Annville Housing Limited Partnership

D/B/A Quittapahilla Commons
PHFA No. O-591

Financial Statements and
Supplementary Information

Years Ended December 31, 2019 and 2018
with Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

YEARS ENDED DECEMBER 31, 2019 AND 2018

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MaherDuessel

Independent Auditor's Report

To the Partners
Annville Housing
Limited Partnership

Report on the Financial Statements

We have audited the accompanying financial statements of the Annville Housing Limited Partnership, d/b/a Quittapahilla Commons, PHFA No. O-591 (Partnership), which comprise the balance sheets as of December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Partnership adopted Accounting Standards Update (ASU) 2016-18 "*Statement of Cash Flows (Topic 230): Restricted Cash,"* which 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. Our opinion is not modified with respect to these matters.

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 19 to 24 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 19 to 24 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 19 to 24 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 18, 2020 on our consideration of the Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is 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 18, 2020

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	$ 26,417	$ 26,710
Accounts receivable - tenant	3,865	1,578
Accounts receivable - other	70	-
Inventory	2,613	2,726
Total current assets	32,965	31,014
Deposits held in trust:		
Tenant security deposits	12,470	11,808
Total deposits held in trust	12,470	11,808
Restricted deposits and funded reserves:		
Insurance escrow	1,400	1,699
Real estate tax escrow	4,702	4,729
Reserve for replacement	124,949	112,057
Rent subsidy escrow	8,097	7,957
Total restricted deposits and funded reserves	139,148	126,442
Property and equipment:		
Land	71,207	71,207
Building	1,706,429	1,706,429
Equipment	18,005	18,005
Site improvements	69,996	69,996
Furniture	13,337	13,337
	1,878,974	1,878,974
Less: accumulated depreciation	1,351,607	1,288,466
Net property and equipment	527,367	590,508
Other assets:		
Financing costs, net of accumulated amortization	1,251	1,348
Total Assets	$ 713,201	$ 761,120

(Continued)

Liabilities and Partners' Equity	2019	2018
Current liabilities:		
Accounts payable	$ 15,175	$ 11,984
Advance	2,000	2,000
Total current liabilities	17,175	13,984
Deposit and prepayment liabilities:		
Tenant security deposits	12,470	11,808
Deferred rent credits	570	44
Total deposit and prepayment liabilities	13,040	11,852
Long-term debt:		
Long-term debt - GP Loan	66,000	66,000
Long-term debt - others	636,198	643,548
Accrued interest - GP Loan	14,776	13,973
Total long-term debt	716,974	723,521
Total Liabilities	747,189	749,357
Partners' Equity:	(33,988)	11,763
Total Liabilities and Partners' Equity	$ 713,201	$ 761,120

(Concluded)

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

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

STATEMENTS OF PROFIT AND LOSS

YEARS ENDED DECEMBER 31, 2019 AND 2018

Part 1	Description of Account	Account #	2019	2018
Rental Income	Rental Income	5120	$ 150,480	$ 146,784
	Tenant Assistance Payments	5121	-	-
	Stores and Commercial Rent	5140	-	-
	Other Rental Income	5190	60	15
	Rent Concessions	5250	-	-
	Total Rental Income		150,540	146,799
Vacancies	Vacancies - Apartments	5220	2,414	7,747
	Vacancies - Commercial	5240	-	-
	Total Vacancy Loss		2,414	7,747
	Net Rental Income		148,126	139,052
Interest Income	Interest Income - Operations	5410	375	449
	Interest Income - Residual Receipts	5430	-	-
	Interest Income - Reserve for Replacement	5440	2,476	1,164
	Interest Income - Painting and Decorating	5450	-	-
	Total Interest Income		2,851	1,613
Other Income	Supportive Services Income	5300	-	-
	Grant Income	5510	-	-
	Service Income	5910	878	751
	NSF and Late Fees	5920	-	-
	Miscellaneous Income	5990	-	1,287
	Total Other Income		878	2,038
	Total Property Income		151,855	142,703
Administrative Expenses	Advertising and Renting Expense	6210	-	381
	Office and Telephone Expense	6311	2,588	2,138
	Model Apartment Expense	6312	-	-
	Management Fee (10%)	6320	15,189	14,271
	Legal Expense	6340	644	500
	Audit Expense	6350	6,100	6,083
	Administrative Fee (Section 8 only)	6351	-	-
	Bad Debts	6370	-	-
	Miscellaneous Administrative Expenses	6390	1,800	1,200
	Total Administrative Expenses		26,321	24,573
Utility Expenses	Fuel	6420	-	-
	Electricity	6450	14,286	16,235
	Water	6451	5,191	5,199
	Gas	6452	-	-
	Sewer	6453	16,358	16,183
	Total Utility Expenses		35,835	37,617
Operating and Maintenance Expenses	Janitor/Maintenance Supplies	6515	-	-
	Operating/Maintenance Contracts	6520	-	-
	Alarm System Contract	6521	-	-
	Rubbish Removal	6525	910	870
	Security Payroll/Contract	6530	4,611	1,385
	Repairs Materials	6541	8,676	147
	Elevator Maintenance	6545	-	-
	Heating and Air Conditioning Maintenance	6546	-	1,203
	Grounds Maintenance/Snow Removal	6548	11,853	8,100
	Painting and Decorating	6560	585	585
	Vehicle Operation and Repairs	6570	-	-
	Miscellaneous Operating and Maintenance Expense	6590	189	3,957
	Total Operating and Maintenance Expenses		26,824	16,247

(Continued)

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

STATEMENTS OF PROFIT AND LOSS

YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

Part 1 (Continued)	Description of Account	Account #	2019	2018
Payroll Expenses	Office Salaries	6310	-	-
	Manager Salaries	6330	6,009	5,395
	Administrative Rent Free Unit	6331	-	-
	Janitor/Maintenance Payroll	6510	11,382	11,266
	Payroll Taxes	6711	551	528
	Workmen's Compensation	6722	207	198
	Health Insurance and Employee Benefits	6723	840	1,744
	Total Payroll Expenses		18,989	19,131
Taxes and Insurance	Real Estate Taxes	6710	9,627	9,503
	Property and Liability Insurance	6720	8,759	8,515
	Fidelity Bond Insurance	6721	-	-
	Miscellaneous Taxes and Insurance, Licenses/Permits	6729	-	-
	Total Taxes and Insurance Expenses		18,386	18,018
Financial Expenses	Mortgage Interest	6820	803	795
	PHFA Late Fees	6821	-	-
	Other Interest Payments	6830	-	-
	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		803	795
Supportive Service Expenses	Supportive Service Payroll	6910	-	-
	Supportive Service Supplies	6920	-	-
	Total Supportive Service Expenses		-	-
	Total Cost of Operations Before Depreciation		127,158	116,381
	Profit (Loss) Before Depreciation		24,697	26,322
	Depreciation (Total) - 6600 Specify	6600	63,141	64,025
	Amortization	6610	97	97
	Operating Profit (Loss)		(38,541)	(37,800)
Entity Expenses	Interest Income - (Entity)	7100	140	137
	Legal Expenses - (Entity)	7120	-	-
	Taxes (Federal-State-Entity)	7130	-	-
	Other Expenses (Entity)	7190	-	-
	Total Entity Expenses		140	137
	Net Profit (Loss)		$ (38,401)	$ (37,663)

Part 2

	2019	2018
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.	$ 7,350	$ 5,650
2. Replacement Reserve deposits required by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.	$ 10,416	$ 10,116

(Concluded)

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

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

YEARS ENDED DECEMBER 31, 2019 AND 2018

	General Partner - NHDC	Limited Partner - PHDC	Syndication Fees	Total
Percentage Interest:	0.01%	99.99%		100.00%
Balance (Deficit), December 31, 2017	$ 70,789	$ (6,573)	$ (9,141)	$ 55,075
Add:				
Capital contributions (Note 6)	1	-	-	1
Deduct:				
Equity distribution (Note 6)	(1)	(5,649)	-	(5,650)
Net loss	(4)	(37,659)	-	(37,663)
Balance (Deficit), December 31, 2018	70,785	(49,881)	(9,141)	11,763
Deduct:				
Equity distribution (Note 6)	(1)	(7,349)	-	(7,350)
Net loss	(4)	(38,397)	-	(38,401)
Balance (Deficit), December 31, 2019	$ 70,780	$ (95,627)	$ (9,141)	$ (33,988)

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

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Rental receipts	$ 146,897	$ 137,996
Interest receipts	2,991	1,750
Other receipts	938	2,053
Administrative expenses paid	(11,097)	(10,137)
Administrative salaries paid	(18,003)	(16,581)
Management fees paid	(13,759)	(13,182)
Utilities paid	(35,069)	(35,502)
Operating and maintenance expenses paid	(26,186)	(18,762)
Real estate taxes paid	(9,627)	(9,503)
Payroll taxes paid	(551)	(528)
Property insurance paid	(8,759)	(8,515)
Net cash provided by (used in) operating activities	27,775	29,089
Cash Flows From Financing Activities:		
Capital contribution	-	1
Equity distributions	(7,350)	(5,650)
Mortgage principal payments	(7,350)	(5,650)
Net cash provided by (used in) financing activities	(14,700)	(11,299)
Net Increase (Decrease) in Cash, Cash Equivalents, Tenant Security Deposits, and Restricted Deposits and Funded Reserves	13,075	17,790
Cash, Cash Equivalents, Tenant Security Deposits, and Restricted Deposits and Funded Reserves		
Beginning of year, as restated	164,960	147,170
End of year	$ 178,035	$ 164,960

(Continued)

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018
(Continued)

	2019	2018
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Net income (loss)	$ (38,401)	$ (37,663)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,238	64,122
Change in assets:		
Accounts receivable - tenant	(2,287)	(1,578)
Accounts receivable - other	(70)	-
Inventory	113	(1,928)
Change in liabilities:		
Accounts payable	3,191	4,804
Tenant security deposits	662	493
Accrued interest	803	795
Deferred rent credits	526	44
Net cash provided by (used in) operating activities	$ 27,775	$ 29,089

(Concluded)

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

1. Partnership Operations and Summary of Significant Accounting Policies

Partnership Operations

Annville Housing Limited Partnership (Partnership) was formed on July 20, 1998 as a limited partnership under the laws of the Commonwealth of Pennsylvania for the purpose of acquiring, owning, maintaining, improving, and operating a twenty-two (22) unit low-income housing complex located in Lebanon County, Pennsylvania. Rental operations commenced on November 1, 1999. 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, 2048, unless sooner dissolved by an act or event specified in the Partnership Agreement or by law. Financial and operational methods used by the Partnership are regulated by the Pennsylvania Housing Finance Agency (PHFA).

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 general partner is the Non-Profit Housing Development Corporation of Lebanon County, Inc., a Pennsylvania nonprofit corporation (NHDC). The general partner contributed land valued at $70,000 and $100 in cash for a 0.01% interest of the Partnership's income or loss.

On January 1, 2015, Wells Fargo (formerly Wachovia) and Palmyra Housing Development Corporation (PHDC) entered into an Assignment and Assumption Agreement whereby Wells Fargo assigned and transferred, without recourse, its 99.99% limited partner interest in the Partnership, for the sum of $100, to PHDC, a substituted limited partner.

On January 1, 2015, the Partnership agreement was amended under the First Amendment to Agreement of Limited Partnership of Annville Housing Limited Partnership. The purpose of the amendment was to reflect the withdrawal of Wells Fargo as a limited partner and to reflect the substitution of the Substitute Limited Partner.

Pursuant to PHFA regulations, cash distributions are limited by the Regulatory Agreement to the extent of "surplus cash," as defined by PHFA and further restricted by the Support Mortgage Note. Undistributable amounts are cumulative and may be distributed in subsequent years if future operations provide "surplus cash."

Basis 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, Tenant Security Deposits, and Restricted Deposits and Funded Reserves

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

The following table provides a reconciliation of cash, cash equivalents, and restricted deposits reported in the statements of financial position and the statements of cash flows as of December 31:

	2019	2018
Cash and cash equivalents	$ 26,417	$ 26,710
Tenant security deposits	12,470	11,808
Insurance escrow	1,400	1,699
Real estate tax escrow	4,702	4,729
Reserve for replacements	124,949	112,057
Rent subsidy escrow	8,097	7,957
Total cash, cash equivalents, tenant security deposits, and restricted deposits and funded reserves	$ 178,035	$ 164,960

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 $3,865 and $1,578 at December 31, 2019 and 2018, 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 Regulatory Agreement, the Partnership is required to set aside specified amounts for the replacement of property and other project expenditures. Mortgage escrow deposit accounts are held by 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.

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 statements of profit and loss. 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 Partnership. The 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 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 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 7-30 years. Expenditures 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 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-two (22) of the dwelling's units are being leased to persons satisfying the income restrictions under Section 42(c)(1) of the Internal Revenue Code.

The Partnership evaluates the carrying value of property and equipment. 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, 2019 or 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 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.

Syndication Fees

Syndication fees relating to the sale of Partnership interests have been deducted from the book capital accounts. This treatment is consistent with accounting principles generally accepted in the United States of America, which require that syndication fees incurred for an offering of a limited partnership should be accounted for in a manner similar to costs associated with the issuance of stock. Costs of issuing stock are deducted from the proceeds of the issue and are not recorded as an asset. Similarly, syndication fees are recorded as a reduction of capital contributed by the partners.

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.

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.

Adopted Accounting Pronouncement

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) was adopted during the year ended December 31, 2019:

ASU-2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash,*" which 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. As a result of the adoption of ASU 2016-08, beginning of year cash and cash equivalents on the statement of cash flows have been restated to include restricted deposits.

ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606),"* which provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures. There were no changes as a result of the implementation of this ASU.

Pending Accounting Pronouncement

ASU 2018-13, *"Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820),"* is effective for the financial statements for the year beginning after December 15, 2019. This amendment removes and modifies certain fair value hierarchy leveling disclosures.

Management has not yet determined the impact of this amendment 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.

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 with financial institutions and limits the amount of credit exposure to any one financial institution. The restricted deposits and funded reserves are held by the mortgage company in a pooled fund to attain the maximum yield, and the interest is allocated back to each project based on its percentage of the whole. The pooled funds are invested in bank deposits fully collateralized in accordance with Act 72, direct U.S. Government, U.S. Government Agency securities, and AAA rated money market funds. Certain funds are held in a commingled federally insured account, at times, whereby the account balance exceeds the federal insurance limits.

3. Restricted Deposits and Funded Reserves

Under the terms of the Regulatory Agreement, the Partnership is required to set aside specified amounts for the replacement of property and other project expenses. As of December 31, 2019 and 2018, restricted deposits and funded reserves amounted to $139,148 and $126,442, respectively, and are held in separate accounts in trust and generally are not available for operating purposes.

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 years ended December 31, 2019 and 2018, there were no withdrawals from the reserve for replacement account for repairs and maintenance.

Fair Value of Financial Instruments

As of December 31, 2019 and 2018, all of the Partnership's restricted deposits and funded reserves are classified as Level 2 instruments.

4. Other Assets

Costs incurred to obtain financing for the project have been capitalized and are being amortized on a straight-line basis over their estimated useful life ranging from fifteen to thirty years, which is not materially different from the effective interest method.

Financing costs at December 31, 2019 and 2018 were as follows:

	2019	2018
Financing costs	$ 11,700	$ 11,700
Less: Accumulated amortization	(10,449)	(10,352)
	$ 1,251	$ 1,348

5. Advance

At December 31, 2019 and 2018, the Partnership reported an advance in the amount of $2,000 from the Redevelopment Authority of the County of Lebanon (RACL). There are no documented repayment terms for this advance.

6. Notes Payable

The notes payable at December 31 are as follows:

	2019	2018
Penn HOMES Loan	$ 433,698	$ 441,048
CDBG Loan	2,500	2,500
Act 137 Loan	200,000	200,000
GP Loan	80,776	79,973
	716,974	723,521
Less: Current portion	-	-
	$ 716,974	$ 723,521

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

In October 1998, the PHFA issued a Penn HOMES Loan commitment in the approximate amount of $534,534 (the Penn HOMES Loan) to be utilized as a permanent first mortgage. In September 2014, the loan was amended to require that principal payments on this non-interest bearing note 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 Penn HOMES Loan and 50% to distributions to the Partners. All other terms and conditions of the loan remained the same. Any unpaid balance will be due at the end of the thirty (30) year term. As of December 31, 2019 and 2018, the balance of the Penn HOMES Loan was $433,698 and $441,048, respectively.

Based on a review of the December 31, 2017 financial statements, PHFA authorized a principal payment on the Penn HOMES Loan of $5,650 and a return on equity distribution of $5,650. During the year ended December 31, 2018, the Partnership made the $5,650 principal payment and a $5,650 return on equity distribution to the partners. The $1 equity distribution to NHDC was treated as a capital contribution. Based on a review of the December 31, 2018 financial statements, PHFA authorized a principal payment on the Penn HOMES Loan of $7,350 and a return on equity distribution of $7,350. During the year ended December 31, 2019, the Partnership made the $7,350 principal payment and a $7,350 return on equity distribution to the partners.

The second mortgage, entered into in October 1998, is a no-interest loan of $2,500 from the RACL using proceeds from Community Development Block Grant (CDBG) funds (the CDBG Loan). No payment on the CDBG Loan is due until the Penn HOMES Loan has been repaid in full. Thereafter, principal shall be due in annual installments on March 31 of each year to the extent that net operating revenues for the preceding year exceed net operating expenses plus any debt service on the Penn HOMES Loan paid during the preceding year. Any unpaid balance is due at the end of the thirty-two (32) year term.

A third mortgage loan entered into in October 1998, in the amount of $200,000, has been obtained from RACL using County of Lebanon Act 137 funds. The RACL Act 137 Loan bears no interest and has terms identical to the CDBG Loan.

The fourth mortgage is a loan in the amount of $66,000 from the general partner (GP), using proceeds received as a donation from Wachovia (the GP Loan). The GP Loan will accrue interest, compounded annually, at a 1% rate for thirty (30) years beginning October 1999. As of December 31, 2019 and 2018, the GP Loan balance was $80,776 and $79,973, respectively, and included $14,776 and $13,973 of accrued and compounded interest, respectively. Principal payment due on the loan will be paid out at the end of the 30-year term.

The mortgage loans are collateralized by the property, plant, and equipment of the Partnership. The Partnership incurred interest costs of $803 and $795 at December 31, 2019 and 2018, respectively. There was no interest paid during the years ended December 31, 2019 or 2018.

7. 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, 2019 and 2018 amounted to $15,189 and $14,271, respectively, and are included in administrative expenses.

The Partnership shares both administrative and maintenance employees with the general partner, the limited 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 for administrative and maintenance employees at December 31, 2019 and 2018 were $0 and $2,022, respectively. Amounts due to Brick Property Services, LLC for property management services at December 31, 2019 and 2018 were $4,916 and $1,089, respectively.

8. Current Vulnerability Due to Certain Concentrations

The Partnership's major asset is a 22-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

ANNVILLE HOUSING LIMITED PARTERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2019

Accounts and Notes Receivable

Description	Amount
Laundry income	$70

Delinquent Tenant Accounts Receivable

	Number of Tenants	Amount Past Due
Delinquent 30 days	1	$ 570
Delinquent 31-60 days	1	570
Delinquent 61-90 days	1	1,126
Delinquent over 90 days	1	1,599
Totals	4	$ 3,865

Analysis of Required Reserve Funds and Escrows:

Schedule of Insurance Escrow

Balance at beginning of year	$	1,699
Total monthly deposits		8,460
Approved withdrawals		(8,759)
Balance at end of year	$	1,400

Schedule of Real Estate Tax Escrow

Balance at beginning of year	$	4,729
Total monthly deposits		9,600
Approved withdrawals		(9,627)
Balance at end of year	$	4,702

Schedule of Reserve for Replacement

Balance at beginning of year	$	112,057
Total monthly deposits		10,416
Interest income		2,476
Approved withdrawals		-
Balance at end of year	$	124,949

Schedule of Rent Subsidy Escrow

Balance at beginning of year	$	7,957
Interest income		140
Approved withdrawals		-
Balance at end of year	$	8,097

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2019
(Continued)

Changes in Property and Equipment Accounts:

	Assets			
	Balance January 1, 2019	Additions	Deletions	Balance December 31, 2019
Land	$ 71,207	$ -	$ -	$ 71,207
Building	1,706,429	-	-	1,706,429
Equipment	18,005	-	-	18,005
Site improvements	69,996	-	-	69,996
Furniture	13,337	-	-	13,337
Totals	$ 1,878,974	$ -	$ -	$ 1,878,974

	Accumulated Depreciation			
	Balance January 1, 2019	Additions	Deletions	Balance December 31, 2019
Building	$ 1,191,281	$ 62,479	$ -	$ 1,253,760
Equipment	18,005	-	-	18,005
Site improvements	65,843	662	-	66,505
Furniture	13,337	-	-	13,337
Totals	$ 1,288,466	$ 63,141	$ -	$ 1,351,607

Schedule of Additions:

None

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2019
(Continued)

Itemization of Operating Payables:

Name	Purpose	Amount
Met Ed	Utility expenses	$ 2,432
Verizon	Administrative expenses	87
Lebanon County Housing Authority	Payroll expenses	60
Lebanon County Housing Authority	Administrative expenses	22
Pennsylvania American Water	Utility expenses	449
Long Brightbill	Administrative expenses	500
Maher Duessel, CPAs	Administrative expenses	6,100
JC Erhlich	Operating and maintenance expenses	599
APR Supply	Operating and maintenance expenses	10
Brick Property Services, LLC	Administrative expenses	4,916
Total		$ 15,175

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2019
(Continued)

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

Surplus Cash Computation:

Add:	
Operating cash	$ 26,417
Accounts receivable - tenant	3,865
Accounts receivable - other	70
Tenant security deposits	12,470
Total cash	42,822
Less:	
Accounts payable - operating	15,175
Advance	2,000
Tenant security deposits	12,470
Deferred rent credits	570
Total current obligations	30,215
Surplus cash, end of year	$ 12,607

Return on Equity Calculation:

a. Distributions unpaid as of the end of the prior fiscal period	$ 2,335,663
b. Annual distribution earned during the fiscal period	145,505
c. Less: Distributions paid during the fiscal period	(7,350)
d. Less: Unauthorized payments	-
e. Cumulative unpaid distributions as of the balance sheet date	$ 2,473,818

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

SUPPORTING DATA REQUIRED BY PHFA

YEAR ENDED DECEMBER 31, 2019
(Continued)

Calculation of Return on Equity:

Initial equity	$	951,011
Multiply - Consumer Price Index (102.0%)		1.020
Multiply - defined return on equity (15.0%)		0.150
Return on equity	$	145,505

Annville Housing Limited Partnership

D/B/A Quittapahilla Commons

PHFA No. O-591

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

Year Ended December 31, 2019

MaherDuessel

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
Annville 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 Annville Housing Limited Partnership, d/b/a Quittapahilla Commons, PHFA No. O-591 (Partnership), which comprise the balance sheet as of December 31, 2019, 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 18, 2020.

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.

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 18, 2020

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2019

NONE

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2019

NONE

ADDITIONAL INFORMATION

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

NAME AND ADDRESS OF LEAD AUDITOR

Brian McCall
Partner
Maher Duessel, CPAs
3003 North Front Street
Suite 101
Harrisburg, PA 17110
717-232-1230
bmccall@md-cpas.com

CERTIFICATIONS

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

CERTIFICATION OF PROJECT OWNER

We hereby certify that we have examined the accompanying financial statements and supplementary information of Annville Housing Limited Partnership, d/b/a Quittapahilla Commons, PHFA No. O-591, 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: ________________

ANNVILLE HOUSING LIMITED PARTNERSHIP
D/B/A QUITTAPAHILLA COMMONS

PHFA NO. O-591

MANAGEMENT AGENT'S SIGNED REPRESENTATION LETTER

We hereby certify that we have examined the accompanying financial statements and supplementary information of Annville Housing Limited Partnership, d/b/a Quittapahilla Commons, PHFA No. O-591, and, to the best of our knowledge and belief, the same are accurate and complete.

Brick Property Services, LLC
EIN Number: 82-2344975

By: __________________________ Date: ________________

Bryan Hoffman
Chief Executive Officer