

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PA**

2017 ANNUAL OPERATING BUDGET

SOURCE:	<u>TOTAL</u>
RENTAL PAYMENTS	\$126,500
PROPERTY SALES	\$260,000
COMMUNITY DEVELOPMENT	\$254,500
PUBLIC UTILITY FUND(S)	\$140,000
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT	\$750,000
CONTRIBUTIONS, MISCELLANEOUS	<u>\$100,000</u>
TOTAL	\$1,631,000

USE:	
PERSONNEL	\$810,000
PROFESSIONAL SERVICES/CONTRACT SERVICES	\$225,000
TRAVEL/TRAINING	\$4,000
UTILITIES	\$15,000
SPACE COSTS	\$44,000
SUPPLIES/FURNITURE	\$40,000
DIRECT ASSISTANCE	\$450,000
EQUIPMENT/RENTAL	\$500
INSURANCE	\$17,700
POSTAGE/PRINTING/DUPLICATION	\$5,500
VEHICLE MAINTENANCE AND OPERATION	\$5,500
EQUIPMENT/MAINTENANCE AND REPAIR	\$4,000
LICENSE/FEES/DUES	\$500
ADVERTISING	\$800
TELEPHONE	\$6,000
PUBLICATIONS/SUBSCRIPTIONS	\$800
MISC	<u>\$1,700</u>
TOTAL	<u>\$1,631,000</u>

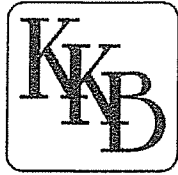
**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

**YEARS ENDED
DECEMBER 31, 2014 AND 2013**

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**
YEARS ENDED DECEMBER 31, 2014 AND 2013

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**Kronick
Kalada
Berdy & Co.**
A Professional Corporation

Certified Public Accountants

Officers/Shareholders

Donald M. Kronick, CPA
Paul Berdy, CPA
William R. Lazor, CPA/PFS, CFE
Deborah A. Eastwood, CPA
Kevin R. Foley, CPA
William Fromel, CPA
Mario Ercolani, CPA
Anthony R. Caravaggio, CPA
Ronald H. Ulitchney, CPA

Joseph J. Kalada, CPA

Independent Auditor's Report

Officers and Directors
Housing Development Corporation
of Northeastern Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Development Corporation of Northeastern Pennsylvania (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and 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 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 principles 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 that 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 Housing Development Corporation of Northeastern Pennsylvania as of December 31, 2014 and 2013, 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.

Supplemental Information to Financial Statements

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses and the accompanying schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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, this information 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 September 28, 2015 on our consideration of the Housing Development Corporation of Northeastern Pennsylvania'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 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 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 Housing Development Corporation of Northeastern Pennsylvania's internal control over financial reporting and compliance.

Kronin Kalada Berdy & Co.

Kingston, Pennsylvania
September 28, 2015

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

	2014	2013
Assets:		
Cash	\$ 1,803,113	\$ 1,544,325
Accrued revenue	175,185	354,774
Notes receivable resulting from the sales of:		
Rental properties	317,026	373,650
Property held for development and sale	554,543	474,141
Due from affiliates, net	184,524	242,737
Property held for development and sale	-	1,560,009
Property and equipment, net	2,272,660	2,370,198
Investment	244,479	257,083
	<u>\$ 5,551,530</u>	<u>\$ 7,176,917</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 59,023	\$ 40,556
Accrued payroll	34,417	45,712
Payroll withholdings payable	6,174	15,264
Deposits	528	1,523
Deferred grant revenues	2,195,802	3,846,155
Deficit in partnerships	2,735	2,613
	<u>2,298,679</u>	<u>3,951,823</u>
Net assets (all unrestricted):		
Undesignated	2,752,851	2,725,094
Board designated	500,000	500,000
	<u>3,252,851</u>	<u>3,225,094</u>
Total net assets	<u>3,252,851</u>	<u>3,225,094</u>
Total liabilities and net assets	<u>\$ 5,551,530</u>	<u>\$ 7,176,917</u>

See notes to financial statements

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Revenues, gains and losses		
Grants	\$ 1,879,700	\$ 2,300,561
Revenues from sales of properties held for development and sale	259,266	603,190
Management fees	154,423	131,052
Rental income	140,386	146,306
Development fees	-	81,460
Other, principally sales tax refund	5,146	75,333
Interest and dividend income	38,749	38,899
Unrealized gain on investment	3,574	35,250
Contributions	5,000	29,000
Realized gain (loss) on sales of investment	(2,233)	1,485
Equity in loss from partnerships	(122)	(136)
	2,483,889	3,442,400
Expenses:		
Program services	2,233,532	3,199,505
Management and general	222,600	203,798
	2,456,132	3,403,303
Total expenses		
Net increase in unrestricted net assets	27,757	39,097
Unrestricted net assets, beginning of year	3,225,094	3,185,997
Unrestricted net assets, end of year	\$ 3,252,851	\$ 3,225,094

See notes to financial statements

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 27,757	\$ 39,097
Adjustments:		
Depreciation	97,538	97,467
Unrealized gain on investment	(3,574)	(35,250)
Realized (gain) loss on sales of investment	2,233	(1,485)
Equity in loss from partnerships	122	136
Bad debts, affiliate	10,417	-
Changes in:		
Accrued revenue	179,589	83,795
Notes receivable	(23,778)	46,363
Property held for development and sale	1,560,009	730,585
Due from affiliates	47,796	539
Accounts payable and accrued expenses	18,467	(4,367)
Accrued payroll	(11,295)	(8,912)
Payroll withholdings payable	(9,090)	1,168
Deposits	(995)	(1,114)
Deferred grant revenues	(1,650,353)	(805,087)
Net cash provided by operating activities	244,843	142,935
Cash flows from investing activities:		
Purchase of equipment	-	(1,995)
Purchase of investment	(18,686)	(96,127)
Proceeds from the sales of investment	32,631	80,384
Net cash provided by (used in) investing activities	13,945	(17,738)
Net increase in cash	258,788	125,197
Cash, beginning of year	1,544,325	1,419,128
Cash, end of year	\$ 1,803,113	\$ 1,544,325

See notes to financial statements

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 Activities and summary of significant accounting policies

Nature of activities

The Housing Development Corporation of Northeastern Pennsylvania (HDC) acquires, develops and constructs housing, principally for sale to eligible low and moderate income families. HDC provides counseling, home buyer mortgage assistance, property management and various other development assistance.

Income tax status

The Corporation has been recognized as exempt from income taxes under the Internal Revenue Code Section 501 (c)(3) and similar state statutes and, therefore, has no provision for income taxes. It is not a private foundation. The Corporation's open tax years are 2011-2014.

Grants and deferred grant revenues

Revenue from grant funds related to the construction of property held for sale is deferred and recognized as the properties are sold or upon the fulfillment of certain obligations.

Rents

Rental income is collected primarily from the Commission on Economic Opportunity of Luzerne County as described in Note 6.

Expenses

Compensation and related expenses have been allocated between program services and management and general based on an analysis of personnel time. Other expenses were directly charged or allocated according to the purpose for which the cost was incurred.

Accrued revenue, notes receivable and due from affiliates

These amounts are reported at their principal amounts, which are also estimated net realizable value. Collection losses have historically been immaterial, and management concluded that, based on the review of material balances outstanding that a material valuation allowance was not needed. Management will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

Accrued revenue and due from affiliates are unsecured. Accrued revenue principally results from grant revenues earned in 2014 and 2013, respectively.

Property held for development and sale

Property held for development and sale at December 31, 2013 included costs associated with the development of residential housing units. These units, upon completion, were marketed for sale to qualified home buyers who meet income eligibility requirements. They were carried at lower of cost or estimated realizable value using the specific identification method.

At December 31, 2014, HDC owned 4.418 acres of raw, undeveloped land to be used for future development and sale. This land was transferred to HDC by the city of Wilkes-Barre, Pennsylvania in 2011 for \$1. At the time of transfer, this property was an abandoned industrial site in a residential

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

neighborhood in the city of Wilkes-Barre, Pennsylvania. It was determined by management that this property was of nominal value, and therefore no contribution was recorded by HDC at the date of transfer. As a result, there is no value reported in the statements of financial position for this property at December 31, 2014 and 2013.

Property and equipment

Property and equipment includes the costs of fixed assets and those improvements which materially increase the useful lives of the assets. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Investment

HDC owns a 73% interest in a pooled investment account with Northeastern Resources Development Corporation (NRDC), an entity which shares some of the same management as HDC. The underlying investments of this account are in mutual funds. The value of HDC's investment as reported in the statement of financial position is based on its pro rata share of the fair value of the underlying mutual funds. The fair value of the underlying mutual funds is based on the quoted net asset values of the shares held by the account at year end. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

All realized gains and losses arising from the sale of the underlying mutual funds and investment income are reported as changes in unrestricted net assets. The fair value of investments sold is determined using the specific identification method.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 Sales of property held for development and sale

In 2014, the four residential properties were completed and sold for a combined price of \$259,266. Grant revenues of \$783,051 were recognized in connection with the sale of three of these properties.

In 2013, seven residential properties were completed and sold for a combined price of \$603,190. Grant revenues of \$1,123,880 were recognized in connection with the sale of these properties.

The following table summarizes the net gains (losses) recognized in 2014 and 2013 as a result of these transactions:

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Sales revenue	\$ 259,266	\$ 603,190
Cost of properties sold	(807,051)	(1,751,551)
Development costs in excess of sales price on residential properties sold	(547,785)	(1,148,361)
Grant revenues recognized in connection with these sales	783,051	1,123,880
Net gains (losses) recognized on sales	\$ 235,266	\$ (24,481)

In connection with the sales of certain property held for development and sale, notes receivable were issued by HDC to the purchasers. These notes are secured by first or second mortgages on the properties and bear interest at annual rates ranging from 0.00% - 7.25%. For the mortgages that are non-interest bearing, interest is imputed on the notes at an annual rate equal to the then 5 year U.S. Treasury yield. The notes are scheduled to mature in dates ranging from 2019 - 2044. The present value of all notes totaling \$554,543 and \$474,141 are included in notes receivable at December 31, 2014 and 2013, respectively.

Maturities of these notes receivable at December 31, 2014 are as follows:

2015	\$ 7,061
2016	7,413
2017	7,782
2018	8,270
2019	52,848
Thereafter	471,169
	\$ 554,543

NOTE 3 Sales of rental properties

In January 2005, HDC sold the majority of its rental properties for \$2,565,000. In connection with the sale of these properties, a note receivable of \$691,581 was issued to the purchaser.

This note is secured by a first mortgage on the properties, with interest imputed on the note at an annual rate of 3.73% (5 year U.S. Treasury yield at the transaction date). The note requires monthly payments of \$5,800 beginning in January 2007, and matures in 2019. The balance of the note receivable at December 31, 2014 and 2013 was \$317,026 and \$373,650, respectively. Interest income of \$12,976 and \$15,046 was recognized in 2014 and 2013, respectively, in connection with this transaction.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

The following schedule summarizes HDC's interest in a pooled investment account with NRDC at December 31, 2013:

	Cost	Unrealized gain	Fair value
Pooled investment account	\$ 196,527	\$ 60,556	\$ 257,083

These funds are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the carrying value of HDC's investment.

FASB ASC 820 "Fair Value Measurements" establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Financial instruments, other than those with quoted market prices included in Level 1, for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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. The fair value of HDC's investment at December 31, 2014 and 2013 is based on Level 2 inputs.

NOTE 6 Related party transactions

HDC received management fees under Operation WRAP totaling \$143,750 for 2014 and \$120,000 for 2013 from the Commission on Economic Opportunity of Luzerne County (CEO).

HDC rents a warehouse in Kingston to CEO on a month-to-month basis for its weatherization program at a monthly rate of \$4,822.

HDC rented additional property to CEO on a month-to-month basis at a monthly rate of \$1,040. This lease terminated on April 1, 2014.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Other property is rented to CEO and Enertek Systems, Inc. on month-to-month bases at rates of \$300 and \$125 per month, respectively.

The total rental income from related parties recognized by HDC for 2014 and 2013 was \$65,626 and \$83,306, respectively.

HDC rents office space in Wilkes-Barre from CEO for its day-to-day operations on a month-to-month basis. The lease requires monthly payments of \$3,900. Rent expense was \$46,816 and \$43,200 for 2014 and 2013, respectively.

HDC manages the day-to-day operations of the property known as the Schain Building owned by the GBC/HDC Limited Partnership. Under the terms of the agreement, HDC receives a fee of 10% of gross income collected for its services. HDC has agreed to share 25% of this management fee with Greater Berwick Corporation. HDC's net management fees for the years ended December 31, 2014 and 2013 were \$10,673 and \$11,052, respectively.

HDC also manages the day-to-day operations of the property known as the St. Gabriel House owned by the St. Gabriel House, L.P. HDC receives a fee of 8% of gross income collected for its services. HDC's management fee for the years ended December 31, 2014 and 2013 were waived.

Due from affiliates, net of \$171,558 and \$224,589 at December 31, 2014 and 2013 represent amounts due from the GBC/HDC Limited Partnership and St. Gabriel House, L.P., principally for management fees and operating expenses paid by HDC on their behalf. Due from affiliates, net of \$12,966 and \$18,148 at December 31, 2014 and 2013 represent amounts due from CEO for operating expenses paid by HDC on its behalf.

These entities share some of the same directors and/or management as HDC.

NOTE 7 Leases (non-related party)

HDC rents residential properties to tenants under operating leases with terms ranging from month-to-month up to one year.

The total rental income from these leases recognized by HDC for 2014 and 2013 was \$73,260 and \$61,500, respectively.

NOTE 8 Board designated net assets

At the September 2012 Board of Directors meeting, the Board voted to designate net assets in the amount of \$500,000 for future development activities.

NOTE 9 Concentrations

Clients are concentrated as to specific geographic region (Northeastern Pennsylvania). HDC receives a substantial amount of revenue from federal, state, and local governments. A significant

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

reduction in the level of this revenue, if it were to occur, would have an effect on its program activities.

Cash accounts are maintained in commercial banks, and are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits.

NOTE 10 Partnership interests

HDC is a partner in the GBC/HDC General Partnership with The Greater Berwick Corporation (GBC), with each partner having a 50% interest. The GBC/HDC General Partnership is the general partner with a 1% interest in profit/loss sharing and 50% capital ownership in the GBC/HDC Limited Partnership. The limited partnership was formed to acquire, construct, renovate and operate a housing project in Berwick, Pennsylvania, known as the Schain Building.

HDC is also a general partner in the St. Gabriel House, L.P. with Archangel Housing Partners, Inc. as co-general partner and PNC Bank as limited partner. HDC has a .01% interest in profit/loss sharing and capital ownership in this partnership. The partnership was formed to rehabilitate, own and operate a housing project in Hazleton, Pennsylvania consisting of 12 residential rental units for the purpose of providing low income housing as well as a limited amount of commercial space.

As a general partner, HDC has certain legal responsibilities in regards to partnership liabilities if the partnership were unable to pay its debts. In addition, upon an event that would require a general partner to assume the partnership liabilities, the partnership assets generally would be utilized initially to pay existing creditors. The partnerships discussed herein are current in their obligations at December 31, 2014. The total indebtedness of the partnerships at December 31, 2014 and 2013, without considering any offset for recovery from existing assets, amounted to \$2,204,712 and \$2,439,457, respectively.

The deficit in partnerships included in the statements of financial position represents equity in the losses of these partnerships net of capital contributed.

NOTE 11 Subsequent events

Management has evaluated subsequent events through September 28, 2015, which is the date the financial statements were available for issue.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

EXPENSES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Personnel:		
Salaries and wages	\$ 524,036	\$ 509,828
Employee benefits	76,286	93,227
Payroll taxes	<u>43,690</u>	<u>45,360</u>
Total personnel expenses	<u>644,012</u>	<u>648,415</u>
Operating:		
Cost of properties sold	807,051	1,751,551
Contracted services / direct assistance	698,024	714,984
Depreciation	97,538	97,467
Office rent	46,816	43,200
Insurance	42,474	43,861
Audit fees	24,404	23,700
Miscellaneous	16,814	12,740
Travel	16,807	14,543
Real estate taxes	12,504	14,285
Utilities	11,484	11,357
Telephone	10,999	8,544
Bad debts	10,417	-
Licenses and fees	7,810	8,776
Office supplies	2,704	2,605
Advertising and public relations	2,587	2,000
Vehicle maintenance and operation	1,730	2,871
Interest	931	1,347
Postage and printing	528	173
Dues and subscriptions	300	275
Equipment rental and maintenance	<u>198</u>	<u>609</u>
Total operating expenses	<u>1,812,120</u>	<u>2,754,888</u>
Total expenses	<u>\$ 2,456,132</u>	<u>\$ 3,403,303</u>

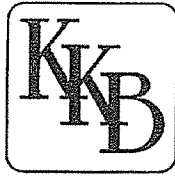
HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2014

<u>FEDERAL GRANTOR/ PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>IDENTIFYING NUMBER PASS-THROUGH ENTITY</u>	<u>FEDERAL EXPENDITURES</u>
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Community Development Block Grants/Entitlement Grants passed through Luzerne County Office of Community Development			
	14.218	PL-14-05-07	101,405
	14.218	PL-14-16BB-01	41,075
	14.218	PL-09-16BB-01	<u>36,604</u>
Subtotal			<u>179,084</u>
Continuum of Care Program (Direct Program)			
	14.267		87,492
	14.267		160,141
	14.267		118,777
	14.267		103,811
	14.267		112,508
	14.267		<u>96,161</u>
Subtotal			<u>678,890</u>
Total			<u>\$ 857,974</u>

This schedule has been prepared on the accrual basis of accounting.



**Kronick
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A Professional Corporation

Certified Public Accountants

Officers/Shareholders

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**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**

Officers and Directors
Housing Development Corporation
of Northeastern Pennsylvania

We have audited, in accordance with the 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 Housing Development Corporation of Northeastern Pennsylvania (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2015.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered Housing Development Corporation of Northeastern Pennsylvania'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 Housing Development Corporation of Northeastern Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Development Corporation of Northeastern Pennsylvania'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 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

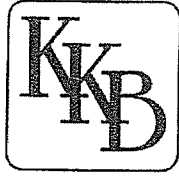
As part of obtaining reasonable assurance about whether Housing Development Corporation of Northeastern Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 Housing Development Corporation of Northeastern Pennsylvania'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 Housing Development Corporation of Northeastern Pennsylvania's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kronik Kalada Bendy & Co.

Kingston, Pennsylvania
September 28, 2015



**Kronick
Kalada
Berdy & Co.**
A Professional Corporation

Certified Public Accountants

Officers/Shareholders

Donald M. Kronick, CPA
Paul Berdy, CPA
William R. Lazor, CPA/PFS, CFE
Deborah A. Eastwood, CPA
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Officers and Directors
Housing Development Corporation
of Northeastern Pennsylvania

Report on Compliance for the Major Federal Program

We have audited the Housing Development Corporation of Northeastern Pennsylvania's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Housing Development Corporation of Northeastern Pennsylvania's major federal program for the year ended December 31, 2014. Housing Development Corporation of Northeastern Pennsylvania's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Housing Development Corporation of Northeastern Pennsylvania's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Housing Development Corporation of Northeastern Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Housing Development Corporation of Northeastern Pennsylvania's compliance.

Opinion on the Major Federal Program

In our opinion, Housing Development Corporation of Northeastern Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Housing Development Corporation of Northeastern Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Housing Development Corporation of Northeastern Pennsylvania's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Housing Development Corporation of Northeastern Pennsylvania's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charges with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kingston, Pennsylvania
September 28, 2015

Kronin Kalda Berdy & Co.

HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2014

A. SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Housing Development Corporation of Northeastern Pennsylvania
2. Internal control over financial reporting:
- a. Material weakness(es) identified? yes x no
- b. Significant deficiency(ies) identified yes x None reported
3. Noncompliance material to financial statements noted? yes x no

FEDERAL AWARDS

4. Internal control over major program:
- a. Material weakness(es) identified? yes x no
- b. Significant deficiency(ies) identified yes x None reported
5. The auditor's report on compliance for the major program expressed an unmodified opinion.
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes x no

7. The program tested as a major program consisted of:

<u>CFDA number</u>	<u>Federal Program</u>
14.267	Continuum of Care Program

8. Dollar threshold used to distinguish between type A and type B programs: \$ 300,000
9. Auditee qualified as low-risk auditee? x yes no

B. FINANCIAL STATEMENT FINDINGS

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2014

There are no prior audit findings required to be reported.

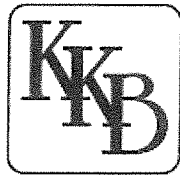
**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

**YEARS ENDED
DECEMBER 31, 2015 AND 2014**

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**
YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

Officers and Directors
Housing Development Corporation
of Northeastern Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Development Corporation of Northeastern Pennsylvania (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and 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 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 principles 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 that 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 Housing Development Corporation of Northeastern Pennsylvania as of December 31, 2015 and 2014, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses and the accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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, this information 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 September 28, 2016 on our consideration of the Housing Development Corporation of Northeastern Pennsylvania'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 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 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 Housing Development Corporation of Northeastern Pennsylvania's internal control over financial reporting and compliance.

Kroner Kalada Berdy & Co.

Kingston, Pennsylvania
September 28, 2016

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ 1,683,902	\$ 1,803,113
Accrued revenue	217,428	175,185
Notes receivable resulting from the sales of:		
Rental properties	258,253	317,026
Property held for development and sale	558,184	554,543
Due from affiliates, net	146,807	184,524
Property held for development and sale	354,216	-
Property and equipment, net	2,125,320	2,272,660
Investment	<u>242,772</u>	<u>244,479</u>
Total assets	<u>\$ 5,586,882</u>	<u>\$ 5,551,530</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 24,369	\$ 59,023
Accrued payroll	24,881	34,417
Payroll withholdings payable	5,898	6,174
Deposits	1,692	528
Deferred grant revenues	2,379,955	2,195,802
Deficit in partnerships	<u>2,871</u>	<u>2,735</u>
Total liabilities	<u>2,439,666</u>	<u>2,298,679</u>
Net assets (all unrestricted):		
Undesignated	2,547,216	2,752,851
Board designated	<u>600,000</u>	<u>500,000</u>
Total net assets	<u>3,147,216</u>	<u>3,252,851</u>
Total liabilities and net assets	<u>\$ 5,586,882</u>	<u>\$ 5,551,530</u>

See notes to financial statements

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Revenues:		
Grants	\$ 953,975	\$ 1,879,700
Rental income	152,005	140,386
Management fees	135,475	154,423
Mortgage satisfaction	42,000	-
Interest and dividends	40,392	38,749
Contributions	21,000	5,000
Development fees	500	-
Revenues from sales of properties held for development and sale	-	259,266
Total revenues	1,345,347	2,477,524
Expenses:		
Program services	1,197,520	2,233,532
Management and general	213,489	217,454
Total expenses	1,411,009	2,450,986
Net increase (decrease) in unrestricted net assets before other gains (losses)	(65,662)	26,538
Other gains (losses):		
Loss on sale of property	(20,006)	-
Equity in losses from partnerships	(136)	(122)
Realized gain (loss) on sales of investment	2,757	(2,233)
Unrealized gain (loss) on investment	(22,588)	3,574
Total other gains (losses)	(39,973)	1,219
Net increase (decrease) in unrestricted net assets	(105,635)	27,757
Unrestricted net assets, beginning of year	3,252,851	3,225,094
Unrestricted net assets, end of year	\$ 3,147,216	\$ 3,252,851

See notes to financial statements

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (105,635)	\$ 27,757
Adjustments:		
Depreciation	96,305	97,538
Unrealized (gain) loss on investment	22,588	(3,574)
Realized (gain) loss on sales of investment	(2,757)	2,233
Loss on sale of property	20,006	-
Equity in losses from partnerships	136	122
Bad debts, affiliate	14,582	10,417
Changes in:		
Accrued revenue	(42,243)	179,589
Notes receivable	55,132	(23,778)
Property held for development and sale	(354,216)	1,560,009
Due from affiliates	23,135	47,796
Accounts payable and accrued expenses	(34,654)	18,467
Accrued payroll	(9,536)	(11,295)
Payroll withholdings payable	(276)	(9,090)
Deposits	1,164	(995)
Deferred grant revenues	184,153	(1,650,353)
Net cash provided by (used in) operating activities	(132,116)	244,843
Cash flows from investing activities:		
Purchase of investment	(44,699)	(18,686)
Proceeds from the sales of investment	26,575	32,631
Proceeds from the sale of property	31,029	-
Net cash provided by investing activities	12,905	13,945
Net increase (decrease) in cash	(119,211)	258,788
Cash, beginning of year	1,803,113	1,544,325
Cash, end of year	\$ 1,683,902	\$ 1,803,113

See notes to financial statements

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 Activities and summary of significant accounting policies

Nature of activities

The Housing Development Corporation of Northeastern Pennsylvania (HDC) acquires, develops and constructs housing, principally for sale to eligible low and moderate income families. HDC provides counseling, home buyer mortgage assistance, property management and various other development assistance.

Income tax status

The Corporation has been recognized as exempt from income taxes under the Internal Revenue Code Section 501 (c)(3) and similar state statutes and, therefore, has no provision for income taxes. It is not a private foundation. The Corporation's open tax years are 2012-2015.

Grants and deferred grant revenues

Revenue from grant funds related to the construction of property held for sale is deferred and recognized as the properties are sold or upon the fulfillment of certain obligations.

Rents

Rental income is collected primarily from the Commission on Economic Opportunity of Luzerne County as described in Note 6.

Expenses

Compensation and related expenses have been allocated between program services and management and general based on an analysis of personnel time. Other expenses were directly charged or allocated according to the purpose for which the cost was incurred.

Accrued revenue, notes receivable and due from affiliates

These amounts are reported at their principal amounts, which are also estimated net realizable value. Collection losses have historically been immaterial, and management concluded that, based on the review of material balances outstanding that a material valuation allowance was not needed. Management will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

Accrued revenue and due from affiliates are unsecured. Accrued revenue principally results from grant revenues earned in 2015 and 2014, respectively.

Property held for development and sale

At December 31, 2014, HDC owned 4.418 acres of raw, undeveloped land to be used for future development and sale. This land was transferred to HDC by the city of Wilkes-Barre, Pennsylvania in 2011 for \$1. At the time of transfer, this property was an abandoned industrial site in a residential neighborhood in the city of Wilkes-Barre, Pennsylvania. It was determined by management that this property was of nominal value, and therefore no contribution was recorded by HDC at the date of transfer. As a result, there was no value reported in the statements of financial position for this property at December 31, 2014.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

During 2015, HDC began developing four single family homes on the previously undeveloped land as part of Phase 4 of the Courtright Street project. Property held for development and sale at December 31, 2015 includes costs associated with the development of these residential housing units. These units, upon completion, are marketed for sale to qualified home buyers who meet income eligibility requirements. They are carried at lower of cost or estimated realizable value using the specific identification method.

Property and equipment

Property and equipment includes the costs of fixed assets and those improvements which materially increase the useful lives of the assets. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Investment

HDC owns a 73% interest in a pooled investment account with Northeastern Resources Development Corporation (NRDC), an entity which shares some of the same management as HDC. The underlying investments of this account are in mutual funds. The value of HDC's investment as reported in the statement of financial position is based on its pro rata share of the fair value of the underlying mutual funds. The fair value of the underlying mutual funds is based on the quoted net asset values of the shares held by the account at year end. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

All realized gains and losses arising from the sale of the underlying mutual funds and investment income are reported as changes in unrestricted net assets. The fair value of investments sold is determined using the specific identification method.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 Sales of property held for development and sale

In 2015, there were no residential properties sold.

In 2014, the four residential properties were completed and sold for a combined price of \$259,266. Grant revenues of \$783,051 were recognized in connection with the sale of three of these properties.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The following table summarizes the net gain recognized in 2014 as a result of these transactions:

Sales revenue	\$ 259,266
Cost of properties sold	<u>(807,051)</u>
Development costs in excess of sales price on residential properties sold	(547,785)
Grant revenues recognized in connection with these sales	<u>783,051</u>
Net gain recognized on sales	<u>\$ 235,266</u>

In connection with the sales of certain property held for development and sale, notes receivable were issued by HDC to the purchasers. These notes are secured by first or second mortgages on the properties and bear interest at annual rates ranging from 0.00% - 7.25%. For the mortgages that are non-interest bearing, interest is imputed on the notes at an annual rate equal to the then 5 year U.S. Treasury yield. The notes are scheduled to mature in dates ranging from 2019 - 2044. The present value of all notes totaling \$558,184 and \$554,543 are included in notes receivable at December 31, 2015 and 2014, respectively.

Maturities of these notes receivable at December 31, 2015 are as follows:

2016	\$ 7,413
2017	7,782
2018	8,270
2019	53,051
2020	10,091
Thereafter	<u>471,577</u>
	<u>\$ 558,184</u>

NOTE 3 Sales of rental properties

In January 2005, HDC sold the majority of its rental properties for \$2,565,000. In connection with the sale of these properties, a note receivable of \$691,581 was issued to the purchaser.

This note is secured by a first mortgage on the properties, with interest imputed on the note at an annual rate of 3.73% (5 year U.S. Treasury yield at the transaction date). The note requires monthly payments of \$5,800 beginning in January 2007, and matures in 2019. The balance of the note receivable at December 31, 2015 and 2014 was \$258,253 and \$317,026, respectively. Interest income of \$10,827 and \$12,976 was recognized in 2015 and 2014, respectively, in connection with this transaction.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Maturities of this note receivable at December 31, 2015 are as follows:

2016	\$ 69,600
2017	69,600
2018	69,600
2019	69,600
	<u>278,400</u>
Less amounts representing interest	<u>(20,147)</u>
	<u>\$ 258,253</u>

NOTE 4 Property and equipment

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Real estate properties and improvements	\$ 2,633,061	\$ 2,694,038
Vehicles	21,797	21,797
Office equipment	31,022	31,022
Maintenance equipment	14,135	14,135
Appliances and fixtures	26,689	26,689
	<u>2,726,704</u>	<u>2,787,681</u>
Accumulated depreciation	<u>(601,384)</u>	<u>(515,021)</u>
Net property and equipment	<u>\$ 2,125,320</u>	<u>\$ 2,272,660</u>

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to \$96,305 and \$97,538, respectively.

NOTE 5 Investment

The following schedule summarizes HDC's interest in a pooled investment account with NRDC at December 31, 2015:

	<u>Cost</u>	<u>Unrealized gain</u>	<u>Fair value</u>
Pooled investment account	<u>\$ 201,343</u>	<u>\$ 41,429</u>	<u>\$ 242,772</u>

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The following schedule summarizes HDC's interest in a pooled investment account with NRDC at December 31, 2014:

	Cost	Unrealized gain	Fair value
Pooled investment account	\$ 180,349	\$ 64,130	\$ 244,479

These funds are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the carrying value of HDC's investment.

FASB ASC 820 "Fair Value Measurements" establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Financial instruments, other than those with quoted market prices included in Level 1, for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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. The fair value of HDC's investment at December 31, 2015 and 2014 is based on Level 2 inputs.

NOTE 6 Related party transactions

HDC received management fees under Operation WRAP totaling \$125,000 for 2015 and \$143,750 for 2014 from the Commission on Economic Opportunity of Luzerne County (CEO).

HDC rents a warehouse in Kingston to CEO on a month-to-month basis for its weatherization program at a monthly rate of \$4,822.

Other property is rented to CEO and Enertek Systems, Inc. on month-to-month bases at rates of \$300 and \$125 per month, respectively.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The total rental income from related parties recognized by HDC for 2015 and 2014 was \$61,465 and \$65,626, respectively.

HDC rents office space in Wilkes-Barre from CEO for its day-to-day operations on a month-to-month basis. The lease requires monthly payments of \$3,900. Rent expense was \$46,800 and \$46,816 for 2015 and 2014, respectively.

HDC manages the day-to-day operations of the property known as the Schain Building owned by the GBC/HDC Limited Partnership. Under the terms of the agreement, HDC receives a fee of 10% of gross income collected for its services. HDC has agreed to share 25% of this management fee with Greater Berwick Corporation. HDC's net management fees for the years ended December 31, 2015 and 2014 were \$10,475 and \$10,673, respectively.

HDC also manages the day-to-day operations of the property known as the St. Gabriel House owned by the St. Gabriel House, L.P. HDC receives a fee of 8% of gross income collected for its services. HDC's management fee for the years ended December 31, 2015 and 2014 were waived.

Due from affiliates, net of \$144,496 and \$171,558 at December 31, 2015 and 2014 represent amounts due from the GBC/HDC Limited Partnership and St. Gabriel House, L.P., principally for management fees and operating expenses paid by HDC on their behalf. Due from affiliates, net of \$2,311 and \$12,966 at December 31, 2015 and 2014 represent amounts due from CEO for operating expenses paid by HDC on its behalf.

These entities share some of the same directors and/or management as HDC.

NOTE 7 Leases (non-related party)

HDC rents residential properties to tenants under operating leases with terms ranging from month-to-month up to one year.

The total rental income from these leases recognized by HDC for 2015 and 2014 was \$89,040 and \$73,260, respectively.

NOTE 8 Board designated net assets

At the September 2012 Board of Directors meeting, the Board voted to designate net assets in the amount of \$500,000 for future development activities. At the October 2015 Board of Directors meeting, the Board voted to increase this designation to \$600,000.

NOTE 9 Concentrations

Clients are concentrated as to specific geographic region (Northeastern Pennsylvania). HDC receives a substantial amount of revenue from federal, state, and local governments. A significant reduction in the level of this revenue, if it were to occur, would have an effect on its program activities.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Cash accounts are maintained in commercial banks, and are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits.

NOTE 10 Partnership interests

HDC is a partner in the GBC/HDC General Partnership with The Greater Berwick Corporation (GBC), with each partner having a 50% interest. The GBC/HDC General Partnership is the general partner with a 1% interest in profit/loss sharing and 50% capital ownership in the GBC/HDC Limited Partnership. The limited partnership was formed to acquire, construct, renovate and operate a housing project in Berwick, Pennsylvania, known as the Schain Building.

HDC is also a general partner in the St. Gabriel House, L.P. with Archangel Housing Partners, Inc. as co-general partner and PNC Bank as limited partner. HDC has a .01% interest in profit/loss sharing and capital ownership in this partnership. The partnership was formed to rehabilitate, own and operate a housing project in Hazleton, Pennsylvania consisting of 12 residential rental units for the purpose of providing low income housing as well as a limited amount of commercial space.

As a general partner, HDC has certain legal responsibilities in regards to partnership liabilities if the partnership were unable to pay its debts. In addition, upon an event that would require a general partner to assume the partnership liabilities, the partnership assets generally would be utilized initially to pay existing creditors. The partnerships discussed herein are current in their obligations at December 31, 2015. The total indebtedness of the partnerships at December 31, 2015 and 2014, without considering any offset for recovery from existing assets, amounted to \$2,072,016 and \$2,204,712, respectively.

The deficit in partnerships included in the statements of financial position represents equity in the losses of these partnerships net of capital contributed.

NOTE 11 Subsequent events

Management has evaluated subsequent events through September 28, 2016, which is the date the financial statements were available for issue.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Personnel:		
Salaries and wages	\$ 471,032	\$ 524,967
Employee benefits	95,997	76,286
Payroll taxes	41,482	43,690
	<u>608,511</u>	<u>644,943</u>
Total personnel expenses		
Operating:		
Contracted services / direct assistance	523,080	698,024
Depreciation	96,305	97,538
Office rent	46,800	46,816
Insurance	31,568	42,474
Audit fees	25,615	24,404
Bad debts	14,582	10,417
Travel	11,830	16,807
Real estate taxes	11,827	12,504
Telephone	9,902	10,999
Other	9,147	12,694
Licenses and fees	7,223	7,810
Utilities	6,513	11,484
Office supplies	2,846	2,704
Vehicle maintenance and operation	2,828	1,730
Advertising and public relations	2,432	2,587
Cost of properties sold	-	807,051
	<u>802,498</u>	<u>1,806,043</u>
Total operating expenses		
Total expenses	<u>\$ 1,411,009</u>	<u>\$ 2,450,986</u>

HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2015

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	IDENTIFYING NUMBER PASS-THROUGH ENTITY	FEDERAL EXPENDITURES	EXPENDITURES to SUBRECIPIENTS
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Community Development Block Grants/Entitlement passed through Luzerne County Office of Community Development				
	14.218	PS-15-05-07	\$ 89,127	\$ 89,127
	14.218	PL-15-16BB01	<u>30,000</u>	<u>30,000</u>
Subtotal Community Development Grants/Entitlement Grants (pass through) programs			<u>119,127</u>	<u>119,127</u>
Continuum of Care Program (Direct Program)				
	14.267		84,777	
	14.267		145,586	
	14.267		116,034	
	14.267		101,869	
	14.267		115,858	
	14.267		<u>91,307</u>	
Subtotal			<u>655,431</u>	
HOME Investment Partnership Program passed through Luzerne County Office of Community Development				
	14.239	CHDO-WBC-02	204,112	204,112
HOME Investment Partnership Program passed through City of Wilkes-Barre Office of Community Development				
	14.239	B-14-MC-42-0021	<u>60,932</u>	<u>60,932</u>
Subtotal HOME Investment Partnership (pass through) programs			<u>265,044</u>	<u>265,044</u>
Total			<u>\$ 1,039,602</u>	<u>\$ 384,171</u>

See accompanying notes to schedule of expenditures of federal awards.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

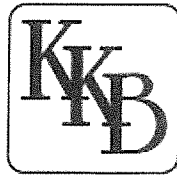
YEAR ENDED DECEMBER 31, 2015

NOTE A Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Housing Development Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Housing Development Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Housing Development Corporation.

NOTE B Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Housing Development Corporation has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**Kronick
Kalada
Berdy & Co.**
A Professional Corporation

Certified Public Accountants

Officers/Shareholders

Donald M. Kronick, CPA
Paul Berdy, CPA
William R. Lazor, CPA/PFS, CFE
Deborah A. Eastwood, CPA
Kevin R. Foley, CPA
William Fromel, CPA
Mario Ercolani, CPA
Anthony R. Caravaggio, CPA
Ronald H. Ulitchney, CPA

Joseph J. Kalada, CPA

**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**

Officers and Directors
Housing Development Corporation
of Northeastern Pennsylvania

We have audited, in accordance with the 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 Housing Development Corporation of Northeastern Pennsylvania (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2016.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered Housing Development Corporation of Northeastern Pennsylvania'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 Housing Development Corporation of Northeastern Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Development Corporation of Northeastern Pennsylvania'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 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

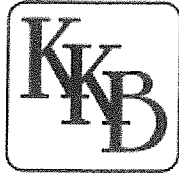
As part of obtaining reasonable assurance about whether Housing Development Corporation of Northeastern Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 Housing Development Corporation of Northeastern Pennsylvania'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 Housing Development Corporation of Northeastern Pennsylvania's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kingston, Pennsylvania
September 28, 2016

Kronitz Kabala Berdy & Co.



**Kronick
Kalada
Berdy & Co.**
A Professional Corporation

Certified Public Accountants

Officers/Shareholders

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Officers and Directors
Housing Development Corporation
of Northeastern Pennsylvania

Report on Compliance for the Major Federal Program

We have audited the Housing Development Corporation of Northeastern Pennsylvania's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Housing Development Corporation of Northeastern Pennsylvania's major federal program for the year ended December 31, 2015. Housing Development Corporation of Northeastern Pennsylvania's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Housing Development Corporation of Northeastern Pennsylvania's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Housing Development Corporation of Northeastern Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Housing Development Corporation of Northeastern Pennsylvania's compliance.

Opinion on the Major Federal Program

In our opinion, Housing Development Corporation of Northeastern Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of Housing Development Corporation of Northeastern Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Housing Development Corporation of Northeastern Pennsylvania's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Housing Development Corporation of Northeastern Pennsylvania's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kingston, Pennsylvania
September 28, 2016

Kronitz Kalada Berdy & Co.

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2015

A. SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Housing Development Corporation of Northeastern Pennsylvania were prepared in accordance with GAAP.

2. Internal control over financial reporting:

- a. Material weakness(es) identified? yes no
b. Significant deficiency(ies) identified yes none reported

3. Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

4. Internal control over major program:

- a. Material weakness(es) identified? yes no
b. Significant deficiency(ies) identified yes none reported

5. The auditor's report on compliance for the major program expressed an unmodified opinion.

6. Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)? yes no

7. The program tested as a major program consisted of:

<u>CFDA number</u>	<u>Federal Program</u>
14.239	HOME Investment Partnership Program

8. Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

9. Auditee qualified as low-risk auditee? yes no

B. FINANCIAL STATEMENT FINDINGS

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**HOUSING DEVELOPMENT CORPORATION
OF NORTHEASTERN PENNSYLVANIA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2015

There are no prior audit findings required to be reported.