HOUSING ASSOCIATION AND DEVELOPMENT CORPORATION
(A Not-for-Profit Organization)

June 30, 2018 and 2017

Financial Statements and
Independent Auditor's Report

CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants
1033 South Cedar Crest Boulevard Allentown, PA 18103

HOUSING ASSOCIATION AND DEVELOPMENT CORPORATION
(A Not-for-Profit Organization)

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C·R&Y CERTIFIED PUBLIC ACCOUNTANTS
CAMPBELL, RAPPOLD & YURASITS LLP

JAMES S. ANDERSON, CPA
TARA L. BENDER, CPA, CSEP
JAMES F. BOVA, CPA
MARC A. BRINKER, CPA
MELISSA A. GRUBE, CPA, CSEP
DENNIS S. HELLER, CPA
WARREN R. HENDERSON, CPA
JOHN R. ZAYAITZ, CPA

DAWN C. ANDERSON, CPA
MICHELLE R. BITNER, CPA
ROXANNA M. BRANDLE, CPA
KYLE ELSENBAUMER, CPA
PAUL G. MACK, CPA, CFE
GREG MOSER, JR., CPA
NICHOLAS A. OTTOLINI, CPA
JASON L. SERFASS, CPA
HEIDI D. WOJCIECHOWSKI, CPA

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Housing Association and Development Corporation
Allentown, PA

We have audited the accompanying financial statements of Housing Association and Development Corporation (a Not-for-Profit Organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

610-435-7489 • www.crycpas.com • 1033 South Cedar Crest Boulevard, Allentown, PA 18103-5443
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Association and Development Corporation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 13 to the financial statements, the Organization has significant debt maturities coming due within one year of the anticipated report issuance date, and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Campbell, Roppold & Yurasits LLP

November 15, 2018

HOUSING ASSOCIATION AND DEVELOPMENT CORPORATION
(A Not-for-Profit Organization)
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	June 30, 2018	June 30, 2017
Assets		
Cash and Cash Equivalents	$ 262,977	$ 125,061
Cash and Cash Equivalents - Jordan Heights	10,000	60,000
Miscellaneous Receivables	3,155	3,405
Mortgage Receivable (Note 2)	75,281	76,447
Investments - Jordan Heights	495,000	445,000
Buildings and Equipment (Net of Accumulated Depreciation) (Note 3)	1,231,444	1,309,255
Construction in Progress (Note 4)	1,201,783	1,162,140
Total Assets	$ 3,279,640	$ 3,181,308
Liabilities		
Accounts Payable	$ 85,749	$ 73,106
Accrued Expenses	39,037	27,599
Payroll Taxes Accrued and Withheld	203	550
Deposits Payable	27,436	28,043
Lines of Credit (Note 6)	1,039,511	1,240,162
Notes and Loans Payable (Note 8)	1,867,987	1,825,499
Note Payable - Related Party (Note 7)	32,871	36,992
Total Liabilities	3,092,794	3,231,951
Net Assets		
Unrestricted	(110,609)	(278,197)
Temporarily Restricted (Note 9)	297,455	227,554
Total Net Assets	186,846	(50,643)
Total Liabilities and Net Assets	$ 3,279,640	$ 3,181,308

See independent auditor's report and notes to financial statements.

HOUSING ASSOCIATION AND DEVELOPMENT CORPORATION
(A Not-for-Profit Organization)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Year Ended June 30, 2018
Revenue and Other Support			
Government Grants	$ -	$ 427,743	$ 427,743
NPP and NAP Grants	350,000	-	350,000
SPP Grants YouthBuild	-	-	-
Other Support - Private	39,669	392,500	432,169
Interest	5,570	-	5,570
Insurance Proceeds	3,246	-	3,246
Rentals	311,678	-	311,678
Sale of Properties	345,900	-	345,900
Net Assets Released from Restrictions	750,342	(750,342)	-
Total Revenue and Other Support	1,806,405	69,901	1,876,306
Expenses			
Payroll - Executive Director	80,000	-	80,000
Payroll - Property Management and Maintenance	132,359	-	132,359
Payroll - Office	142,042	-	142,042
Bank Fees	278	-	278
Closing Costs	30,473	-	30,473
Cost of Property Sales	388,512	-	388,512
Depreciation	79,043	-	79,043
Employee Benefits	156,941	-	156,941
Insurance	54,505	-	54,505
Interest	105,712	-	105,712
Office Supplies	6,665	-	6,665
Other Costs	51,328	-	51,328
Payroll Taxes	66,815	-	66,815
Postage and Printing	220	-	220
Pre-Development Costs	8,853	-	8,853
Professional Fees	19,730	-	19,730
Publications and Dues	2,330	-	2,330
Real Estate Taxes	3,314	-	3,314
Rental Costs	26,707	-	26,707
Repairs and Maintenance	68,382	-	68,382
Telephone	10,049	-	10,049
Tools and Equipment	4,024	-	4,024
Trash Removal	18,084	-	18,084
Travel	1,885	-	1,885
Utilities	54,821	-	54,821
Bad Debt	-	-	-
Impairment Loss	93,356	-	93,356
Stipends	32,389	-	32,389
Total Expenses	1,638,817	-	1,638,817
Change in Net Assets	167,588	69,901	237,489
Net Assets, Beginning of Year	(278,197)	227,554	(50,643)
Net Assets, End of Year	$ (110,609)	$ 297,455	$ 186,846

See independent auditor's report and notes to financial statements.

HOUSING ASSOCIATION AND DEVELOPMENT CORPORATION
(A Not-for-Profit Organization)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Year Ended June 30, 2017
Revenue and Other Support			
Government Grants	$ -	$ 281,322	$ 281,322
NPP and NAP Grants	225,000	-	225,000
SPP Grants YouthBuild	-	100,000	100,000
Other Support - Private	75,768	129,381	205,149
Interest	5,923	-	5,923
Insurance Proceeds	-	-	-
Rentals	302,444	-	302,444
Sale of Properties	89,900	-	89,900
Net Assets Released from Restrictions	633,440	(633,440)	-
Total Revenue and Other Support	1,332,475	(122,737)	1,209,738
Expenses			
Payroll - Executive Director	80,000	-	80,000
Payroll - Property Management and Maintenance	150,563	-	150,563
Payroll - Office	188,981	-	188,981
Bank Fees	1,795	-	1,795
Closing Costs	6,453	-	6,453
Cost of Property Sales	95,167	-	95,167
Depreciation	69,832	-	69,832
Employee Benefits	178,887	-	178,887
Insurance	56,521	-	56,521
Interest	104,648	-	104,648
Office Supplies	5,842	-	5,842
Other Costs	24,285	-	24,285
Payroll Taxes	61,267	-	61,267
Postage and Printing	219	-	219
Pre-Development Costs	3,184	-	3,184
Professional Fees	27,203	-	27,203
Publications and Dues	1,281	-	1,281
Real Estate Taxes	2,868	-	2,868
Rental Costs	20,900	-	20,900
Repairs and Maintenance	83,520	-	83,520
Telephone	7,272	-	7,272
Tools and Equipment	1,933	-	1,933
Trash Removal	18,801	-	18,801
Travel	2,688	-	2,688
Utilities	50,020	-	50,020
Bad Debt	-	-	-
Impairment Loss	61,729	-	61,729
Stipends	19,270	-	19,270
Total Expenses	1,325,129	-	1,325,129
Change in Net Assets	7,346	(122,737)	(115,391)
Net Assets, Beginning of Year	(285,543)	350,291	64,748
Net Assets, End of Year	$ (278,197)	$ 227,554	$ (50,643)

See independent auditor's report and notes to financial statements.

HOUSING ASSOCIATION AND DEVELOPMENT CORPORATION
(A Not-for-Profit Organization)
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	Year Ended June 30, 2018	Year Ended June 30, 2017
Cash Flows from Operating Activities		
Change in Net Assets	$ 237,489	$ (115,391)
Adjustments to Reconciled Change in Net Assets to Net Cash Used by Operating Activities		
Depreciation	79,043	69,832
(Gain) Loss on Sale of Properties	38,768	(1,874)
Impairment Loss on Properties	93,356	61,729
(Increase) Decrease in Assets:		
Construction in Progress	(517,667)	(340,232)
Grants and Contracts Receivable	-	52,000
Miscellaneous Receivables	250	5,868
Mortgage Receivable	1,166	1,095
Escrow Deposits	-	38,920
Investments - Jordan Heights	(50,000)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	12,643	(43,346)
Accrued Expenses	11,438	(1,818)
Payroll Taxes Accrued and Withheld	(347)	(99)
Deposits Payable	(607)	(235)
Net Cash Used by Operating Activities	(94,468)	(273,551)
Cash Flows from Investing Activities		
Purchase of Equipment	-	(45,876)
Purchase of Rental Property Improvements	(1,232)	(43,027)
Purchase of Properties	-	(52,218)
Proceeds from Sale of Properties	345,900	89,900
Net Cash Provided (Used) by Investing Activities	344,668	(51,221)
Cash Flows from Financing Activities		
Borrowings on Lines of Credit	93,000	492,231
Borrowings on Long Term Debt	85,000	164,927
Repayments on Lines of Credit	(293,651)	(399,032)
Repayments on Long Term Debt	(42,512)	(38,423)
Repayments on Related Party Borrowing	(4,121)	(4,244)
Net Cash Provided (Used) by Financing Activities	(162,284)	215,459
Net Increase (Decrease) in Cash and Cash Equivalents	87,916	(109,313)
Cash and Cash Equivalents, Beginning of Year	185,061	294,374
Cash and Cash Equivalents, End of Year	$ 272,977	$ 185,061

Additional Disclosure of Cash Flows:

Interest Paid	$ 105,712	$ 104,648

See independent auditor's report and notes to financial statements.

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Housing Association and Development Corporation (the "Organization") is an organization incorporated under the laws of the Commonwealth of Pennsylvania as a non-profit organization. The Organization operates under an Executive Director and an appointed (18) eighteen member Executive Board.

The program goal of the Organization is to eliminate blighted housing conditions in the City of Allentown's neighborhoods and to increase availability of housing opportunities for lower income residents. The Housing Association and Development Corporation purchases vacant, deteriorated residential properties within the city and totally rehabilitates the units and resells or rents the renovated properties.

The Organization is now a provisional affiliate of YouthBuild USA and implements a local YouthBuild program under those guidelines to annually serve at least 20 out-of-school youth between the ages of 17 – 24. The program provides educational training to obtain a GED, job site training in construction to provide skilled training and job preparedness, life skills coaching, leadership development and one-on-one case management and counseling. The program targets high school drop outs from the Organization's service area.

The Organization participates in the Commonwealth of Pennsylvania's Department of Community and Economic Development Contract for Neighborhood Partnership Program, which effectively provides authorization to the Organization to solicit and receive contributions for which a tax credit is granted to the contributor. A contract commenced concurrent with the fiscal year of the Organization.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted Net Assets - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by actions of the Board of Directors.

Temporarily Restricted Net Assets - subject to donor-imposed stipulations that may be fulfilled by the actions of the Board of Directors to meet the stipulations or become unrestricted at the date specified by the donor.

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Permanently Restricted Net Assets - subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income for general or specific purposes. The Organization currently does not have any permanently restricted net assets.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents, as presented on the statement of cash flows, includes all checking and savings accounts, money markets and short term highly liquid investments with a maturity of three months or less at the time of the purchase.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Grants and Contracts Receivable

Grants and contracts receivable represent grants and contracts due from cities, counties, states, and various sources. Grants and contracts receivable are stated at an amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its historical collection trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable. There were no grants or contracts receivable at June 30, 2018 and 2017.

Investments

Investments in insured or federally backed instruments with readily determinable fair values based on quoted prices in active markets are carried at cost based on the Organization's accounting method. These investments represent a pool of capital from various investors/lenders participating in the Jordan Heights Neighborhood Development Investment Fund who have entered into an investor agreement to provide security for a line or lines of credit which will permit the Organization to secure bridge financing until funding from approved funding sources are available. It is anticipated that the investment will be returned to the investor and therefore an offsetting liability is recorded as described in Note 8 as J.H. Fund.

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Buildings and Equipment

Buildings and equipment are stated at cost and include expenditures for new equipment, major betterments, and renewals costing $500 or more. Depreciation and amortization are provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, which range from 3 to 30 years. The Organization uses the straight-line method of computing depreciation and amortization. Maintenance and repair costs are expensed as incurred.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues and expenses and changes in net assets as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

All contributions, legacies and bequests are considered to be available for unrestricted use unless specifically restricted by the donor.

Income Taxes

The Organization is a non-profit organization exempt from income taxes under section 501(c)(3) of the internal revenue code.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claims or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits or liabilities recorded for the fiscal year 2018 and 2017.

The Organization files its 990 with the United States Internal Revenue Service and form BCO-10 with the Bureau of Charitable Organizations in Pennsylvania.

2. Mortgage Receivable

The Organization sold its 416 Oak Street property on December 3, 2013, and is providing seller financing to the purchaser. As of June 30, 2018 and 2017, the mortgage receivable balance due to the Organization is $75,281 and $76,447, respectively. Management believes the mortgage receivable will be financed by the borrower with an outside party prior to maturity. The following are maturities of the mortgage receivable for the years ended June 30:

2019	$ 75,281
	$ 75,281

3. Buildings and Equipment

Buildings and equipment consists of the following:

	June 30, 2018	June 30, 2017
Buildings	$ 1,799,998	$ 1,799,998
Building Improvements and Equipment	313,685	312,453
Appliances	28,355	28,355
Office Equipment	9,671	9,671
Construction Equipment	179,503	179,503
	2,331,212	2,329,980
Less: Accumulated Depreciation	(1,099,768)	(1,020,725)
	$ 1,231,444	$ 1,309,255

Depreciation charged to expense was $79,043 and $69,832 for the years ended June 30, 2018 and 2017, respectively.

4. Construction in Progress

The Organization's acquisition costs and costs to renovate and rehabilitate housing for a potential sale or rental are capitalized as the project progresses. Upon a sale of a renovated property, the Organization recognizes the actual cost to renovate and rehabilitate. The Organization's unrecovered acquisition, renovation, and construction costs were $1,201,783 and $1,162,140 at June 30, 2018 and 2017, respectively, which includes a $93,356 and $61,729 impairment for the years 2018 and 2017, respectively (see Note 5).

5. Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. Impairment losses of $93,356 and $61,729 have been recognized in the accompanying financial statements for construction in progress assets based upon the anticipated sale price for the homes, for the years ended June 30, 2018 and 2017, respectively.

6. Lines of Credit

The Organization has a line of credit of $150,000 from Branch Bank & Trust, of which there was principal outstanding of $56,000 and $66,000 as of June 30, 2018 and 2017, respectively. Interest is payable on the outstanding balance at a rate of 5.50%. The credit line is secured by a mortgage on 508-510 Chew Street, 451 W. Liberty Street, 520 Fountain Street and 636 N. Fair Street, City of Allentown, County of Lehigh, PA as pledged by the Guarantor. There was no additional availability on the existing line of credit as of June 30, 2017. As of July, 2018, the line of credit was converted to a term note with defined monthly installments of principal of $833 plus interest.

The Organization had a line of credit of $250,000 from PNC Bank, National Association, of which there was principal outstanding of $0 and $105,862 as of June 30, 2018 and 2017, respectively. Interest is payable on the outstanding balance at a rate of 3.25%. The credit line is currently unsecured. The line was paid down with proceeds from property sales during the year and is no longer available as of June 30, 2018.

The Organization had a line of credit of $300,000 from The Provident Bank, of which there was principal outstanding of $0 and $43,500 as of June 30, 2018 and 2017, respectively. Interest is payable on the outstanding balance at a rate of 4.50%. The line of credit is secured by a mortgage on 441 W. Liberty Street, City of Allentown, County of Lehigh, PA as pledged by the Guarantor. The line was paid down with proceeds from property sales during the year and is no longer available as of June 30, 2018.

6. Lines of Credit (Continued)

The Organization has an available line of credit from Key Bank up to the lesser of $500,000 or collateral pledged. There was principal outstanding of $498,000 and $458,000 as of June 30, 2018 and 2017, respectively. Interest is payable on the outstanding balance at a variable interest rate, 3.93% at June 30, 2018. The credit line is secured by the assets held in a brokerage account with LPL Financial LLC. (See Note 1 - Investments).

The Organization had a line of credit of $340,000 from PNC Bank, National Association, of which there was principal outstanding of $235,511 and $316,800 as of June 30, 2018 and 2017, respectively. Interest is payable on the outstanding balance at a rate 5.00%. The credit line is secured by the North Street properties. This line of credit was paid in full subsequent to June 30, 2018, and is no longer available.

The Organization has a non-interest bearing line of credit of $250,000 from Redevelopment Authority of the City of Allentown, of which there was principal outstanding of $250,000 as of June 30, 2018 and 2017. The credit line is secured by various properties in the Old Allentown Fairgrounds area.

Total principal outstanding on the Organization's available lines of credit amounted to $1,039,511 and $1,240,162 at June 30, 2018 and 2017, respectively.

Interest expense on the lines of credit was $39,239 and $45,046 for the years ended June 30, 2018 and 2017, respectively.

7. Note Payable - Related Party

The Organization has a loan payable to David and Carolyn Evans with a loan balance as of June 30, 2018 and 2017 of $32,871 and $36,992, respectively. David Evans is the Executive Director of the Organization. The loan is unsecured and is payable on demand at a variable rate based upon index plus a margin of 1.00%, with a floor of 4.00%. The interest rate at June 30, 2018 was 4.25%.

8. Notes and Loans Payable

The Organization had notes and loans payable to various lenders for the following respective properties:

Lender	Property Description	June 30, 2018 Balance	June 30, 2017 Balance	Interest Rate (%)	Maturity Date	Monthly Payment
Admin						
J.H. Fund	N/A	$ 505,000	$ 505,000	1.00	11/20/2023	N/A
PNC Bank, NA	428 Oak Street	37,189	39,378	3.23	11/9/2021	$ 284
		542,189	544,378			
Rehab						
The Provident Bank	Equipment	13,134	16,906	4.25	8/30/2021	369
The Provident Bank	416 Oak Street	70,705	72,683	4.75	12/31/2018	453
		83,839	89,589			
Rentals						
Key Bank	Various	696,525	716,244	4.50	4/15/2019	4,333
New Tripoli Bank	326 & 334 N Church St	81,297	84,245	3.75	3/10/2037	504
QNB	531 & 533 West Liberty St	85,000	-	5.00	On Demand	N/A
The Provident Bank	519 Chew Street	81,834	84,618	6.00	1/28/2035	655
New Tripoli Bank	Various	297,303	306,425	Variable	7/29/2035	2,013
		1,241,959	1,191,532			
	Total	$ 1,867,987	$ 1,825,499			

Interest expense on the loans was $66,473 and $59,602 for the years ended June 30, 2018 and 2017, respectively.

Long term debt maturities are as follows:

Year ending June 30,	
2019	$ 901,310
2020	25,135
2021	26,238
2022	51,209
2023	21,313
Thereafter	842,782
	$ 1,867,987

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30, 2018	June 30, 2017
Youth Build Program	$ 91,853	$ 14,124
Rehab Properties	205,602	213,430
Total	$ 297,455	$ 227,554

10. Savings Plan

The Organization provides its employees with the option of participating in a 403(b) savings plan. The cost to the Organization for this plan was $-0- for the years ending June 30, 2018 and 2017.

11. Lease Commitments

The Organization leases a copier under a multi-year operating lease expiring in September, 2019. Yearly rental expense under this lease was $2,580 for the years ended June 30, 2018 and 2017. The Organization also entered into a new operating lease for its rental units at Alliance Hall, beginning March 1, 2018. The lease term is for five years, with the option for one renewal period of five years, upon the same terms. The lease calls for monthly payments of $1,759 fixed for the first year, with optional increases at the discretion of the lessor. Any increase is effective as of each annual rent commencement date, with thirty days advance notice required from the lessor. The Organization is responsible for repairs or replacements to the structure of the building. Yearly rental expense under this lease was $2,580 for the years ended June 30, 2018. Future obligations of the Organization's long-term leases as of June 30, 2018 are:

Year ending June 30,	
2019	$ 23,687
2020	21,752
2021	21,107
2022	21,107
2023	14,071
	$ 101,724

12. Functional Expenses

The Statement of Activities and Change in Net Assets shows total expenses for the year ended June 30, 2018 and 2017. The allocation of expenses among program services, management and general, and fundraising is as follows:

	June 30, 2018	June 30, 2017
Program Services	$ 1,196,092	$ 846,146
Management and General	442,725	478,983
Fundraising	-	-
	$ 1,638,817	$ 1,325,129

The Organization's method for allocating expenses among functional reporting classifications, which cannot be specifically identified as program or supporting are based on estimates made for time spent by personnel between functions and other objective bases.

13. Going Concern

The financial statements have been prepared assuming that the Organization will continue as a going concern. Currently, the Organization has significant debt maturities that are payable, for a period of at least twelve months from the date the financial report was authorized for issue, without significant funds to meet the obligations.

The Organization has evaluated its ability to meet future debt obligations coming due within one year of the report issuance date, and has determined it currently does not have sufficient assets to make those payments. To address the future debt obligations coming due within one year of the report date, the Organization has entered into discussions with various lenders to refinance its current debt obligations. The Board of Directors and management are confident that refinancing will be secured prior to the debt payments, which will extend the terms of current debt obligations, and therefore that it is appropriate to prepare the financial statements on the going concern basis.

However, in the event that the Organization is not able to successfully secure the refinancing referred to above, significant uncertainty would exist as to whether the Organization will continue as a going concern and, therefore, whether they will realize their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial statements.

14. Subsequent Events

Management has considered events subsequent to June 30, 2018 that affect the Organization through November 15, 2018, the date the financial statements were available to be issued.

On October 23, 2018, the Organization entered into an agreement with QNB Bank for a $400,000 promissory note. The terms of the agreement include interest only payments for six months, until April 2019, then monthly note repayments of principal and interest of $2,476, at a fixed interest rate of 5.50%, for a period of five years. Thereafter the note will be recalculated and adjusted each year, thru March 2044, based upon the interest rate equivalent to 1.00% above the QNB Bank base lending rate. Proceeds from this note were used to pay down the existing $85,000 loan with QNB Bank.