under the terms of the Regulatory Agreement, the Palmyra Partnership is required to set aside specified amounts for the replacement of property and other project expenditures. The restricted deposits, exclusive of other reserves, are invested in direct U.S. Government and U.S. Government Agency securities and AAA rated money market funds. The monies for all projects are invested as a pool to attain the maximum yield, and the interest is allocated back to each project based on its percentage of the whole. Funds are held in a commingled federally insured account, at times, whereby the account balance exceeds the federal insurance limits. As of December 31, 2018, restricted deposits and funded reserves amounted to \$244,255, and are held in separate accounts in trust and generally are not available for operating purposes. Restricted deposits in the amount of \$10,010 at December 31, 2018 are held in the Palmyra Partnership's checking account and are covered by the federal depository insurance.

Real estate tax and insurance escrow accounts are held by PHFA for future payments of real estate taxes and insurance. The reserve for replacement account is held by PHFA and funded monthly in an amount determined by PHFA. During the year ended December 31, 2018, there were withdrawals of \$17,753 from the reserve for replacement account for repairs and maintenance.

Fair Value of Financial Instruments

As of December 31, 2018, all of the Palmyra Partnership's restricted deposits and funded reserves, exclusive of other reserves, are classified as Level 2 instruments.

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

4. Related Party Receivable

NHDC has a loan receivable from a related party at December 31, 2018 as follows:

Loan receivable - Annville Partnership - NHDC has advanced funds in the amount of \$66,000 to the Annville Partnership, which accrues interest at 1% compounded annually. The receivable is unsecured and is due in October 2029.

\$ 79,973

5. Investment in Limited Partnerships

NHDC has investments in the Sixth and Willow Partnership, the Annville Partnership, and the Mifflin Mills Partnership. As general partner, NHDC uses the equity method of accounting for the investments and, as such, does not recognize losses in excess of the recorded investments. The investments are increased by contributions and income from the Partnerships and decreased by distributions and losses incurred by the Partnerships. As of December 31, 2018, NHDC's combined equity in the Partnerships was \$70,785.

6. Notes Payable

Notes payable as of December 31, 2018 are as follows:

CDBG loan	\$ 540,000
DCA Loan	98,000
RACL Loan	29,000
PHDC Loan	200,000
RACL Loan	86,000
PHFA Support Loan	652,000
PHFA Loan	<u>65,498</u>
	<u>\$ 1,670,498</u>

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Based on the repayment terms disclosed below, maturity dates can only be estimated for the PHFA Loan. Estimated annual maturities for the PHFA Loan at December 31, 2018 are as follows:

2019	\$ 27,828
2020	<u>37,670</u>
Total	<u>\$ 65,498</u>

Interest expense amounted to \$7,899 for the year ended December 31, 2018.

The CDBG, DCA, and RACL loans were made by the Redevelopment Authority of the County of Lebanon. The payment of all principal on these non-interest-bearing loans was deferred until May 9, 2011, the anniversary date representing 15 full years of occupancy of the premises secured by these loans. Thereafter, principal will be due in annual installments due on March 31 of each year to the extent that net operating revenues for the preceding year exceed net operating expenses plus debt service on any loans by PHFA to the Palmyra Partnership paid during the preceding year by the Palmyra Partnership. All unpaid principal is due and payable as a balloon payment thirty years from the date of the loans.

The PHDC Loan was made by PHDC, the general partner of the Palmyra Partnership. This loan is unsecured, interest-free and was deferred until May 9, 2011, the anniversary date representing 15 full years of occupancy of the premises secured by this loan. Thereafter, principal will be due in annual installments due on March 31 of each year to the extent that net operating revenues for the preceding year exceed net operating expenses plus debt service on any loans by PHFA to the Palmyra Partnership paid during the preceding year by the Palmyra Partnership. All unpaid principal is due and payable as a balloon payment thirty years from the date of this loan.

The PHFA Support Loan was made by PHFA. Principal payments on this non-interest-bearing note shall only be made from surplus of revenues over expenses generated by the project during any calendar year prior to any repayments of project financing or distributions to the Palmyra Partnership. In the event there is surplus cash, fifty percent (50%) of the excess shall repay the Support Loan and the remaining fifty percent (50%) shall be paid as return on equity.

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The PHFA Loan was made by PHFA. This loan bears interest of 8.875% per annum. Principal and interest payments are due in monthly installments of \$2,617 to PHFA and the loan matures in November 2019.

The loans are collateralized by the property and equipment of the Palmyra Partnership.

7. Transactions with Management Agent

The Housing Authority of the County of Lebanon (Authority) through June 30, 2018, and Brick Property Services, effective July 1, 2018, provide property management services to the Palmyra Partnership for a fee of 10% of the rent and ancillary income collected. However, for the year ended December 31, 2018, through Board action, the management fee was reduced to 9.9% of the rent and ancillary income collected. Management fees paid to the Authority for the year ended December 31, 2018 amounted to \$12,601, which are included in administrative expenses. Management fees and personnel cost fee income paid to Brick Property Services have been eliminated in the consolidating Statement of Activities.

The Palmyra Partnership shares both administrative and maintenance employees with the general partner, the limited partner, the Authority, and Brick Property Services. These salaries are allocated to the Palmyra Partnership by percentage on an individual employee basis. Amounts due to the Authority at December 31, 2018 amounted to \$60,271.

8. Current Vulnerability Due to Certain Concentrations

The Palmyra Partnership's major asset is a 41-unit housing project. The Palmyra Partnership operates in a heavily regulated environment. The operations of the Palmyra 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.

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

9. Subsequent Event

In April 2019, the Board authorized the creation of NPHDC Cherry Orchard Place, LLC, a single-member Pennsylvania limited liability company with NHDC as the sole member.

In addition, the Board approved NHDC entering into certain guarantee agreements and indemnification obligations related to the management and operations of Cherry Orchard Place, an affordable residential rental housing development, as may be required by the permanent lenders to and/or the equity investors of Cherry Orchard Place, LLC, a Pennsylvania limited liability company acting as owner of Chery Orchard Place. In exchange for entering into the guarantee agreements and indemnification obligations, NHDC required that NPHDC Cherry Orchard Place, LLC be admitted as a special member of Affordable Housing Associates of Dauphin County (AHADC) Cherry Orchard Place, LLC, a Pennsylvania limited liability company, acting as the managing member for Cherry Orchard Place, LLC.

SUPPLEMENTARY INFORMATION

NON-PROFIT HOUSING DEVELOPMENT CORPORATION OF LEBANON COUNTY, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

	Non-profit Housing Development Corporation of Lebanon County, Inc.	Brick Property Services, LLC	Palmyra Housing Limited Partnership	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 140,287	\$ 71,948	\$ 29,195	\$ -	\$ 241,430
Accounts receivable - tenant	2,680	-	147	-	2,827
Accounts receivable - other	-	2,786	-	-	2,786
Inventory	-	-	2,930	-	2,930
Total current assets	<u>142,967</u>	<u>74,734</u>	<u>32,272</u>	<u>-</u>	<u>249,973</u>
Deposits held in trust:					
Tenant security deposits	-	6,677	24,951	-	31,628
Total deposits held in trust	<u>-</u>	<u>6,677</u>	<u>24,951</u>	<u>-</u>	<u>31,628</u>
Restricted deposits and funded reserves:					
Insurance escrow	-	-	11,502	-	11,502
Real estate tax escrow	-	-	15,053	-	15,053
Reserve for replacement	-	-	217,700	-	217,700
Cash and cash equivalents - other reserves	-	-	10,010	-	10,010
Total restricted deposits and funded reserves	<u>-</u>	<u>-</u>	<u>254,265</u>	<u>-</u>	<u>254,265</u>
Property and equipment:					
Land	-	-	63,000	-	63,000
Land improvements	-	-	205,231	-	205,231
Building	783,879	-	3,507,026	-	4,290,905
Equipment	-	23,923	-	-	23,923
Site improvements	-	-	21,741	-	21,741
Furniture	29,711	-	7,598	-	37,309
	<u>813,590</u>	<u>23,923</u>	<u>3,804,596</u>	<u>-</u>	<u>4,642,109</u>
Less accumulated depreciation	<u>35,387</u>	<u>1,487</u>	<u>2,070,622</u>	<u>-</u>	<u>2,107,496</u>
Net property and equipment	<u>778,203</u>	<u>22,436</u>	<u>1,733,974</u>	<u>-</u>	<u>2,534,613</u>
Other assets:					
Loan receivable - Annville Partnership	79,973	-	-	-	79,973
Investment in limited partnerships	<u>346,532</u>	<u>-</u>	<u>-</u>	<u>(275,747)</u>	<u>70,785</u>
Total other assets	<u>426,505</u>	<u>-</u>	<u>-</u>	<u>(275,747)</u>	<u>150,758</u>
Total Assets	<u><u>\$ 1,347,675</u></u>	<u><u>\$ 103,847</u></u>	<u><u>\$ 2,045,462</u></u>	<u><u>\$ (275,747)</u></u>	<u><u>\$ 3,221,237</u></u>

(Continued)

	Non-profit Housing Development Corporation of Lebanon County, Inc.	Brick Property Services, LLC	Palmyra Housing Limited Partnership	Eliminations	Total
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Accounts payable	\$ 8,088	\$ 4,469	\$ 71,620	\$ -	\$ 84,177
Intercompany payables	(150,611)	150,611	-	-	-
Advance	-	-	10,000	-	10,000
Notes payable, current portion	-	-	27,828	-	27,828
Total current liabilities	(142,523)	155,080	109,448	-	122,005
Deposit and prepayment liabilities:					
Tenant security deposits	6,677	-	24,951	-	31,628
Deferred rent credits	-	-	2,836	-	2,836
Total deposit and prepayment liabilities	6,677	-	27,787	-	34,464
Long-term debt:					
Notes payable, net of current portion	-	-	1,642,670	-	1,642,670
Total Liabilities	(135,846)	155,080	1,779,905	-	1,799,139
Net Assets:					
Without donor restrictions	1,483,521	(51,233)	265,557	(275,747)	1,422,098
Total Net Assets	1,483,521	(51,233)	265,557	(275,747)	1,422,098
Total Liabilities and Net Assets	\$ 1,347,675	\$ 103,847	\$ 2,045,462	\$ (275,747)	\$ 3,221,237

(Concluded)

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Non-profit Housing Development Corporation of Lebanon County, Inc.	Brick Property Services, LLC	Palmyra Housing Limited Partnership	Eliminations	Total
Revenues, Gains, and Other Support:					
Interest income	\$ 4,305	\$ 845	\$ 2,971	\$ -	\$ 8,121
Net rental income	91,429	-	259,743	-	351,172
Capital contributions	53,129	-	-	-	53,129
Other income	181	-	4,565	-	4,746
Property management fee income	-	85,864	-	(13,809)	72,055
Personnel cost fee income	-	54,151	-	(10,606)	43,545
Loss on limited partnerships	(80,434)	-	-	80,428	(6)
Total revenues, gains, and other support	<u>68,610</u>	<u>140,860</u>	<u>267,279</u>	<u>56,013</u>	<u>532,762</u>
Expenses:					
Administrative expenses	6,471	9,483	37,177	(13,809)	39,322
Program expenses	120,427	182,690	310,538	(10,606)	603,049
Total expenses	<u>126,898</u>	<u>192,173</u>	<u>347,715</u>	<u>(24,415)</u>	<u>642,371</u>
Change in Net Assets Without Donor Restrictions	(58,288)	(51,313)	(80,436)	80,428	(109,609)
Net Assets:					
Beginning of year	1,541,809	80	345,993	(356,175)	1,531,707
End of year	<u>\$ 1,483,521</u>	<u>\$ (51,233)</u>	<u>\$ 265,557</u>	<u>\$ (275,747)</u>	<u>\$ 1,422,098</u>

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Non-profit Housing Development Corporation of Lebanon County, Inc.	Brick Property Services, LLC	Palmyra Housing Limited Partnership	Eliminations	Total
Expenses:					
Administrative expenses:					
Professional services	\$ 4,600	\$ -	\$ 6,580	\$ -	\$ 11,180
Office expenses	1,871	6,778	3,805	-	12,454
Training, meeting, and travel expenses	-	1,505	-	-	1,505
Administrative contract expenses	-	1,200	-	-	1,200
Advertising expenses	-	-	382	-	382
Management fee expenses	-	-	26,410	(13,809)	12,601
Total administrative expenses	<u>6,471</u>	<u>9,483</u>	<u>37,177</u>	<u>(13,809)</u>	<u>39,322</u>
Program expenses:					
Utility expenses	22,926	371	47,432	-	70,729
Operating and maintenance expenses	46,267	11,475	58,976	-	116,718
Payroll expenses	-	169,357	35,485	(10,606)	194,236
Taxes and insurance	24,299	-	48,288	-	72,587
Financial expenses	-	-	9,263	-	9,263
Depreciation	26,935	1,487	111,094	-	139,516
Total program expenses	<u>120,427</u>	<u>182,690</u>	<u>310,538</u>	<u>(10,606)</u>	<u>603,049</u>
Total expenses	<u>\$ 126,898</u>	<u>\$ 192,173</u>	<u>\$ 347,715</u>	<u>\$ (24,415)</u>	<u>\$ 642,371</u>

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

	Non-profit Housing Development Corporation of Lebanon County, Inc.	Brick Property Services, LLC	Palmyra Housing Limited Partnership	Eliminations	Total
Cash Flows From Operating Activities:					
Interest received	\$ 3,510	\$ 845	\$ 2,971	\$ -	\$ 7,326
Rental income received	101,063	-	259,825	-	360,888
Other income received	181	140,015	4,580	(24,415)	120,361
Cash paid to employees	-	-	(35,485)	-	(35,485)
Cash paid to suppliers	(224,601)	(56,401)	(188,796)	24,415	(445,383)
Net cash provided by (used in) operating activities	(119,847)	84,459	43,095	-	7,707
Cash Flows From Investing Activities:					
Purchase of capital assets	(106,018)	(23,923)	-	-	(129,941)
Deposits into restricted reserve accounts	-	-	(71,442)	-	(71,442)
Withdrawals from restricted reserve accounts	-	-	66,041	-	66,041
Net cash used in investing activities	(106,018)	(23,923)	(5,401)	-	(135,342)
Cash Flows From Financing Activities					
Capital contributions	53,129	-	-	-	53,129
Mortgage principal payments	-	-	(23,501)	-	(23,501)
Net cash provided by (used in) financing activities	53,129	-	(23,501)	-	29,628
Net Increase (Decrease) in Cash and Cash Equivalents	(172,736)	60,536	14,193	-	(98,007)
Cash and Cash Equivalents:					
Beginning of year	313,023	11,412	25,012	-	349,447
End of year	<u>\$ 140,287</u>	<u>\$ 71,948</u>	<u>\$ 39,205</u>	<u>\$ -</u>	<u>\$ 251,440</u>

(Continued)

**NON-PROFIT HOUSING DEVELOPMENT
CORPORATION OF LEBANON COUNTY, INC.
AND AFFILIATES**

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

(Continued)

	Non-profit Housing Development Corporation of Lebanon County, Inc.	Brick Property Services, LLC	Palmyra Housing Limited Partnership	Eliminations	Total
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:					
Change in net assets	\$ (58,288)	\$ (51,313)	\$ (80,436)	\$ 80,428	\$ (109,609)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation	26,935	1,487	111,094	-	139,516
Investment in limited partnerships	80,434	-	-	(80,428)	6
Capital contributions	(53,129)	-	-	-	(53,129)
Change in assets:					
Accounts receivable - tenant	6,357	-	(147)	-	6,210
Accounts receivable - other	14,666	(2,786)	-	-	11,880
Accrued interest	(795)	-	-	-	(795)
Inventory	-	-	(2)	-	(2)
Tenant security deposits	-	(3,277)	(2,592)	-	(5,869)
Change in liabilities:					
Accounts payable	(3,425)	4,469	(250)	-	794
Advance	-	-	10,000	-	10,000
Intercompany payable	(135,879)	135,879	-	-	-
Deferred rent credits	-	-	2,836	-	2,836
Tenant security deposits	3,277	-	2,592	-	5,869
Net cash provided by (used in) operating activities	<u>\$ (119,847)</u>	<u>\$ 84,459</u>	<u>\$ 43,095</u>	<u>\$ -</u>	<u>\$ 7,707</u>

(Concluded)