



BELFINT • LYONS • SHUMAN
Certified Public Accountants

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December 12, 2017

To the Board of Directors of
Wilmington Housing Partnership Corporation
800 N. French Street, 7th Floor
Wilmington, DE 19801

We have audited the financial statements of the Wilmington Housing Partnership Corporation (Corporation) for the year ended June 30, 2017, and have issued our report thereon dated December 12, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 7, 2017. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 2 to the financial statements. As described in Note 13, the Corporation changed accounting policies related to debt issuance costs by adopting the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 835-30 in the year ended June 30, 2017. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

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SIGNIFICANT AUDIT FINDINGS - CONTINUED

The most sensitive estimates affecting the financial statements were:

Property held for development is carried at cost less a subsidy allowance. The subsidy allowance is determined by evaluating the current costs, future expected costs, and future expected proceeds from disposal of the property. For properties with no near-term plans for development, the carrying value is compared to the estimated benefit of disposing the property as is and does not take into consideration future additional renovation costs and the future proceeds from disposal of the renovated unit. The accrued subsidy allowance as of June 30, 2017 and 2016 was \$3,278,033 and \$3,527,737, respectively.

The Corporation provides an **allowance for uncollectable accounts** whenever any note, loan, or other receivable becomes doubtful of collection and the doubtful portion can be reasonably estimated. The provision reduces the carrying amount of the receivable to its net realizable amount. The allowance for uncollectible accounts was \$775,347 as of June 30, 2017 and 2016.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of **property held for development** in Note 7 to the financial statements provides detail on the capitalized costs and subsidy allowance allocated to properties at various stages of development.

The disclosure of **loans payable** in Note 8 to the financial statements provides detail on the Corporation's debt agreements and includes information about collateralized assets, maturity dates, and repayment terms.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Appendix A summarizes the uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT AUDIT FINDINGS - CONTINUED

Corrected and Uncorrected Misstatements - Continued

In addition, auditing standards require that we communicate to you adjustments to the financial statements during the audit that were material. Accounting assistance was provided during the audit process affecting certain financial statement accounts that resulted in corrections posted by management. The nature of this assistance was primarily in the form of recognizing year-end accruals and adjustments for certain assets and liabilities. The following financial statement accounts were adjusted by a material amount during this process:

- Pledges Receivable and Contribution/Grant Income
- Accrued Interest and Interest Expense
- Property Held for Development/Cost of Sales/Property Development Costs
- Accounts Payable/Expenses
- Neighborhood Stabilization Advances and Related Revenue

Restatement of Previously Issued Financial Statements

During the year ended June 30, 2017, the Corporation determined that accrued interest payable on loans payable was understated on previously issued financial statements. The effects of the restatement are as follows:

	<u>Prior to Restatement</u>	<u>As Restated</u>	<u>Change</u>
As of June 30, 2016			
Accrued Interest Payable	\$ -	\$ 71,357	\$ 71,357
Total Liabilities	6,130,879	6,202,236	71,357
Total Net Assets	(512,512)	(583,869)	(71,357)
For the Year Ended June 30, 2016			
Interest Expense	53,805	80,488	26,683
Change in Net Assets	(743,703)	(770,386)	(26,683)
As of July 1, 2015			
Total Net Assets	231,191	186,517	(44,674)

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

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SIGNIFICANT AUDIT FINDINGS - CONTINUED

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2017.

Opportunities to Improve Operational Effectiveness

During our audit, we did become aware of matters that are opportunities to strengthen the system of internal control and improve operating efficiency. The following section summarizes our comments and suggestions concerning those matters.

Frequency of Reconciling and Updating the Property Development Schedule - During the audit, the Organization prepares a schedule of projects which are currently under construction that includes cumulative capitalized cost to date. The historical practice of the Corporation has been to update the schedule of the properties on an annual basis. Due to the volume of costs that are assigned to this schedule, we believe that a process to compile and reconcile the schedule on a more frequent basis should be considered to reduce the risk of error in financial reporting.

Cash Account Reconciliations - Bank reconciliations are regularly performed to compare the bank balance to the balance in the general ledger. Reconciling items should consist solely of deposits and disbursements that are “in transit” and have not yet cleared the bank. However, the Corporation’s reconciliations contain many journal entry adjustments as outstanding items. Balances in the financial statements have been adjusted to correct the effects of including these entries as reconciling items. The Corporation must perform the steps necessary to update their regular reconciliations to remove these transactions.

Allowance for Doubtful Accounts - Mortgages Receivable - A significant estimate in the financial statements is the allowance for uncollectible mortgages receivable associated with the Low Income and Down Payment Settlement Assistance Programs. The deferred repayment nature of most of these receivables adds complexity to evaluating the collectability of these receivables. The organization has not adjusted the reserve balance or performed a detailed analysis of the collectability of these receivables in recent years. We recommend the Corporation perform an evaluation to verify that the current allowance for doubtful accounts remains adequate to estimate net realizable value.

Statement of Functional Expenses (Form 990) - As detailed in the *Other Matters* section of this letter, future changes in accounting standards will require the Corporation to present in its financial statements expenses by both natural and functional classification. The Corporation currently completes a statement of functional expenses for inclusion in the form 990. In anticipation of the new standards, we recommend the

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SIGNIFICANT AUDIT FINDINGS - CONTINUED

Opportunities to Improve Operational Effectiveness - Continued

Statement of Functional Expenses (Form 990) - Continued - Corporation evaluate its methodology for evaluating costs to functional categories to verify it is consistent with generally accepted accounting principles.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Corporation’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER MATTERS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Several new accounting standards will be effective in the upcoming years that will affect the financial statements of almost all entities that follow generally accepted accounting principles. The following is an overview of two new accounting standards updates that will affect the Corporation’s financial statements:

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (NFP)*

[Effective for Annual Reporting Periods beginning after December 15, 2017 (FYE June 30, 2019)]

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities*, with the intent of providing more useful information to donors, grantors, creditors, and other users of nonprofit financial statements.

OTHER MATTERS - CONTINUED

The main provisions of this update, which amend the requirements for financial statements and notes in Topic 958, *Not-for-Profit Entities*, require an NFP to:

1. Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, an NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets.
2. Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the currently required three classes. An NFP would continue to report the currently required amount of the change in total net assets for the period.
3. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
4. Provide the following enhanced disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
 - b. Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
 - c. Qualitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
 - d. Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
 - e. Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to financial statements.

OTHER MATTERS - CONTINUED

- f. Method(s) used to allocate costs among program and support functions.
 - g. Underwater endowment funds, which include required disclosures of (1) an NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.
5. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.
 6. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

FASB ASU 2016-02, *Leases*

[Effective for Annual Reporting Periods Beginning after December 15, 2018 (FYE June 30, 2020)]

In February 2016, FASB issued ASU 2016-02, *Leases*, with the intent of presenting a more accurate representation of the rights and obligations arising from leases. Among other changes, ASU 2016-02 requires all lessees to recognize lease assets and lease liabilities in the statement of financial position and improve the comparability of lessee's financial commitments regardless of the manner they chose to finance the assets used in their programs.

ASU 2016-02 changes the terminology of leases and how they are to be recorded in the financial statements. Leases will now be classified as either finance or operating. The criteria to distinguish finance leases from operating leases is very similar to the criteria used to distinguish capital leases from operating leases prior to this ASU. For finance leases, a lessee is required to do the following:

- Recognize a right-of-use asset (an asset that represents a lessee's right to use an underlying asset for the lease term) and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
- Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income.

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OTHER MATTERS - CONTINUED

- Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For operating leases, a lessee is required to do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

This information is intended solely for the use of this committee and the management of the Corporation, and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the management and staff of Wilmington Housing Partnership Corporation for their cooperation and courtesies extended to us during the performance of our audit as well as the Board of Directors for allowing us the opportunity to serve as your auditors.

Very truly yours,

Belfint, Lyons & Shuman, P.A.

WILMINGTON HOUSING PARTNERSHIP CORPORATION

Appendix A: Waived Adjusting Journal Entries

June 30, 2017

Description	Assets	Liabilities	Net Assets	Revenue and Other Support	Expense
<i>Waived Adjusting Journal Entry 1</i>					
Unrecorded Liabilities - Property Development Costs and Payroll	\$ -	\$ (46,075)	\$ -	\$ -	\$ 46,075
<i>Waived Adjusting Journal Entry 2</i>					
Unrecorded Activity Related to Property Sale	10,000	-	-	(40,874)	30,874
<i>Waived Adjusting Journal Entry 3</i>					
Prior Year Interest Expense	-	-	14,412	-	(14,412)
<i>Waived Adjusting Journal Entry 4</i>					
Bank Reconciliation Error - Recorder of Deeds	(1,577)	-	-	-	1,577
<i>Current Period Effect of Prior Year Waived Variances</i>					
PY WAJE #9 - Unrecorded Liability - Property Development Costs	-	-	24,248	-	(24,248)
PY WAJE #10 - Unrecorded Liability - Property Development Costs	-	-	8,631	-	(8,631)
PY WAJE #24 - Bank Reconciliation Error - Project Account	-	-	(10,163)	-	10,163
PY WAJE #27 - Unrecorded Liability - Consulting Fees	-	-	8,000	-	(8,000)
PY WAJE #28 - Bank Reconciliation Error - Recorder	-	-	1,260	-	(1,260)
	<u>\$ 8,423</u>	<u>\$ (46,075)</u>	46,388	<u>\$ (40,874)</u>	<u>\$ 32,138</u>
			<u>(8,736)</u>	Effect on Change in Net Assets	
			<u>\$ 37,652</u>		