

**WILMINGTON HOUSING PARTNERSHIP
CORPORATION**
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2019 AND 2018

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
TABLE OF CONTENTS
JUNE 30, 2019 AND 2018

	<u>Page No.</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	9
Statements of Activities	10
Balance Sheets - Governmental Fund	12
Reconciliation of Governmental Fund Balance to Net Position of Governmental Activities	13
Statements of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	14
Reconciliation of Net Changes in Fund Balance - Governmental Fund to Change in Net Position - Governmental Activities	15
Notes to Financial Statements	16



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Independent Auditors' Report

To the Board of Directors
Wilmington Housing Partnership Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Wilmington Housing Partnership Corporation (a component unit of the City of Wilmington, Delaware), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Wilmington Housing Partnership Corporation's 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

To the Board of Directors
Wilmington Housing Partnership Corporation

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and major fund of the Wilmington Housing Partnership Corporation as of June 30, 2019 and 2018, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 1 and 13 to the financial statements, the Wilmington Housing Partnership Corporation is presenting its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board. Prior years' financial statements were presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Notes 1 and 13, the financial statements present only the Wilmington Housing Partnership Corporation and do not purport to, and do not, present fairly the financial position of the City of Wilmington, Delaware as of June 30, 2019 and 2018, the changes in its financial position, or its change in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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 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

To the Board of Directors
Wilmington Housing Partnership Corporation

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management's Discussion and Analysis does not include a comparison for the year ended June 30, 2017 because the financial statements for the year ended June 30, 2017 were not presented in accordance with U.S. GAAP applicable to governmental entities as prescribed by the Government Accounting Standards Board.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Wilmington Housing Partnership Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wilmington Housing Partnership Corporation's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

March 17, 2020
Wilmington, Delaware

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018

The following is a narrative overview and analysis of the financial activities of Wilmington Housing Partnership Corporation (“WHP” or the “Corporation”) as of June 30, 2019 and 2018, and for the years then ended. It should be read in conjunction with WHP’s government-wide financial statements, general fund financial statements and the notes to the financial statements.

The Corporation became a blended component unit of the City of Wilmington in fiscal year 2018 and is considered a governmental entity for financial reporting purposes. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. During fiscal year 2018, the Corporation elected to present its financial statements using GASB’s governmental fund accounting and financial reporting model. Management’s Discussion and Analysis does not include a comparison for the year ended June 30, 2017 because the financial statements for the year ended June 30, 2017 were not presented in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities as prescribed by GASB.

The financial statements consist of four parts: (1) management’s discussion and analysis (this section); (2) the government-wide financial statements; (3) the general fund financial statements; and (4) the notes to the financial statements.

The government-wide financial statements, which include the statements of net position and the statements of activities, are presented to display information about the Corporation as a whole, in accordance with Governmental Accounting Standards Board standards. This is to provide the reader with a broad overview of WHP’s finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. WHP’s general fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual, that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred. The reconciliations of the general fund balance sheets to the statements of net position and the reconciliation of the general fund statements of revenues, expenditures, and changes in the fund balances to the statements of activities are presented to assist the reader in understanding the differences between the government-wide and general fund financial statements

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON)
MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

Financial Highlights

WHP was incorporated to collaborate with select private, nonprofit, and governmental entities to increase the City of Wilmington’s affordable housing stock by promoting renovation/rehabilitation and limited new home construction in strategically selected areas while supporting low-to-moderate income individuals and neighborhoods, and contributing to the overall neighborhood stabilization and economic vitality through homeownership.

In the governmental-wide financial statements, the liabilities exceeded the Corporation assets at the close of the 2019 fiscal year by \$6,042,351 (net position), a decrease of \$500,784 from the previous year. The deficit in net position was \$6,042,351 for fiscal year 2019, a 9% decrease as compared to prior year, while the change in net position decreased from a deficit of \$4,970,399 in the prior year to a deficit of \$500,784 in the current year, an increase of \$4,469,615 or 90%.

- Total assets increased by \$177,705 (or 7%).
- Total liabilities increased by \$678,489 (or 9%).
- Deficit net position increased by \$500,784 (or 9%).
- Operating grants and contributions decreased by \$956,712 (or 63%).
- Expenses decreased by \$5,104,307 (or 73%).
- Change in deficit net position decreased by \$4,469,615 (or 90%).

Government-Wide

Statements of Net Position

	2019	2018	Change	% Change
Total Assets	\$ 2,608,628	\$ 2,430,923	\$ 177,705	7%
Total Liabilities	8,650,979	7,972,490	678,489	9%
Total Net Position	<u>\$ (6,042,351)</u>	<u>\$ (5,541,567)</u>	<u>\$ (500,784)</u>	<u>-9%</u>

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

Financial Highlights - Continued

Governmental-Wide - Continued

Statements of Activities				
	2019	2018	Change	% Change
REVENUES				
Program Revenues				
Charges for Services	\$ 821,077	\$ 487,785	\$ 333,292	68%
Operating Grants and Contributions	567,286	1,523,998	(956,712)	-63%
General Revenues				
Grants and Contributions Not Restricted to Specific Programs	33,815	45,087	(11,272)	-25%
TOTAL REVENUES	1,422,178	2,056,870	(634,692)	-31%
EXPENSES				
Real Estate and Housing	1,922,962	7,027,269	(5,104,307)	-73%
CHANGE IN NET POSITION	\$ (500,784)	\$ (4,970,399)	\$ 4,469,615	-90%

In fiscal year 2019, total assets increased by \$177,705 or 7% primarily as a result of increase in construction cost on property held for development. Total liabilities increased by \$678,489 or 9% because of increases in accounts payable and accrued interest on loans and notes payable. The total deficit in net position increased by \$500,784 in 2019 as compared to fiscal year ended June 30, 2018.

In fiscal year 2019, charges for services increased by \$333,292 or 68%. This is a result of an increase in property sales over 2018. During fiscal year 2019, 33 properties were sold compared to 15 properties sold during fiscal year 2018. Sales prices for properties sold were at cost or below cost of properties held for development. Operating grants and contributions decreased by \$956,712 or 63% as a result of a reduction in funding from private corporations and grants.

Total expenses for real estate and housing programs decreased by \$5,104,307 due to fewer property write-downs in fiscal year 2019 as compared to write downs that occurred in fiscal year 2018. The deficit in the change in net position decreased by 90% or \$4,469,615 from fiscal year 2018 to 2019.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

Financial Highlights - Continued

General Fund

In the General Fund financial statements, the liabilities exceeded the Corporation assets at the close of the fiscal year 2019 by \$3,669,463 (fund balance), an increase in deficit fund balance of \$28,479 from the previous year.

- Total assets increased by \$375,273 (or 73%).
- Total liabilities increased by \$403,752 (or 10%).
- Deficit fund balance increased by \$28,479 (less than 1%).
- Revenues decreased by \$656,590 (or 32%).
- Expenditures decreased by \$2,815,980 (or 62%).
- The change in fund balance (deficit) decreased by \$4,858,306 or (99%).

Balance Sheets				
	2019	2018	Change	% Change
Total Assets	\$ 885,944	\$ 510,671	\$ 375,273	73%
Total Liabilities	4,495,407	4,091,655	403,752	10%
Total Fund Balance	\$ (3,609,463)	\$ (3,580,984)	\$ (28,479)	-1%

Statements of Revenues, Expenditures, and Changes in Fund Balance				
	2019	2018	Change	% Change
Total Revenues	\$ 1,423,356	\$ 2,079,946	\$ (656,590)	-32%
Total Expenditures	1,726,572	4,542,552	(2,815,980)	-62%
Excess (Deficiency) of Revenues Over Expenditures	(303,216)	(2,462,606)	2,159,390	-88%
Other Financing Sources (Uses)	274,737	(2,424,179)	2,698,916	-111%
Change in fund balance	(28,479)	(4,886,785)	\$ 4,858,306	99%
Fund Balance - Beginning of Year	(3,580,984)	1,305,801		
Fund Balance - End of Year	\$ (3,609,463)	\$ (3,580,984)		

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON)
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2019 AND 2018

Financial Highlights - Continued

General Fund - Continued

In fiscal year 2019, total assets increased by \$375,273 or 73% primarily as a result of an increase in construction cost on property held for development. Total liabilities increased by \$403,752 or 10% because of increases in accounts payable, and accrued interest on loan and notes payable. The total deficit in net position increased by \$28,479 or 1%.

In fiscal year 2019, revenues decreased by \$656,590 or 32%. This is mostly a result of reduced funding from private corporations and banks. Sales revenue is proceeds from the sale of properties. During fiscal year 2019, 33 properties were sold compared to 15 properties sold during fiscal year 2018. The Corporation received more proceeds from the sale of properties in 2019 than 2018.

Total expenditures decreased by \$2,815,980 or 62% as a result of fewer write-downs and project subsidies in properties held for development between fiscal 2019 and 2018. The deficit of revenues over expenditures that occurred during fiscal year end 2019 is less than the deficit incurred in 2018 by \$2,159,390 as most of the write-downs in value were recorded in 2018. The deficit in change in fund balance decreased by \$4,858,306.

Other financing sources and uses decreased by \$2,149,442. During fiscal year 2019, the Corporation received a \$274,737 loan from the City of Wilmington and it continued to draw down funds from existing loans for additional construction.

Contacting the Corporation's Financial Management

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Wilmington Housing Partnership Corporation, 800 North French Street, 7th Floor Wilmington, Delaware 19801.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 38,545	\$ 33,651
Pledges Receivable	-	25,000
Notes Receivable (Net)	864,121	899,114
Other Receivables	44,482	44,482
Property Held for Development (Net)	1,661,325	1,428,248
Capital Assets	155	428
TOTAL ASSETS	2,608,628	2,430,923
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,608,628	\$ 2,430,923

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

LIABILITIES		
Bank Overdraft	\$ -	\$ 70,586
Accounts Payable	463,214	205,759
Accrued Interest	622,410	297,073
Retainage Payable	1,608	110,062
Notes Payable (Net)	7,023,412	6,748,675
Neighborhood Stabilization Program Advances	540,335	540,335
TOTAL LIABILITIES	8,650,979	7,972,490
DEFERRED INFLOWS OF RESOURCES		
	-	-
NET POSITION		
Invested in Capital Assets	155	428
Unrestricted	(6,042,506)	(5,541,995)
TOTAL NET POSITION	(6,042,351)	(5,541,567)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 2,608,628	\$ 2,430,923

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
BALANCE SHEETS - GOVERNMENTAL FUND
JUNE 30, 2019 AND 2018

	General Fund	
	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 38,545	\$ 33,651
Pledges Receivable	-	25,000
Property Held for Development (Net)	847,399	452,020
TOTAL ASSETS	\$ 885,944	\$ 510,671
LIABILITIES		
Bank Overdraft	\$ -	\$ 70,586
Accounts Payable	463,214	205,759
Accrued Interest	622,410	297,073
Retainage Payable	1,608	110,062
Notes Payable (Net)	3,408,175	3,408,175
TOTAL LIABILITIES	4,495,407	4,091,655
FUND BALANCES		
Unassigned	(3,609,463)	(3,580,984)
TOTAL FUND BALANCE	(3,609,463)	(3,580,984)
TOTAL LIABILITIES AND FUND BALANCE	\$ 885,944	\$ 510,671

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
RECONCILIATION OF GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2019 AND 2018

	2019	2018
GOVERNMENTAL FUND BALANCE	\$ (3,609,463)	\$ (3,580,984)
<p>Amounts reported for governmental activities in the statements of net position are different because:</p> <p>Long-term receivables applicable to the governmental activities are not due and receivable in the current year and, accordingly, are not reported as fund assets.</p>		
Notes Receivable (Net)	864,121	899,114
Other Receivables	44,482	44,482
Property Held for Development	813,926	976,228
<p>Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Capital assets net of accumulated depreciation, as detailed in the footnotes, are included in the government-wide statements of net position.</p>		
	155	428
<p>Long-term liabilities applicable to the governmental activities are not reported as fund liabilities.</p>		
Notes Payable (Net)	(4,155,572)	(3,880,835)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (6,042,351)	\$ (5,541,567)

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUND
YEARS ENDED JUNE 30, 2019 AND 2018

	General Fund	
	2019	2018
REVENUES		
Sales Revenue	\$ 821,077	\$ 487,785
Grants	468,192	1,341,008
Contributions	99,094	182,990
Receipt of Grant Repayments	34,993	68,163
TOTAL REVENUES	1,423,356	2,079,946
EXPENDITURES		
Cost of Sales and Project Subsidies	566,158	2,882,170
Property Demolition	346,458	269,067
Cancelled Pledge	-	400,000
City Employee Housing Assistance Program	56,000	49,868
Other Program Expenses	432,619	446,466
Debt Service		
Principal	-	260,312
Interest	325,337	234,669
TOTAL EXPENDITURES	1,726,572	4,542,552
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(303,216)	(2,462,606)
OTHER FINANCING SOURCES (USES)		
Loans Payable Draws	274,737	-
Loans Payable Due	-	(2,760,303)
Loans Payable NSP	-	336,124
TOTAL OTHER FINANCING SOURCES	274,737	(2,424,179)
NET CHANGE IN FUND BALANCE	(28,479)	(4,886,785)
FUND BALANCE - Beginning of Year	(3,580,984)	1,305,801
FUND BALANCE - End of Year	\$ (3,609,463)	\$ (3,580,984)

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
RECONCILIATION OF NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND
TO CHANGES IN NET POSITION - GOVERNMENTAL ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ (28,479)	\$ (4,886,785)
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>		
<p>The governmental fund reports loans to homeowners as expenditures and collections as revenues. The statements of activities report these long-term loans as receivables.</p>		
Receipt of Repayments	(34,993)	(68,163)
Bad Debt Expense	-	(333,869)
<p>The governmental fund reports capital outlays as expenditures. However, in the statements of activities, assets are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Depreciation Expense	(273)	(275)
<p>The governmental fund reports outlays for properties held for long-term development as expenditures. However in the government-wide statements of net position these amounts are reported as the cost of assets held for development, net of a subsidy allowance</p>		
Net Change in Properties Held for Long-Term Development	(162,302)	(2,365,798)
<p>The issuance of long-term debt provides current resources to governmental funds, while the repayment of principal consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net position.</p>		
Proceeds of Debt	(274,737)	(336,124)
Matured Long-Term Debt	-	2,760,303
Principal Payments on Debt	-	260,312
	(472,305)	(83,614)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (500,784)	\$ (4,970,399)

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: NATURE OF ACTIVITIES

Organization and Nature of Activities - Wilmington Housing Partnership Corporation (Corporation) is a nonprofit organization formed to assist residents of the City of Wilmington, Delaware (City) in obtaining affordable housing. The Corporation collaborates with select private, nonprofit, and government entities to increase the City's affordable housing stock by promoting renovation and rehabilitation of existing homes and limited construction of new homes in strategically selected areas. The Corporation carries out its mission by acting as the developer of properties or by providing loans or subsidies to other developers. The Corporation is a separate legal entity from the City. The Corporation operates under the authority of its board of directors, which is appointed by the Mayor.

The Corporation became a blended component unit of the City in fiscal year 2018 and is considered a governmental entity for financial reporting purposes (Note 13). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. During fiscal year 2018, the Corporation elected to present its financial statements using GASB's governmental fund accounting and financial reporting model.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity.

Basis of Presentation - The Corporation accounts for its operations as a governmental activity in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The governmental activities financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Corporation defines the length of time used for "available" (for purposes of revenue recognition in the governmental fund financial statements) to be 60 days. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenses are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on long-term debt, claims and judgments, and compensated absences are recognized to the extent they have matured. Proceeds from long-term debt are reported as an other financing source.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Allowance for Uncollectible Accounts - 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.

Property Held for Development - Property held for development is carried at cost less a subsidy allowance. Cost includes initial acquisition and subsequent costs to develop the property. The subsidy allowance is determined by evaluating the current costs, future expected costs, and future expected proceeds from disposal of 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 statements of financial position as a subsidy allowance to the costs incurred. During fiscal year 2018, due to financial constraints, the Corporation scaled back its acquisition and development activities. The Corporation is concentrating on completing projects that are currently in process and selling undeveloped properties to others to develop. Accrued subsidies as of June 30, 2019 and 2018 were \$5,727,483 and \$7,064,037, respectively.

At times, properties are acquired with no current plans for development. These properties are carried at cost without a subsidy allowance. The cost to maintain these properties is expensed in the period incurred.

Interest Income on Notes Receivable - Interest income on notes receivable is recognized on an accrual basis at the interest rates disclosed in Note 6. However, due to the past due nature of the notes receivable portfolio, the Corporation established a reserve for uncollectible accounts for accrued interest.

Capital Assets - Property and equipment are initially recorded at cost and reported net of accumulated depreciation. 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.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributed Use of Facilities - The Corporation utilizes offices of the City to conduct its activities. The City does not charge a fee for occupancy of the office and does not allocate cost to the Corporation for the use of office administrative staff or equipment. The estimated value of contributed use of facilities in the statements of activities is presented as a component of revenue and expenses based on this estimated value.

Restricted Assets - When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements.

Government-wide Net Position - Government-wide net position is divided into three components:

- Net investment in capital assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position - consists of assets that are restricted by the Corporation's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other net position is reported in this category.

Governmental Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of the Corporation's bylaws, city, state, or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by the board of directors.
- Assigned - Amounts that are designated for a specific purpose but do not meet the criteria to be classified as restricted or committed.

Income Tax - The Corporation is a nonprofit organization that is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). 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).

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Tax - Continued

Income not related to the Corporation's tax-exempt purpose may be subject to taxation as unrelated business income. Accounting principles generally accepted in the United States of America impose a threshold for determining when an income tax benefit can be recognized in regard to uncertain tax positions. The Corporation has determined that no liability for uncertain tax positions is required to be accrued and included in the statements of financial position as of June 30, 2019 and 2018.

The Corporation's federal Forms 990 for the years ended June 30, 2016, 2017, and 2018 are subject to examination by the IRS, generally for three years after they were filed.

Subsequent Events - The Corporation's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

NOTE 3: 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. As of June 30, 2019 and 2018, all accounts were fully insured.

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 4: CONCENTRATIONS

Major Contributors - The Corporation received 42% and 77% of its total revenues from grants and contributions for the years ended June 30, 2019 and 2018, respectively. Of the grant and contribution amounts, 96% and 89% were received from the City of Wilmington, the primary government, for the years ended June 30, 2019 and 2018, respectively.

NOTE 5: PLEDGES RECEIVABLE

As of June 30, 2019 and 2018, pledges receivable consisted of grants from private donors recognized during the fiscal year in which the proceeds were received subsequent to the fiscal year end. Pledges receivable as of June 30, 2019 and 2018 were \$0 and \$25,000, respectively, and were due within one year and, therefore, did not require a

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 5: PLEDGES RECEIVABLE - CONTINUED

discount to present value. A \$400,000 pledge that was receivable as of June 30, 2017 was subsequently cancelled by the donor. The write-down was recognized in fiscal year 2018.

NOTE 6: NOTES RECEIVABLE

Notes receivable consisted of the following as of June 30:

	2019	2018
<i>Cameo Enterprises</i> - Interest at 4% for 30 years, secured by property.	\$ 66,125	\$ 66,125
<i>Bethel Villa Associates, L.P.</i> - \$187,000 loan for property taxes, payable in ten annual installments beginning a year after permanent financing was obtained (October 2010). The note is non-interest-bearing and is secured by a mortgage and all tangible property of the project.	37,400	56,100
<i>Low Income and Down Payment Settlement Assistance Loans (LIDPSA/DPSA)</i> - 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.	1,306,239	1,322,832
<i>Buyers of the Individual Units of the ALMAC Project</i> - 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
<i>Buyers of WHDC Projects, Collateralized by Subordinated Liens on the Properties</i> - 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.	131,105	131,105
Total Notes Receivable	\$ 1,676,744	\$ 1,712,037

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 6: NOTES RECEIVABLE - CONTINUED

Notes receivable are presented in the statements of financial position net of an allowance for estimated uncollectible accounts. The allowance for estimated uncollectible notes receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Total Notes Receivable	<u>\$ 1,676,744</u>	<u>\$ 1,712,037</u>
Allowance for Uncollectible Accounts as of June 30		
Cameo Enterprises	66,125	66,125
LIDPSA/DPSA	479,518	479,818
Buyers of the Individual Units of the ALMAC Project	135,875	135,875
Buyers of WHDC Projects	<u>131,105</u>	<u>131,105</u>
Total Allowance for Uncollectible Accounts	<u>812,623</u>	<u>812,923</u>
Notes Receivable - Net of Allowance	<u><u>\$ 864,121</u></u>	<u><u>\$ 899,114</u></u>

NOTE 7: ADVANCES RECEIVABLE

The Corporation has entered into an agency agreement 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 as of June 30:

<u>Agency or Project Name</u>	<u>2019</u>	<u>2018</u>
Christina Overlook	\$ 43,222	\$ 43,222
Other	<u>1,260</u>	<u>1,260</u>
Advances	<u><u>\$ 44,482</u></u>	<u><u>\$ 44,482</u></u>

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 8: PROPERTY HELD FOR DEVELOPMENT

Property held for development consisted of the following:

	<u>Capitalized Costs</u>	<u>Subsidy Allowance</u>	<u>Net Carrying Value</u>	<u>Number of Units</u>
As of June 30, 2019				
Currently Being Developed	\$ 3,645,627	\$ (2,798,228)	\$ 847,399	19
Plans to Develop	-	-	-	-
No Planned Development	<u>3,743,181</u>	<u>(2,929,255)</u>	<u>813,926</u>	<u>95</u>
	<u>\$ 7,388,808</u>	<u>\$ (5,727,483)</u>	<u>\$ 1,661,325</u>	<u>114</u>
As of June 30, 2018				
Currently Being Developed	\$ 3,285,534	\$ (2,833,514)	\$ 452,020	19
Plans to Develop	40,334	(20,057)	20,277	3
No Planned Development	<u>5,166,417</u>	<u>(4,210,466)</u>	<u>955,951</u>	<u>121</u>
	<u>\$ 8,492,285</u>	<u>\$ (7,064,037)</u>	<u>\$ 1,428,248</u>	<u>143</u>

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.

Net real estate activity as presented in the statements of activities consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Number of Units Sold During the Year	<u>33</u>	<u>15</u>
Proceeds From Sales Revenue	\$ 821,077	\$ 487,785
Cost of Units Sold During the Year	<u>(1,955,826)</u>	<u>(1,461,962)</u>
Gross Profit (Loss) on Sales	(1,134,749)	(974,177)
Change in Accrued Subsidies on All Units	<u>1,227,368</u>	<u>(3,786,006)</u>
Total Real Estate Activity - Net	<u>\$ 92,619</u>	<u>\$ (4,760,183)</u>

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 9: CAPITAL ASSETS

Capital assets consisted of the following as of June 30:

	2019	2018
Furniture and Fixtures	\$ 22,180	\$ 22,180
Less: Accumulated Depreciation	(22,025)	(21,752)
	\$ 155	\$ 428

NOTE 10: NOTES PAYABLE

The following is a summary of debt transactions for the Corporation for the years ended June 30, 2019 and 2018:

Lender	Balance June 30, 2017	Additions/ Reductions	Balance June 30, 2018	Additions/ Reductions	Balance June 30, 2019
City of Wilmington (JP Morgan Chase Pass Through)	\$ 3,378,372	\$ -	\$ 3,378,372	\$ -	\$ 3,378,372
City of Wilmington (Bennett St. Demolition)	60,000	-	60,000	-	60,000
City of Wilmington (Housing Strategic Fund)	-	-	-	274,737	274,737
Barclays Bank	2,760,303	50,000	2,810,303	-	2,810,303
Wilmington UDAG Corp.	-	500,000	500,000	-	500,000
	\$ 6,198,675	\$ 550,000	\$ 6,748,675	\$ 274,737	\$ 7,023,412

Loan Payable to the City - The Corporation has an unsecured loan with the City allowing the Corporation to borrow up to \$3,378,372 for the purchase of properties to be rehabilitated and sold. The interest rate for this loan is determined by the rate the City paid on its loan from J.P. Morgan Chase, the proceeds of which were passed through to the Corporation. The rates were equal to the adjusted London Interbank Offered Rate (LIBOR) for the period in effect, plus 1.25%. As of June 30, 2019 and 2018, the interest rates were 3.65% and 3.25%, respectively. Interest payments are due quarterly and principal payments are due only when properties for which the loans were created are sold. The loan matured on September 30, 2016 and was renewed through September 30, 2019. The Corporation stopped making payments on the loan during fiscal year 2019. The balance on this loan was \$3,378,372 as of June 30, 2019 and 2018.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 10: NOTES PAYABLE - CONTINUED

Advances from the City - The Corporation has an unsecured loan with the City for \$60,000 to assist with the demolitions on the 800 block and the 1000 block of Bennett Street, Wilmington. The loan has a zero percent interest rate and matured on September 30, 2017.

Mortgage with the City of Wilmington, Delaware - On November 27, 2018, the Corporation entered a \$274,737 mortgage bearing interest at 3% per annum. The Corporation granted the City security interest in various parcels. Repayment including accrued interest is due on November 27, 2038. The mortgage balance as June 30, 2019 and 2018 was \$274,737 and \$0, respectively.

Forbearance Agreement with the City - On October 3, 2019, The City and the Corporation entered into a forbearance agreement whereby for a period of eighteen months from the effective date, the City will forbear from exercising any of its rights and remedies arising from the Corporation's loan obligations or other obligations for fees and utilities to allow the Corporation time to complete housing projects in process.

Mortgage with Wilmington UDAG Corporation - On April 30, 2018, the Corporation entered a \$500,000 mortgage bearing interest at 3% per annum to complete construction on projects located at 802, 804, 806, 808, 810, 812, 814 Bennett Street and pay other expenses. The rate of interest is 12% per annum in the event of default. The Corporation granted Wilmington UDAG Corporation a security interest in the related parcels. Repayment was required upon the sale of any of the related parcels or the receipt of related grant funds from Delaware State Housing Authority and J.P. Morgan Chase, with the remaining balance including accrued interest, due on December 31, 2018. As of June 30, 2019, the Corporation was in default with the terms of the mortgage. The mortgage balance as of June 30, 2019 and 2018 was \$500,000.

Loans Payable to Barclays Bank - The Corporation has five credit agreements with Barclays Bank. Proceeds from the agreements were used for the purchase and/or renovation of properties to be sold to eligible program participants. Each agreement bears interest at the Federal Funds Rate plus 200 basis points. At no time will the fixed rate exceed 10%. Interest accrues monthly. The agreements are collateralized by the properties which the proceeds were used to develop. The Corporation was not able to repay the loans at their maturity dates, was in default with the terms of the loans, and was renegotiating its terms with the bank as of June 30, 2019.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 10: LOANS PAYABLE - CONTINUED

Additional details for the credit agreements with Barclays Bank are as follows:

Face Amount of Loan	Maturity Date	Balance Due as of June 30, 2018	Balance Due as of June 30, 2019
\$ 800,000	July 2018	\$ 800,000	\$ 800,000
235,000	February 2019	100,000	100,000
1,035,000	February 2019	1,035,000	1,035,000
1,100,000	February 2019	825,303	825,303
<u>50,000</u>	February 2019	<u>50,000</u>	<u>50,000</u>
<u>\$ 3,220,000</u>		<u>\$ 2,810,303</u>	<u>\$ 2,810,303</u>

As of June 30, 2019, future principal maturities of loans payable were as follows:

For the Years Ending June 30	
2020	\$ 3,310,304
2021	3,438,371
2022	-
2023	-
2024	-
Thereafter	<u>274,737</u>
	<u>\$ 7,023,412</u>

Interest expense was \$325,337 and \$234,669 for the years ended June 30, 2019 and 2018, respectively.

During the year ended June 30, 2019, the Corporation defaulted on \$3,310,303 of notes payable due to Barclays Bank and UDAG, which are included in the 2020 loan maturities.

NOTE 11: NEIGHBORHOOD STABILIZATION PROGRAM ADVANCES

The Corporation received funding from the City in the form of loans for its federal Neighborhood Stabilization Program (NSP). These loans are for the construction of homes on parcels at 523/527/529 Vandever Avenue, 607 E. 7th Street, 907 N. Church Street, 404 W. 30th Street, 1332 W. 5th Street, 406 W. 30th Street, and 706 Kirkwood Street, in Wilmington, Delaware. Under the terms of the loans, the Corporation is required to rehabilitate the properties for use as low-income, owner-occupied housing.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 11: NEIGHBORHOOD STABILIZATION PROGRAM ADVANCES - CONTINUED

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.

Upon sale of a home to a qualified buyer, the loan obligation matures. At maturity, the City may require repayment of the loan up to an amount equal to the proceeds received by the Corporation upon sale of the property. Amounts not required to be repaid to the City are reported as grants in the statements of activities when the property is sold.

During the years ended June 30, 2019 and 2018, the Corporation renovated and drew on the loans related to the properties noted above. As of both June 30, 2019 and 2018, the total outstanding balance of neighborhood stabilization program advances from the City was \$540,335. During the years ended June 30, 2019 and 2018, home sales resulted in loan proceeds converting to grant revenue in the amounts of \$2,285 and \$210,495, respectively. During the years ended June 30, 2019 and 2018, repayments were made to the City of Wilmington in the amounts of \$0 and \$260,312, respectively. On April 21, 2017, the Corporation sold 607 E. 7th St., which was an NSP property with a city mortgage. Proceeds of the sale were not repaid to the City but were paid to the Corporation and were subsequently spent on operations. The Corporation could not repay the funds to the City, and the \$97,871 advance remains outstanding. The Corporation has given the City a mortgage on another property as security. Proceeds from the future sale of the property will be used to repay the advance.

NOTE 12: COMMITMENTS AND CONTINGENCIES

The Corporation has various contracts 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 workers' compensation, 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.

WILMINGTON HOUSING PARTNERSHIP CORPORATION
(A COMPONENT UNIT OF THE CITY OF WILMINGTON, DELAWARE)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 13: CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2017 and prior years, the Corporation was considered a related organization of the City. It did not meet the requirements to be considered a component unit of the City. The Corporation's financial statements were presented in accordance with the standards promulgated by the Financial Accounting Standards Board (FASB). During the years ended June 30, 2019 and 2018, the Corporation experienced difficulties meeting its financial obligations. During the year ended June 30, 2019, City officials became a majority of the Corporation's board of directors and the City assumed certain of the Corporation's liabilities. These changes in the board control and the assumption of certain liabilities by the City resulted in the Corporation meeting the requirements to be reported as a blended component unit of the City.

As a blended component unit of the City, the Corporation is a governmental entity for financial reporting purposes. The Governmental Accounting Standards Board (GASB) is the accepted standard setting-body for establishing governmental accounting and financial reporting principles. For the years ended June 30, 2019 and 2018, the Corporation has presented its financial statements using GASB's governmental fund accounting and financial reporting model. The implementation of GASBS No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, was completed retroactively.

The following change, to properly account for loan origination fees, was required:

	<u>As Previously Reported</u>	<u>As Restated</u>	<u>Change</u>
As of June 30, 2017			
Loan Origination Fees - Net	\$ 45,242	\$ -	\$ (45,242)
Total Assets	6,573,614	6,528,372	(45,242)
Net Position	(525,927)	(571,169)	(45,242)