

WILMINGTON HOUSING
PARTNERSHIP CORPORATION
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2013 and 2012

WHEELER • WOLFENDEN • DWARES

Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Wilmington Housing Partnership Corporation
Wilmington, Delaware

We have audited the accompanying financial statements of Wilmington Housing Partnership Corporation, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenue, expenses and change in fund net assets, and cash flows, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Wilmington Housing Partnership Corporation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of Wilmington Housing Partnership Corporation as of June 30, 2013 and 2012, and the statements of revenue, expenses and change in fund net assets, and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

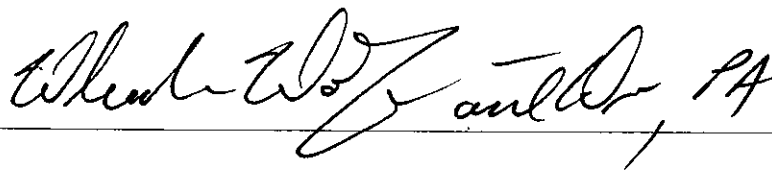
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance of the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013 on our consideration of Wilmington Housing Partnership Corporation'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 Wilmington Housing Partnership Corporation's internal control over financial reporting.



November 20, 2013
Wilmington, Delaware

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Wilmington Housing Partnership Corporation (WHP) is providing a Management's Discussion and Analysis (MD&A) for the fiscal year ended on June 30, 2013. This MD&A gives an overview and analysis of the financial activities of WHP for the year. It is designed to:

- Provide background information on WHP.
- Focus on significant financial issues.
- Provide an overview of the WHP financial activity.
- Identify changes in WHP's financial position.
- Identify individual fund issues or concerns.

Mission Statement: The Mission of WHP is to collaborate with select private, non-profit, and governmental entities to increase the City of Wilmington's housing stock by promoting renovation/rehabilitation of existing homes and limited construction of new homes in strategically selected areas, while supporting a diverse income strategy.

Background of WHP—A 501(c)(3) Organization: WHP is a non-profit corporation established by the City of Wilmington in 1989 to create affordable homeownership opportunities in the City of Wilmington (City) and, in doing so, stabilize neighborhoods, increase housing values, and reduce blight in the City. WHP is a separate entity from the City, as well as from the Wilmington Housing Authority. It has its own staff, funding, board of directors, financial accountability systems, and record keeping processes. WHP obtains the majority of its operating and project funding through grant applications to local governments, banks and foundations, and through program income generated from its projects and activities.

To achieve its Mission, WHP works independently or through local non-profit and private partners to acquire, rehabilitate, demolish and construct new housing with a primary end goal of homeownership. WHP also funds other housing-related activities such as pre-development (architectural, engineering, appraisals and environmental remediation), and marketing and settlement assistance (depending upon market conditions). On occasion, WHP assembles a significant number of vacant properties which are then used for large housing development projects. When owning property before or during development, WHP provides property management (boarding, securing, cleaning, grass cutting, snow removal, environmental clean-up and emergency repair).

WHP focuses in communities of need which exhibit blight, low homeownership rates, depressed housing values and numerous vacancies. The goal of WHP is to elevate and strengthen neighborhoods by improving housing stock, raising housing values, increasing homeownership rates, reducing blight and increasing income diversity. Doing this usually requires "gap subsidies": funding needed to complete a project that is over and above the sales price of a property. Gap subsidies generally are not recoverable and are secured by notes and mortgages with associated retention periods. During the retention period, the subsidy is reduced on a prorata basis for each year that the homebuyer lives in the home as the owner-occupant. Once the retention period expires, the gap subsidy is "forgiven".

With this background, WHP presents its MD&A for the fiscal year ended on June 30, 2013. It is to be read in conjunction with WHP's statements, beginning on page 16.

Financial Highlights:

During fiscal year 2013, WHP continued its work under six related activities:

- The second 5 year RISE (Residential Improvement and Stabilization Effort) initiative.
- Utilization of NSP (Neighborhood Stabilization Program) funds to help subsidize contracts.
- Working on scattered site rehabilitation housing projects.
- The stimulation of income diverse projects in RISE areas.
- Related maintenance of property inventory.
- East Side neighborhood 5 to 10 year investment plan.

Fiscal year 2013 progress on each activity was as follows:

I. **RISE (Residential Improvement and Stabilization Effort) Initiative:** WHP established RISE during fiscal year 2004 with the following goals: to increase affordable homeownership in the City of Wilmington by 210 units, raise property values, entice private investment, reduce blight in three targeted "at risk" areas of the City, partner with non-profit and private developers, and increase private investment. The success of the first RISE initiative laid the ground work for WHP's second 5 year RISE program. Fiscal year 2012 marked the start of the second year of WHP's 2nd RISE initiative with the goals of raising \$7,500,000 in contributions and creating 150 affordable homeownership opportunities. During fiscal year 2013, RISE activities included the following:

- Acquired 5 properties
- Completed 2 income-diverse rehabilitation projects.
- Started construction on 2 new projects that will yield 7 homeownership opportunities in a RISE area.
- Started pre-construction work on several new projects that will yield 17 homeownership opportunities in RISE areas.
- Sold 20 units in various RISE areas.
- Partnered with several Non-profits, a local CDC and the Eastside Blue Print Community to implement a 5 – 10 year investment plan for Wilmington's Eastside.

I. **RISE (Residential Improvement and Stabilization Effort) Initiative (Continued):**

RISE PROGRAM		
Current 6 RISE Areas	Units Since FY '05/Area	Units in Production in FY '13
Browntown - Hedgeville	91	50
Eastside	17	2
Northeast	77	5
Southbridge	19	-
West Center City	39	1
Westside	85	1
Total	<u>328</u>	<u>59</u>

Working as a developer or with partners the following were highlights of fiscal year 2013 RISE activities:

- The results of the RISE program are as follows: 90 affordable housing units, down 5 units from last year, sold 20 units, 3 on the market, 59 units in production and 8 in planning stages.
- Committed \$19,801,000 to the 343 units.
- Leveraged \$39,675,000 in mortgage financing.
- Received approximately \$228,278 in the City of Wilmington strategic funds to develop a large single unit home and to conduct a study on Wilmington's East Side neighborhood. Also received \$388,687 in NSP funds to subsidize development of 11 townhomes.
- Acquired 5 units, 4 in Wilmington's Northeast neighborhood and 1 on the Westside of Wilmington.
- Finished a 7 unit townhome project, the Brownstones, designed to mimic the brownstones of Brooklyn, New York. In FY 13, 6 of the 7 homes were sold for homeownership.
- Completed the Third Street townhome project, 4 newly constructed townhomes located on the 1800 block of West Third Street located in the West Side neighborhood where 5 homes exploded and families were displaced.
- Finished and sold for homeownership the second phase, 5 homes, of Zanthia Way, a 13 unit townhome project. Started predevelopment of the final phase of the Zanthia Way consisting of 3 units.
- Started predevelopment work on two large corner properties, received from the City of Wilmington, on the historic East Side of the City. Essential to the revitalization of this area.
- Partnered with the City of Wilmington, Habitat for Humanity, Inter-neighborhood Foundation, Woodlawn Trustee, Central Baptist Church CDC, JPMorgan Chase and the East Side Blueprint Community, to address the deteriorating conditions on the East Side of Wilmington with a rehabilitation housing goal of 35 homes in the first 5 years.

- II. **Income Diverse Projects:** While developing affordable homes is WHP's primary mission, its mission also includes creating income diversity in City neighborhoods. Accordingly, WHP evaluates potential projects in terms of the best outcome for a RISE neighborhood and its residents. It may determine that market-rate housing is more beneficial than affordable housing for that area which will stimulate further buying interest in the community at large, create a link between a former "at risk" neighborhood and a stable one, and eliminate the artificial barrier that divides them. WHP packages blighted properties, markets them to for-profit and private developers while maintaining a contractual level of input, and recoups its investment for use in affordable housing projects as homes are completed and sold. The resulting developments impact housing values for all of the homeowners and further stabilize communities. WHP's work and investment have resulted in two income-diverse projects in RISE neighborhoods.

Christina Overlook: This project, formerly known as Railroad Crossing, is situated on several tracts of land in Browntown. WHP purchased abandoned and blighted properties in fiscal years 2006 and 2007, and several small lots were transferred by the City in fiscal year 2007. Partnering with a for-profit builder, on this site, 33 market-rate units will be constructed. In fiscal year 2013, WHP settled on the first 8 lots in this development.

- Developed a design for the property that set a required standard of development.
- Demolished both the community center and the industrial building.
- Had DNREC (Department of Natural Resources and Environmental Control) environmentally remediate this industrial site.
- Original developer withdrew his offer, and a new developer was selected.
- Invested in excess of \$1,000,000 in the project, which will be re-couped as the project is developed and re-invested in the neighborhood for affordable housing under the RISE initiative.
- Worked with the local community group and councilman to discuss the project and get their approval.
- Received approval from the Planning Department, Fire Marshal's Department and preliminary approvals from License and Inspections.
- Developed a marketing brochure that incorporated the activities on the riverfront.
- Received final approval from both DNREC and the City of Wilmington Department of Public Works in October 2010.
- The first 8 units, phase I, are completed and sold for homeownership.
- Phase II, 7 units, are under construction with sales contracts on 3 of the 7 perspective homes.

2700 Baynard Boulevard Project. This was a large single unit project in Wilmington's 9th Ward District. The property was purchased by the City of Wilmington, transferred to WHP and provided funding towards the rehabilitation of the project. This unit was sold in FY 2013 for \$325,000 with the proceeds returned to the City of Wilmington for future projects. WHP did earn a developers fee for their efforts.

- III. **Property Inventory:** WHP's inventory increases as properties are acquired for development through arm's length transactions, Sheriff Sales, or transfers from the City of Wilmington. The inventory decreases as WHP directly develops and sells affordable housing units, makes properties available through RFPs, or transfers them to other developers. At the start of fiscal year 2013, WHP had 84 properties in inventory. At the end of fiscal year 2013, there were 72 properties, most associated with the projects in Browntown.

Looking Ahead to 2013

WHP believes in its vision and strategy. In the coming year, it will retain its focus on re-building strong neighborhoods in the City of Wilmington. Through creative planning and selective collaborations, WHP will continue its successful program of increasing homeownership, generating income diversity, reducing blight, and raising housing values for new City buyers and existing homeowners.

Overview of the Financial Statements

The financial statements included in this annual report are those of a quasi-governmental agency engaged in a business-type activity. The following statements are included:

- Balance Sheet reports WHP's current financial resources (short-term expendable resources) with capital assets and debt obligations.
- Statement of Revenues, Expenses and Changes in Fund Net Assets reports WHP's operating and non-operating revenues, by major source along with operating expenses and capital contributions.
- Statement of Cash Flow reports WHP's cash flows from operating, investing capital and non-capital activities.

Financial Statements

WHP's financial statements are designed to provide readers with a broad overview of WHP's finances, in a manner similar to a private-sector business.

The Balance Sheet presents information on all WHP assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of WHP is improving or deteriorating.

The Financial Statements can be found on page 16 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided. The notes to the financial statements can be found on page 20 of this report.

Financial Analysis

The following represents summarized balance sheets as of June 30, 2013:

	2013	2012
Current assets	\$ 570,232	\$ 498,445
Non-current assets		
Capital assets	1,675	3,441
Other non-current assets	2,176,986	3,721,398
Total assets	\$ 2,748,893	\$ 4,223,284
Current liabilities	\$ 2,446,072	\$ 2,332,304
Net assets		
Invested in capital assets - net of related debt	1,675	3,441
Unrestricted	301,146	1,887,539
Total liabilities and net assets	\$ 2,748,893	\$ 4,223,284

At the end of fiscal year 2013, WHP reported positive balances in all categories of net assets. In fiscal 2013 WHP had a 41% decrease in net assets when compared to fiscal year 2013.

Assets

Current Assets

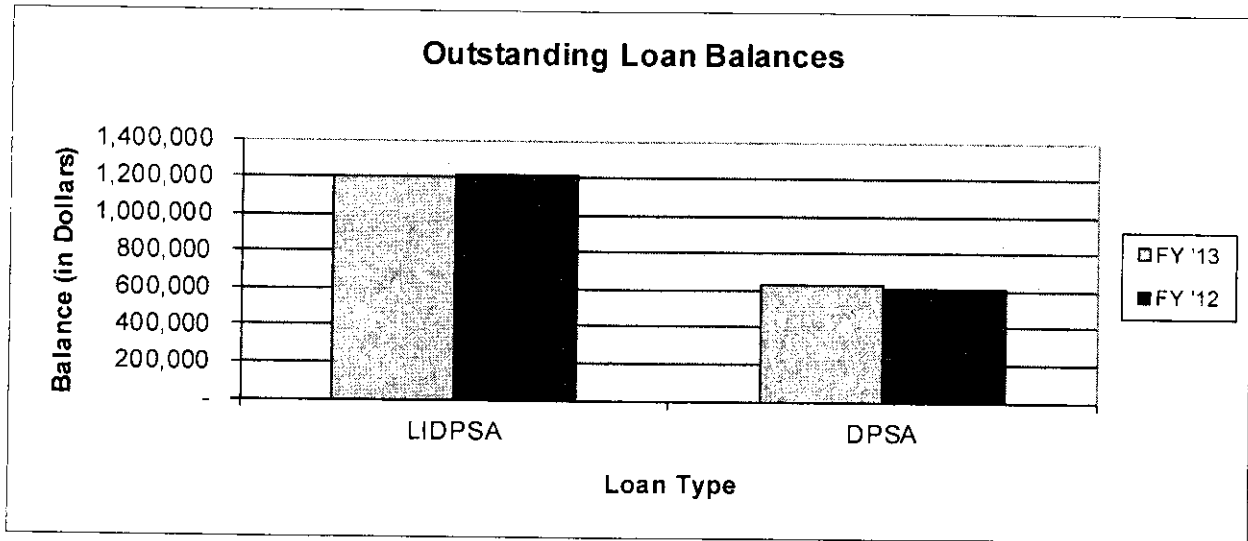
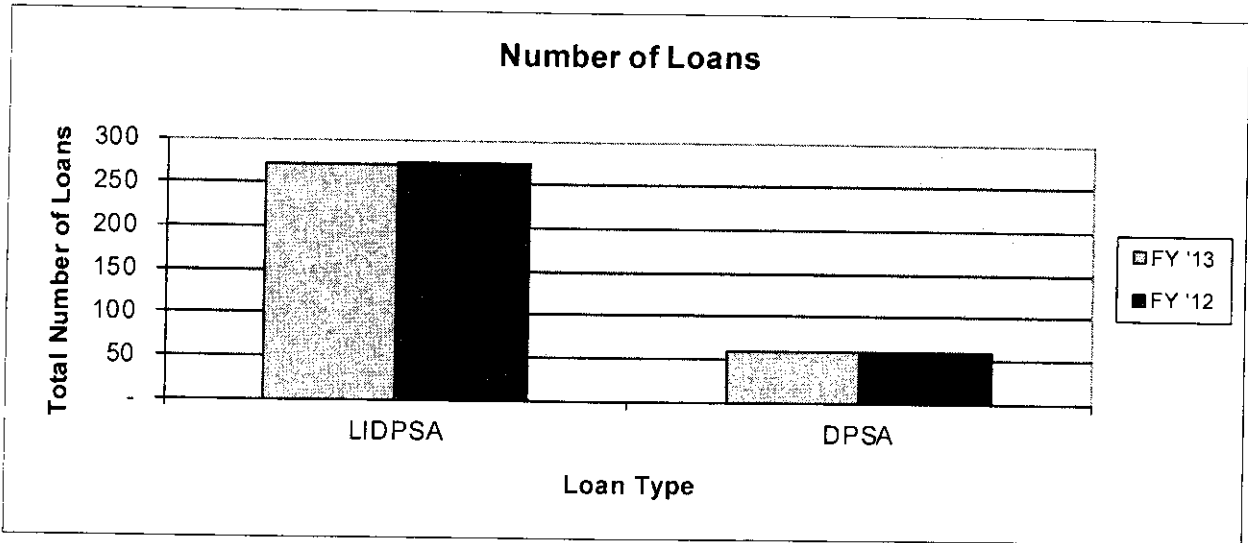
WHP current assets increased from fiscal year 2012 to fiscal year 2013 by approximately \$72,000 as a result of an increase in cash due to real estate sales.

Non-Current Assets

WHP's non-current assets decreased by approximately \$1,546,000 from fiscal year 2012 to fiscal year 2013 due to the following:

- WHP's portfolio of down payment (LIDPSA/DPSA) loans accumulated through the years. The loan portfolio was reduced by approximately \$14,000 in fiscal year 2013 due to the repayment of 3 LIDPSA/DPSA loans. At the end of fiscal year 2013, the loan portfolio consisted of 272 low-income loans at 0% interest and 58 loans at 5% interest. Loans are not required to be paid off until the homeowner pays off the first mortgage, refinances or sells the property.
- Fiscal year 2013 was a year of completion of a number of housing projects. In turn, WHP was able to sell many of these homes to families meeting the State of Delaware median income bracket.

LIDPSA/DPSA Loans



Liabilities

Liabilities have increased by approximately \$114,000 in fiscal year 2013 compared to year 2012 as a result of the following activities:

- Loans payable increased approximately \$264,000 from fiscal year 2012 to fiscal year 2013. The increase was due to construction financing for Zanthia Way II and Evergreen Terrace projects. Both projects were completed in fiscal year 2013. Also WHP has a line of credit through the City of Wilmington with JPMorgan Chase as well as a line of credit through Barclay's Bank, both for the construction of the various projects. As these homes are sold, the proceeds are used to reduce the lines of credit.
- Retainage payable decreased by \$146,000 in fiscal 2013 largely because of payout of retainage associated with completion of the Brownstones and Zanthia Way Phase II projects.

Wilmington Housing Partnership Statements of Revenues, Expenses and Changes in Fund Assets

	<u>2013</u>	<u>2012</u>
Total operating (loss) income	\$ (966,338)	\$ 4,134
Total operating expenses	621,821	488,473
Change in net assets	(1,588,159)	(484,339)
Total net assets – beginning	<u>1,890,980</u>	<u>2,375,319</u>
Total net assets – ending	<u>\$ 302,821</u>	<u>\$ 1,890,980</u>

Activities

As stated in the beginning of the MD&A, during fiscal year 2013 WHP entered into year 4 of its second 5 year initiative—RISE (Residential Improvement and Stabilization Effort) program—focusing in 6 targeted areas of the City of Wilmington. The goals are as follows:

- RISE Initiative: WHP's RISE initiative remains a force of change in communities throughout the City of Wilmington. Working with local non-profits and private developers, WHP continued to make a tremendous impact on the housing stock, neighborhood stability and community wealth as a result of RISE projects. RISE continues to generate projects that are impacting individually, plus fostering collaborations. With the help of our funders contributing upwards of \$ 1,169,000 towards RISE initiatives, WHP was able to produce 23 new home ownership opportunities in fiscal year 2013. To date WHP has raised \$6,010,000 and working with our partners, have created 128 homeownership units. As we move into fiscal year 2014, WHP is diligently working on meeting its goals of the second 5 year RISE initiative of raising \$7,500,000 in contributions yielding 150 homeowners units.

Activities (continued)

- Income Diversity Projects: The Christina Overlook project located in Browntown is comprised of 33 market-rate homes. WHP has executed the contract with the builder and settled on 15 of the 33 lots. The first phase of 8 homes is complete and sold for homeownership. The second phase, 7 units, is in construction. This project complements WHP's Brownstones at Christina Overlook project, a 7 unit affordable townhome project, located directly across the street. This will have tremendous, positive impact on the Browntown RISE neighborhood.
- Property Management of Inventory: WHP's properties are consistently monitored to ensure that acceptable plans for the rehabilitation, transfer, sale, etc. are developed. Inventory was both decreased and increased as indicated earlier.

Contributions

In fiscal year 2013, WHP received \$257,905 in contributions from various organizations. The list of contributors is noted on page 26.

Revenues

As indicated by the chart that follows, in fiscal year 2013, real estate sales generated the majority of WHP's revenue, accounting for the 69% compared to 45% in fiscal year 2012. Grant revenue made up 24% of WHP's revenue in both fiscal year's 2013 and 2012. The dollar increase in grant revenue, approximately \$395,000, was primarily a result of the City of Wilmington awarding WHP Neighborhood Stabilization Program funds for our Brownstones project in fiscal year 2012 that were contractually treated as a loan until the subsidized homes were sold. During fiscal year 2013, 6 of the 7 homes were sold, and the accumulated loan proceeds were recognized as a grant. Contribution revenue in fiscal years 2013 accounted for only 7% of WHP's revenue compared to 30% in fiscal year 2012. This is a result of additional funding of approximately \$300,000 received in 2012 from the City of Wilmington for acquisition of the Zanthia Way project.

Operating Budget

WHP had a fiscal year 2013 operating budget of \$431,743. Overall, in fiscal year 2013, WHP spent 79% of the operating budget or \$339,434. Staffing and Outside Expenses were the major contributors to the overall budget. Budget and actual expenses for the fiscal year 2013 were as follows:

Expenses	2013 Budget	2013 Actual	Actual as % of Budget
Outside expenses	\$ 40,700	\$ 34,512	85%
Office expenses	17,850	17,060	96%
Other expenses	20,835	8,583	41%
Marketing	14,350	3,809	27%
Staffing	338,008	275,470	81%
Total	<u>\$ 431,743</u>	<u>\$ 339,434</u>	<u>79%</u>

Through diligent analysis and planning, WHP's operating expenses have come in under budget in fiscal year 2013.

Economic Factors and Next Year's Budget

Based on fiscal year 2013 spending and in light of the continuing volatile economic environment, the Finance Committee and the Board of Directors have set the fiscal year 2014 budget for WHP at \$412,443. WHP has a history of efficient operating expenses related to production.

Requests for Information

This financial report is designed to provide a general overview of the WHP finances for all those with an interest in WHP's finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Steven T. Martin, Executive Director, Wilmington Housing Partnership, Louis J. Redding City/County Building, 800 N. French Street, Wilmington DE 19801.

WILMINGTON HOUSING PARTNERSHIP CORPORATION

BALANCE SHEETS

June 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 320,232	\$ 248,445
Pledges receivable	<u>250,000</u>	<u>250,000</u>
Total current assets	570,232	498,445
NON-CURRENT ASSETS		
Notes receivable – net	1,754,582	1,741,392
Pledges receivable – net	-	125,256
Advances receivable – net	22,150	22,150
Property held for development – net	400,254	1,832,600
Capital assets – net	<u>1,675</u>	<u>3,441</u>
Total non-current assets	<u>2,178,661</u>	<u>3,724,839</u>
TOTAL ASSETS	<u>\$ 2,748,893</u>	<u>\$ 4,223,284</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 65,329	\$ 69,462
Retainage payable	37,393	183,080
Loans payable	<u>2,343,350</u>	<u>2,079,762</u>
Total current liabilities	2,446,072	2,332,304
NET ASSETS		
Invested in capital assets – net of related debt	1,675	3,441
Unrestricted	<u>301,146</u>	<u>1,887,539</u>
Total net assets	<u>302,821</u>	<u>1,890,980</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,748,893</u>	<u>\$ 4,223,284</u>

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION

STATEMENTS OF REVENUE, EXPENSES AND
CHANGE IN FUND NET ASSETS

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE		
Real estate sales		
Sales revenue	\$ 2,437,450	\$ 850,127
Cost of sales and accrued subsidies	<u>(4,532,178)</u>	<u>(1,911,809)</u>
Total real estate sales – net	(2,094,728)	(1,061,682)
Other revenue		
Contributions	257,905	583,881
Grants	861,003	466,107
Miscellaneous income	9,482	15,828
Total other revenue	<u>1,128,390</u>	<u>1,065,816</u>
Net operating (loss) income	(966,338)	4,134
OPERATING EXPENSE		
Property acquisition and demolition	118,280	33,834
Project contributions	-	47,338
Program administrative expenses	377,535	407,301
Bad debt expense	<u>126,006</u>	<u>-</u>
Total operating expenses	<u>621,821</u>	<u>488,473</u>
Change in net assets	(1,588,159)	(484,339)
Net assets – beginning of year	<u>1,890,980</u>	<u>2,375,319</u>
Net assets – end of year	<u>\$ 302,821</u>	<u>\$ 1,890,980</u>

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from real estate sales	\$ 2,437,450	\$ 850,127
Cash received from contributions	383,161	1,008,338
Collections on notes receivable	(13,190)	14,757
Cash received from grants	861,003	466,107
Cash received from other operating revenue	9,482	20,828
Additions to property held for development	(3,245,519)	(2,078,524)
Cash paid to suppliers	(396,041)	(390,693)
Cash paid for employee salaries	<u>(228,147)</u>	<u>(254,757)</u>
Net cash utilized by operating activities	(191,801)	(363,817)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Fixed asset additions	<u>-</u>	<u>(910)</u>
Net cash utilized by capital and related financing activities	-	(910)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from loans payable	<u>263,588</u>	<u>396,342</u>
Net cash provided by non-capital financing activities	<u>263,588</u>	<u>396,342</u>
Net increase in cash and cash equivalents	71,787	31,615
Cash and cash equivalents – beginning of year	<u>248,445</u>	<u>216,830</u>
Cash and cash equivalents – end of year	<u>\$ 320,232</u>	<u>\$ 248,445</u>

Continued . . .

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION

STATEMENTS OF CASH FLOWS – CONTINUED

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH UTILIZED BY OPERATING ACTIVITIES		
Change in net assets	\$ (1,588,159)	\$ (484,339)
Adjustments to reconcile change in net assets to net cash utilized by operating activities		
Depreciation expense	1,766	2,402
Decrease (increase) in assets		
Grants receivable	-	167,448
Notes receivable	(13,190)	14,757
Live-Work receivable	-	5,000
Pledges receivable	125,256	424,457
Property held for development	1,432,346	(392,418)
(Decrease) increase in liabilities		
Accounts payable	(4,133)	(159,379)
Retainage payable	(145,687)	58,255
Loans payable	-	-
Total adjustments	<u>1,396,358</u>	<u>120,522</u>
NET CASH UTILIZED BY OPERATING ACTIVITIES	<u>\$ (191,801)</u>	<u>\$ (363,817)</u>

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

Wilmington Housing Partnership Corporation (the Corporation) is a not-for-profit organization formed to assist residents of the City of Wilmington (the City) in obtaining affordable housing. The Corporation provides loans and subsidies to developers for construction of new homes as well as for the renovation of existing units. The Corporation, in some situations, also acts as a developer. As such, it may acquire property, demolish unusable buildings, renovate older homes or construct new homes. The Corporation is a separate legal entity from, and is not associated with, the City of Wilmington and/or the Wilmington Housing Authority.

2. Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The Corporation has determined that it functions as a Business Type Activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements. The significant GASB standards followed by the Corporation are described as follows:

In June 1999, GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State or Local Governments*, was issued. This statement established new financial reporting requirements. It established that the basic financial statements and required supplementary information for general-purpose governments should consist of a management’s discussion and analysis, basic financial statements and required supplementary information.

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Basis of Presentation (Continued)

The Corporation adopted GASB Statement No. 34 as of July 1, 2003. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Entities also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Corporation has elected not to follow subsequent private-sector guidance.

3. Use of Estimates

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

4. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

5. Loan Loss Reserves

The Corporation provides an allowance 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.

6. Property Held for Development

Property held for development is carried at cost less a subsidy allowance. Cost includes initial acquisition and all subsequent estimated costs to develop the property. It is not the Corporation's intent to earn a profit selling developed property. Generally, sales are at a loss. The Corporation considers losses incurred to be a subsidy to the respective buyer. However, in accordance with accounting principles generally accepted in the United States of America, the Corporation records a provision for estimated losses on developed property in the period such losses are determined. These estimated losses are recorded on the balance sheet as a subsidy allowance to the costs incurred. Accrued subsidies at June 30, 2013 and 2012 were \$4,167,707 and \$4,584,267, respectively.

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Property Held for Development (Continued)

Occasionally properties are acquired that are ultimately given away. These properties are valued at \$1. All costs related to these properties are expensed in the period incurred.

7. Property and Equipment

Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives range from five to seven years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The Corporation's capitalization threshold is \$500.

8. Income Tax

The Corporation is a not-for-profit organization that is exempt from income tax under Section 501(c)(3) of the *Internal Revenue Code*. In addition, the Corporation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

9. Advertising

Advertising costs are expensed as incurred. Advertising expense was \$1,306 and \$6,847 for the years ended June 30, 2013 and 2012, respectively.

10. Subsequent Events

Wilmington Housing Partnership Corporation has evaluated subsequent events through November 20, 2013, the date the financial statements were available to be issued.

NOTE B – FINANCIAL INSTRUMENTS

Cash is comprised of demand deposits and money market accounts with financial institutions located in Wilmington, Delaware. Under the general deposit insurance rules, the Federal Deposit Insurance Corporation (FDIC) insures all accounts up to \$250,000 per depositor. At June 30, 2013 and 2012, the amount uninsured was \$205,163 and \$0, respectively.

Financial instruments, other than cash, that potentially subject the Corporation to concentrations of credit risk consist principally of notes receivable. Concentrations of credit risk with respect to notes receivable are limited due to the underlying customer base.

NOTE C – PLEDGES RECEIVABLE

Pledges receivable consisted of the following for the years ended June 30:

	<u>2013</u>	<u>2012</u>
City of Wilmington	\$ 250,000	\$ 378,312
Less: unamortized discount (0% for 2013 and 1.62% for 2012)	-	(3,056)
Net pledges receivable	<u>\$ 250,000</u>	<u>\$ 375,256</u>
Amount due in less than one year	\$ 250,000	\$ 250,000
Amount due in one to five years	-	125,256
	<u>\$ 250,000</u>	<u>\$ 375,256</u>

NOTE D – NOTES RECEIVABLE

Notes receivable consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Note receivable from Cameo Enterprises – interest at 4% for 30 years, secured by property.*	\$ 66,125	\$ 66,125
Note receivable from Bethel Villa Associates, L.P. – (\$300,000 original loan, \$187,000 loan for property taxes), non-interest bearing, balloon payment due March 30, 2014, secured by a mortgage and all tangible property of the project.	187,000	187,000
Notes receivable from recipients of Low Income and Down Payment Settlement Assistance loans (LIDPSA/DPSA) – Individual loans are subject to a maximum amount of \$7,500. Loans are subject to 0% or 5% interest, depending on the borrower’s income, due when the property is sold or when the first mortgage is repaid, secured by second mortgages on the properties.*	1,831,173	1,825,116

NOTE D – NOTES RECEIVABLE (CONTINUED)

	<u>2013</u>	<u>2012</u>
Note receivable from the buyers of the individual units of the ALMAC project – Loans range from 84 to 360 months, with maturity dates through November 2003, payable in annual installments, amortized monthly at interest rates ranging from 5% to 9%, secured by second mortgages on the properties.*	135,875	135,875
Note receivable to individual buyers of WHDC projects, collateralized by subordinated liens on the properties – Loans range from 24 to 360 months, with maturity dates through January 2029. Some of the mortgages are receivable in monthly or annual installments, with interest rates ranging from 0% to 7%. Other mortgages are self-amortizing and are forgiven each year if the individual does not sell the home. The amount forgiven is included in loan forgiveness expense for the year.*	<u>133,605</u>	<u>133,605</u>
	2,353,778	2,347,721
*Less: allowance for uncollectible amounts	<u>(599,196)</u>	<u>(606,329)</u>
	<u>\$ 1,754,582</u>	<u>\$ 1,741,392</u>

NOTE E – ADVANCES RECEIVABLE

The Corporation has entered into agency agreements to carry out approved programs of acquisition, construction or rehabilitation, and sale of properties. Outstanding advances are usually secured by a mortgage held by the Corporation on each subject property.

Advances receivable consisted of the following at June 30:

<u>Agency or Project Name</u>	<u>2013</u>	<u>2012</u>
Cameo Enterprises	<u>\$ 22,150</u>	<u>\$ 22,150</u>

NOTE F – LOANS PAYABLE – CITY OF WILMINGTON

The Corporation has an unsecured loan with the City of Wilmington, allowing the Corporation to borrow up to \$4 million for the purchase of properties to be rehabilitated and sold. The interest rate for this loan is determined by the lender, but is equal to either the adjusted London Interbank Offered Rate (Libor) for the period in effect plus .70% or the prime rate. At year-end June 30, 2013 and 2012, the interest rate was .95% and 2.72%, respectively. Interest payments are made quarterly, and principal payments are due only when properties for which the loans were created are sold. The loan matured on September 30, 2013 and was renewed through September 30, 2016. The balance on this loan was \$1,500,000 and \$1,800,000 at June 30, 2013 and 2012, respectively.

Subsequent to June 30, 2013 but prior to November 20, 2013, there were no additional draws, and there were repayments of \$200,000.

During 2012 and 2013, the Corporation received funding through the City of Wilmington in the form of a loan derived from federal Neighborhood Stabilization Program (NSP) funds. This loan was for the construction of seven townhomes on a parcel comprised of 1101 – 1113 Coleman Street in Wilmington, Delaware. Under the terms of the loan, the Corporation is required to rehabilitate the property for use as low-income, owner-occupied housing. In accordance with NSP guidelines and under the terms of the agreement with the City, the units constructed must remain affordable housing for a specified number of years, which is dependent on the number of units constructed. Once these conditions have been satisfied, the loan obligation reverts to grant revenue. In 2013, six of the seven townhomes from parcels 1101 - 1113 Coleman Street were sold. As of June 30, 2013 and 2012, the balance on the loan was \$43,350 and \$279,762, respectively.

NOTE G – LINE OF CREDIT

During 2013, the Corporation established an unsecured line of credit with the Barclay's Bank, allowing the Corporation to borrow up to \$800,000 for the purchase of properties to be rehabilitated and sold. The interest rate for this loan is fixed and is equal to the sum of the applicable Federal Funds Rate plus two-hundred basis points. At no time will the fixed rate ever exceed 10%. The rate at June 30, 2013 was 2.25%. Interest payments are due monthly. The loan matures on July 13, 2015, at which time any unpaid balance becomes due. The balance on this loan was \$800,000 at June 30, 2013.

Subsequent to June 30, 2013 but prior to November 20, 2013, there were no additional or repayments.

NOTE H – CONTRIBUTIONS

Contribution revenue, before pledge discounts and allowance adjustments, included the following for the years ended June 30:

	2013	2012
Artisan’s Bank	\$ 4,000	\$ 2,000
Bank of America	-	75,000
Capital One Services	10,000	-
Citigroup Foundation	3,500	-
City of Wilmington	-	300,000
Comenity Bank	60,000	10,000
Delaware Community Foundation	10,000	-
Department of Natural Resources and Environmental Control	25,039	-
Delaware State Housing Authority	-	124,650
HSBC Bank	5,000	25,000
ING Direct	100	-
Laffey-McHugh Foundation	10,000	-
PNC Bank	20,000	20,000
State of Delaware	6,766	-
Welfare Foundation	100,000	-
WSFS Bank	3,500	-
	<u>\$ 257,905</u>	<u>\$ 556,650</u>

NOTE I – GRANTS

Grant revenue included the following for the years ended June 30:

	2013	2012
Federal HOME Administrative Funds	\$ 6,250	\$ -
Federal NSP Funds	345,338	168,030
City of Wilmington Strategic Funds	229,653	264,357
Delaware State Housing Authority	-	51,750
JPMorganChase – Study Funds	-	150,000
	<u>581,241</u>	<u>634,137</u>
Less: NSP loan funds (see NOTE F)	-	(168,030)
Add: NSP loan funds recognized	279,762	-
	<u>\$ 861,003</u>	<u>\$ 466,107</u>

NOTE J – CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	2013	2012
Furniture and fixtures	\$ <u>29,727</u>	\$ <u>29,727</u>
Less: accumulated depreciation	<u>(28,052)</u>	<u>(26,286)</u>
	<u>\$ 1,675</u>	<u>\$ 3,441</u>

Depreciation expense charged to operations was \$1,766 and \$2,402 at June 30, 2013 and 2012, respectively.

NOTE K – COMMITMENTS AND CONTINGENCIES

The Corporation has entered into various contracts with subcontractors for repair, renovation, demolition and clean-up services for properties owned by the Corporation.

The Corporation is exposed to various risks of loss relating to general liability, property held for resale or renovation, and worker's compensation and health and accident claims. It is the Corporation's policy to insure properties that are owned through a property-specific, general liability policy. The Corporation also holds directors' and officers' insurance.

In the normal course of business, there are various commitments and contingencies outstanding which are not reflected in these financial statements. In the opinion of management, the outcome of such events, if any, will not have a material effect on the Corporation's financial statements.

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SUPPLEMENTARY INFORMATION

WILMINGTON HOUSING PARTNERSHIP CORPORATION

SCHEDULES OF PROJECT CONTRIBUTIONS

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Interfaith Community Housing	\$ -	\$ 38,611
Greater Brandywine Village Revitalization	-	8,727
	<u>\$ -</u>	<u>\$ 47,338</u>

WILMINGTON HOUSING PARTNERSHIP CORPORATION
SCHEDULES OF PROGRAM ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Advertising	\$ 1,306	\$ 6,847
Annual report	2,769	-
Consulting/promotion fees	10,466	90
Depreciation	1,766	2,402
Dues and subscriptions	2,147	1,915
Interest expense	18,763	2,373
Legal and accounting fees	38,344	59,624
Meetings	5,568	5,426
Office expense	6,672	14,157
Payroll expenses	51,868	50,417
Postage	296	46
Printing	-	14
Public relations	1,083	1,031
Salaries	228,147	254,757
Taxes and licenses	154	270
Training	1,465	1,306
Travel	6,721	6,626
	<u>377,535</u>	<u>407,301</u>
Total program administrative expenses	\$ <u>377,535</u>	\$ <u>407,301</u>

OTHER REPORT



WHEELER • WOLFENDEN • DWARES

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Wilmington Housing Partnership Corporation
Wilmington, Delaware

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 revenue, expenses and change in fund net assets, and cash flows of the Wilmington Housing Partnership Corporation, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which comprise Wilmington Housing Partnership Corporation's basic financial statements, and have issued our report thereon dated November 20, 2013.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies.

To the Board of Directors
Wilmington Housing Partnership Corporation

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of management, the finance committee, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



November 20, 2013
Wilmington, Delaware