

34 pages.

WILMINGTON HOUSING
PARTNERSHIP CORPORATION
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2012 and 2011

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
BALANCE SHEETS	17
STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN FUND NET ASSETS	18
STATEMENTS OF CASH FLOWS	19
NOTES TO FINANCIAL STATEMENTS	21
SUPPLEMENTARY INFORMATION	
SCHEDULES OF PROJECT CONTRIBUTIONS	30
SCHEDULES OF PROGRAM ADMINISTRATIVE EXPENSES	31
OTHER REPORT	
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 <i>GOVERNMENT AUDITING STANDARDS</i>	33



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Wilmington Housing Partnership Corporation (the Corporation) as of June 30, 2012 and 2011, and the related statements of revenue, expenses and change in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of Wilmington Housing Partnership Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wilmington Housing Partnership Corporation as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2012 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 this 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Wilmington Housing Partnership Corporation

Management's Discussion and Analysis on pages 5 through 16 is not a required part of the basic financial statements but is information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required information. However, we did not audit this information and express no opinion on it.



November 20, 2012
Wilmington, Delaware

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Wilmington Housing Partnership Corporation (WHPartnership) is providing a Management's Discussion and Analysis (MD&A) for the fiscal year ended June 30, 2012 that gives an overview and analysis of the financial activities of WHPartnership for the year. It is designed to:

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

Mission Statement: The Mission of the WHPartnership 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 WHPartnership—A 501(c)(3) Organization: The WHPartnership 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, to stabilize neighborhoods, increase housing values and reduce blight in the City. WHPartnership is a separate entity from the City, as well as from the Wilmington Housing Authority. It has its own staff, funding, a board of directors, financial accountability systems and record keeping processes. WHPartnership 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, WHPartnership 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. WHPartnership also funds other housing-related activities—pre-development activities (architectural, engineering, appraisals and environmental remediation), marketing and settlement assistance (depending upon market conditions). On occasion, WHPartnership assembles a significant number of vacant properties which are then used for large housing development projects. When owning property before or during development, WHPartnership provides property management (boarding, securing, cleaning, grass cutting, snow removal, environmental clean-up and emergency repair).

WHPartnership focuses on communities of need which exhibit blight, low homeownership rates, depressed housing values and numerous vacancies. The goal of WHPartnership 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 sale price of a property. Gap subsidies generally are not recoverable. They 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, WHPartnership presents its MD&A for the fiscal year ended June 30, 2012. It is to be read in conjunction with WHPartnership's statements, beginning on page 17.

Financial Highlights:

During fiscal year 2012, WHPartnership continued its work under six related activities:

- Year 3 of WHPartnership's second 5-year RISE (Residential Improvement and Stabilization Effort) initiative.
- NSP (Neighborhood Stabilization Program).
- Working on scattered-site rehab housing projects.
- The stimulation of income diverse projects in RISE areas.
- Related maintenance of property inventory.
- Eastside Neighborhood 5 – 10 year investment plan

Fiscal year 2012 progress on each activity was as follows:

I. **RISE (Residential Improvement and Stabilization Effort) Initiative:** WHPartnership established RISE during fiscal year 2004 with the 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 WHPartnership's second 5-year RISE program. Fiscal year 2012 marked the third 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 2012, RISE activities included the following:

- Acquired 4 properties.
- Completed 5 newly constructed LEED Silver Certified homes in Northeast Wilmington.
- Completed 7 newly constructed homes in Browntown
- Rehabbed 1 market rate home.
- Started preconstruction work of 2 new projects that will yield 8 homeownership opportunities in a RISE area.
- Sold 16 units.
- Partnered with JPMorgan Chase and the City of Wilmington to develop a 5 – 10 year investment plan for Wilmington's the Eastside neighborhood.

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 '10
Browntown - Hedgeville	81	40
Eastside	15	2
Northeast	72	9
Southbridge	19	-
West Center City	38	1
Westside	84	1
Total	309	53

Working as a developer or with partners, the following were highlights of fiscal year 2012 RISE activities:

- The results of our RISE program are as follows: had 95 affordable RISE units at the end of fiscal year 2012, down 20 units from last year, sold 16 units, had 9 on the market, 55 units in production and 7 in planning stages.
- Committed \$17,365,000 to the 303 units. = 19,801, 36??
- Leveraged \$36,724,000 in mortgage financing. = 37,673,326??
- Received approximately \$190,000 in City of Wilmington strategic funds to rehab a town home in Wilmington's Midtown Brandywine neighborhood. This property is completed and currently on the market for sale.
- Completed construction on our first LEED certified project. The project consists of 5 newly constructed townhomes that feature geo-thermal heating systems, high energy appliances and permeable pavers. Through the end of fiscal year 2012, 2 units have been sold.
- Continued construction on our Brownstone project, a 7 unit townhome project, designed to mimic the brownstones of Brooklyn, New York. This project was 96% complete, with 1 unit sold at the end of fiscal year 2012.
- Acquired a 9 unit housing project from a local non-profit located in the Northeast section of Wilmington. During fiscal year 2012, 4 units were completed and sold and predevelopment of the remaining 5 commenced.
- Started predevelopment work on a 4 unit project located in Westside neighborhood where 5 homes exploded and the family was displaced.
- Acquisition of 2 large corner properties in Wilmington's historic Eastside that are essential to a revitalization plan for this area.
- While working with JPMorgan Chase, the City of Wilmington and a Historic Planner launched a neighborhood study to develop a strategic plan for revitalization of the Eastside.

II. **Income Diverse Projects:** While developing affordable homes is WHPartnership’s primary goal, its mission includes creating income diversity in City neighborhoods. Accordingly, WHPartnership 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—stimulating further buying interest in the community at large, creating a link between a former “at risk” neighborhood and a stable one, and eliminating the artificial barrier between them. WHPartnership 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 projects as homes are completed and sold. The resulting developments impact housing values for all of the homeowners and further stabilize neighborhoods. WHPartnership’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. WHPartnership purchased abandoned and blighted properties in fiscal years 2006 and 2007, and several small lots were transferred by the City in fiscal year 2007. The site is advertised for development for 33 market rate homes. To date, WHPartnership has done the following:

- 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.
- Contracted with a local developer.
- 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 License and Inspections.
- Developed a marketing brochure that incorporated the activities on the riverfront.
- Settled on the first eight parcels on the site
- As part of the contract, the developer started site work and infrastructure installation on the site.

2700 Baynard Boulevard Project. This was a large single unit project in Wilmington’s 9th Ward District. The area around this project featured large single homes on a tree lined block. The property was purchased by the City of Wilmington and conveyed to WHPartnership to develop. This home has 5 bedrooms, 3 and 1/2 baths, off street parking and a rear deck overlooking a large yard. This house was 95% complete at the end of fiscal year 2012 and on the market for \$374,900.

III. **Property Inventory:** WHPartnership's inventory increases as properties are acquired for development through arm's length transactions, Sheriff sales, or transfers from the City. The inventory decreases as WHPartnership directly develops and sells affordable housing units, makes properties available through RFPs or transfers them to other developers. At the start of fiscal year 2012, WHPartnership had 89 properties in inventory. At the end of fiscal year 2012, there were 84 properties, most associated with the projects in Browntown.

Looking Ahead to 2012

WHPartnership believes in its vision and strategy. In the coming year, it will retain its focus on rebuilding strong neighborhoods in the City of Wilmington. Through creative planning and selective collaborations, WHPartnership 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 WHPartnership'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 WHPartnership's operating and non-operating revenues, by major source along with operating expenses and capital contributions.
- Statement of Cash Flow reports WHPartnership's cash flows from operating, investing capital and non-capital activities.

Financial Statement

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

The Balance Sheet presents information on all WHPartnership 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 WHPartnership is improving or deteriorating.

The Financial Statements begin on page 17.

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 begin on page 21.

Financial Analysis

The following represents summarized balance sheets as of June 30:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 498,445	\$ 714,278
Non-current assets		
Capital assets	3,441	4,933
Other non-current assets	<u>3,721,398</u>	<u>3,693,194</u>
Total assets	<u>\$ 4,223,284</u>	<u>\$ 4,412,405</u>
Current liabilities	\$ 2,332,304	\$ 2,037,086
Net assets		
Invested in capital assets - net of related debt	3,441	4,933
Unrestricted	<u>1,887,539</u>	<u>2,370,386</u>
Total liabilities and net assets	<u>\$ 4,223,284</u>	<u>\$ 4,412,405</u>

At the end of fiscal year 2012, WHPartnership reported positive balances in all categories of net assets. WHPartnership's net assets decreased from fiscal 2011 to fiscal year 2012 by approximately \$480,000.

Assets

Current Assets

WHPartnership current assets decreased in fiscal year 2012 by approximately \$215,000 as a result of the following activities:

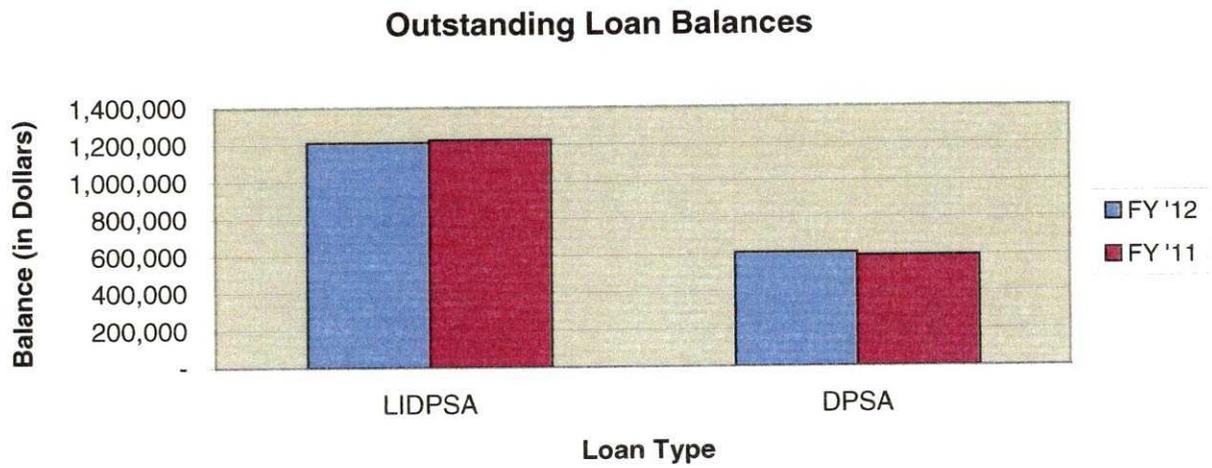
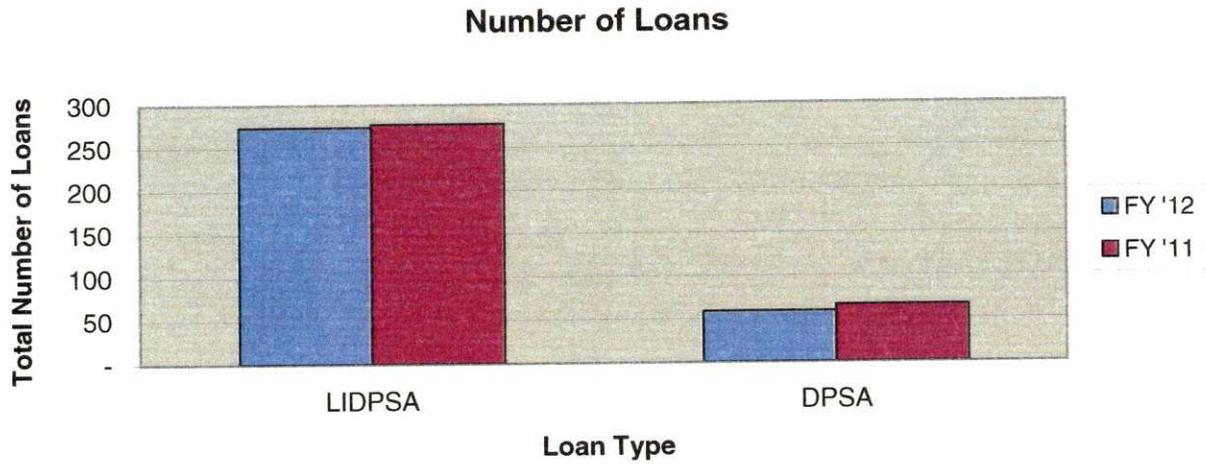
- Fiscal year 2012 saw an \$80,000 reduction in short-term pledges as the final payment from M&T and DSHA pledges were received. Additionally, there was a reduction in grants receivable in the current year. The reduction in both of these categories is reflective of funding that was received for projects in development that were realized in fiscal year 2011.
- You can find a list of contributors on page 27.

Non-Current Assets

WHPartnership non-current assets increased by approximately \$26,000 from fiscal year 2011 to fiscal year 2012 due to the following:

- The continued development of the Browntown project in fiscal year 2012 directly resulted in an increase in this asset. This project was 95% complete at the end of fiscal year 2012.
- The acquisition of four new rehab projects and one new construction project (Zanthia Way) effectively increased non-current assets.
- WHPartnership's portfolio of down payment (LIDPSA/DPSA) loans accumulated through the years. The loan portfolio was reduced by approximately \$15,000 in fiscal year 2012 due to the repayment of 5 LIDPSA/DPSA loans. At the end of fiscal year 2012, the loan portfolio consisted of 274 low-income loans at 0% interest and 59 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.
- The ongoing collection of pledges receivable.

LIDPSA/DPSA Loans



Liabilities

Liabilities have increased by approximately \$295,000 from fiscal year 2011 to fiscal year 2012 as a result of the following activities:

- Accounts payable decreased by approximately \$160,000 from fiscal year 2011 to fiscal year 2012. This decrease is representative of timing differences between expenses incurred during fiscal year-end and the actual payments made for construction costs associated with various projects.
- Loans payable increased approximately \$397,000 from fiscal year 2011 to fiscal year 2012. This increase was due to the funding of Neighborhood Stabilization Funds used to cover acquisition and construction cost of various projects. The funding is treated as a loan, as required by the City of Wilmington, until the project is complete, at which time it converts to a grant. Also, WHPartnership has a line of credit, through the City of Wilmington, with JPMorgan Chase for the construction of the Healdmont project. This project was completed in fiscal year 2012. As these homes are sold, the proceeds are used to reduce the line of credit.
- Retainage payable increased by approximately \$58,000 in fiscal 2012 largely because of retainage associated with construction of the Healdmont and Brownstones at Christina Overlook projects.

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

	<u>2012</u>	<u>2011</u>
Total operating income (loss)	\$ 4,134	\$ (895,878)
Total operating expenses	488,473	584,745
Change in net assets	(484,339)	(1,480,623)
Total net assets – beginning	<u>2,375,319</u>	<u>3,855,942</u>
Total net assets – ending	<u>\$ 1,890,980</u>	<u>\$ 2,375,319</u>

Activities

As stated in the beginning of the MD&A, during fiscal year 2012 WHPartnership entered into year 3 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:



Activities (Continued)

- RISE Initiative: WHPartnership's RISE initiative remains a force of change in communities throughout the City of Wilmington. Working with local non-profits and private developers, WHPartnership 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 the City of Wilmington awarding WHPartnership a loan of approximately \$279,762 from the Neighborhood Stabilization Program (NSP) funds, \$414,357 in City strategic funds and \$618,000 in contributions from banks and foundations, WHPartnership is diligently working on its second 5-year RISE initiative. The goal of the 5-year RISE initiative is to raise \$7,500,000 in contributions to yield 150 homeowners units.
- Income Diversity Projects: The Christina Overlook project located in Browntown will be comprised of 33 market rate homes. The site has been subdivided, infrastructure plans have been approved and designs are in place. WHPartnership has executed the contract with the builder and settled on the first 8 parcels to be developed by a for-profit developer. These units are slated to be complete by late January 2013. This project complements WHPartnership's Brownstones at Christina Overlook, a 7-unit affordable townhome project, located directly across the street. This will have tremendous, positive impact on the Browntown RISE neighborhood.

A large single family home that was vacant for over seven years, located at 2700 Baynard Boulevard, was purchased by the City of Wilmington and conveyed to the WHPartnership to develop. Restoration of this home was very important to this stable community located in Wilmington's 9th Ward District. Rehabilitation of this property was performed by a minority contractor and on the market prior to completion. This home was 95% complete at the end of fiscal year 2012 and on the market for \$374,900.

- Property Management of Inventory: WHPartnership'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.

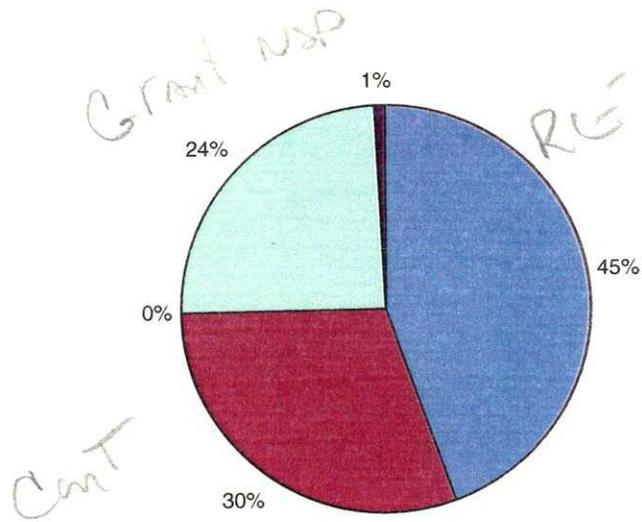
Contributions

In fiscal year 2012, WHPartnership received approximately \$963,000 in contributions and pledge payments from various organizations. The list of contributors is noted on page 27.

Revenues

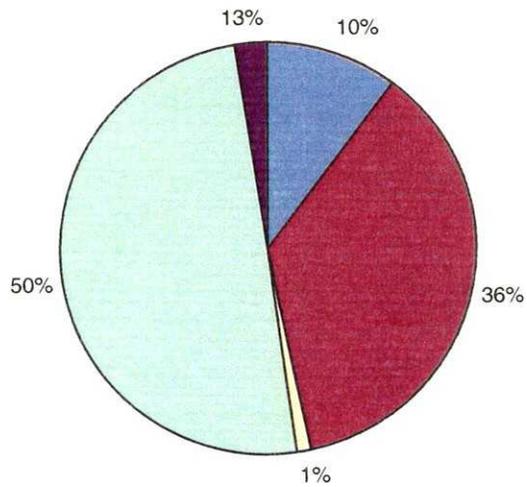
As indicated by the chart that follows, in fiscal, year 2012 sales revenue contributed to the majority of WHPartnership's revenue, accounting for 45% of the revenue compared to 11% in fiscal year 2011. Contributions from funders increased slightly and made up 32% of the revenue. Fiscal year 2012 saw a major reduction in federal CDBG/HOME funds as the City of Wilmington's allocation was largely expended in fiscal year 2011, with WHPartnership administering some of those funds. In fiscal year 2012, the City of Wilmington awarded WHPartnership \$279,762 in Neighborhood Stabilization Funds, although these funds will not be recognized as a contribution until the projects being subsidized with these funds are sold. As a result, WHPartnership saw a large reduction in NSP revenue in fiscal year 2012.

2012 Revenue



- Real Estate Sales
- Contributions
- Equity Sharing Income
- Grants
- Misc Income

2011 Revenue



- Real Estate Sales
- Contributions
- Equity Sharing Income
- Grants
- Misc Income

Operating Budget

WHPartnership had a fiscal year 2012 operating budget of \$416,178. Overall, in fiscal year 2012, WHPartnership spent 84% of its operating budget, or \$350,161. Expenses directly attributable to various projects are not considered part of the operating budget. Staffing, office expenses and outside expenses were the major contributors to the overall budget. Budget and actual operating expenses for the fiscal year 2012 were as follows:

<u>Expenses</u>	<u>2012 Budget</u>	<u>2012 Actual</u>	<u>Actual as % of Budget</u>
Outside expenses	\$ 39,650	\$ 33,918	86%
Office expenses	17,990	15,511	86%
Other expenses	22,795	13,191	58%
Marketing	19,350	14,565	75%
Staffing	316,393	272,976	86%
Total	<u>\$ 416,178</u>	<u>\$ 350,161</u>	<u>84%</u>

Through diligent analysis and planning, WHPartnership's operating expenses have come in under budget in fiscal year 2012.

Economic Factors and Next Year's Budget

Based on fiscal year 2011 spending and in light of the continuing volatile economic environment, the Finance Committee and the Board of Directors have set the fiscal year 2012 budget for WHPartnership at \$416,178. WHPartnership has a history of efficiently handling operating expenses related to production.

Requests for Information

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

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION

BALANCE SHEETS

June 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 248,445	\$ 216,830
Grant receivable	-	167,448
Pledges receivable	<u>250,000</u>	<u>330,000</u>
Total current assets	498,445	714,278
NON-CURRENT ASSETS		
Notes receivable – net	1,741,392	1,756,149
Live-Work receivable	-	5,000
Pledges receivable – net	125,256	469,713
Advances receivable – net	22,150	22,150
Property held for development – net	1,832,600	1,440,182
Capital assets – net	<u>3,441</u>	<u>4,933</u>
Total non-current assets	<u>3,724,839</u>	<u>3,698,127</u>
TOTAL ASSETS	<u>\$ 4,223,284</u>	<u>\$ 4,412,405</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 69,462	\$ 228,841
Retainage payable	183,080	124,825
Loans payable	<u>2,079,762</u>	<u>1,683,420</u>
Total current liabilities	2,332,304	2,037,086
NET ASSETS		
Invested in capital assets – net of related debt	3,441	4,933
Unrestricted	<u>1,887,539</u>	<u>2,370,386</u>
Total net assets	<u>1,890,980</u>	<u>2,375,319</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,223,284</u>	<u>\$ 4,412,405</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE		
Real estate sales		
Sales revenue	\$ 850,127	\$ 146,666
Income from equity sharing sales	-	13,831
Cost of sales and accrued subsidies	<u>(1,911,809)</u>	<u>(2,179,896)</u>
Total real estate sales – net	<u>(1,061,682)</u>	<u>(2,019,399)</u>
Other revenue		
Contributions	583,881	513,417
Grants	466,107	573,403
Interest income	-	-
Miscellaneous income	<u>15,828</u>	<u>36,701</u>
Total other revenue	<u>1,065,816</u>	<u>1,123,521</u>
Net operating income (loss)	4,134	(895,878)
OPERATING EXPENSE		
Property acquisition and demolition	33,834	54,569
Project contributions	47,338	21,389
Program administrative expenses	407,301	441,447
Bad debt expense	<u>-</u>	<u>67,340</u>
Total operating expenses	<u>488,473</u>	<u>584,745</u>
Change in net assets	(484,339)	(1,480,623)
Net assets – beginning of year	<u>2,375,319</u>	<u>3,855,942</u>
Net assets – end of year	<u>\$ 1,890,980</u>	<u>\$ 2,375,319</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from real estate sales	\$ 850,127	\$ 146,666
Proceeds from equity sharing	-	13,831
Cash received from contributions	1,008,338	855,346
Collections on notes receivable	14,757	95,785
Cash received from grants	466,107	573,403
Cash received from other operating revenue	20,828	36,701
Additions to property held for development	(2,078,524)	(2,239,156)
Cash paid to suppliers	(390,693)	(175,675)
Cash paid for employee salaries	(254,757)	(275,294)
Interest received	<u>-</u>	<u>-</u>
Net cash utilized by operating activities	(363,817)	(968,393)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Fixed asset additions	<u>(910)</u>	<u>(1,150)</u>
Net cash utilized by capital and related financing activities	(910)	(1,150)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from loan payable to City of Wilmington	<u>396,342</u>	<u>1,111,732</u>
Net cash provided by non-capital financing activities	<u>396,342</u>	<u>1,111,732</u>
Net increase in cash and cash equivalents	31,615	142,189
Cash and cash equivalents – beginning of year	<u>216,830</u>	<u>74,641</u>
Cash and cash equivalents – end of year	<u>\$ 248,445</u>	<u>\$ 216,830</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH UTILIZED BY OPERATING ACTIVITIES		
Change in net assets	\$ (484,339)	\$ (1,480,623)
Adjustments to reconcile change in net assets to net cash utilized by operating activities		
Depreciation expense	2,402	2,575
Decrease (increase) in assets		
Grant receivable	167,448	-
Notes receivable	14,757	95,785
Live-Work receivable	5,000	(5,000)
Pledges receivable	424,457	308,583
Property held for development	(392,418)	(2,041,305)
(Decrease) increase in liabilities		
Accounts payable	(159,379)	169,547
Retainage payable	58,255	83,399
Accrued subsidies on property held for development	-	1,898,646
Total adjustments	<u>120,522</u>	<u>512,230</u>
NET CASH UTILIZED BY OPERATING ACTIVITIES	<u>\$ (363,817)</u>	<u>\$ (968,393)</u>

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

WILMINGTON HOUSING PARTNERSHIP CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 (RSI) 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

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) secures bank accounts up to \$250,000 per depositor. At June 30, 2012 and 2011, the amount uninsured was \$0 and \$53,137, respectively.

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.

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

6. Property Held for Development

Property held for development is carried at cost less a subsidy allowance. Cost includes initial acquisition and all subsequent 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, 2012 and 2011 were \$4,584,267 and \$4,463,849, respectively.

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 \$6,847 and \$10,770 for the years ended June 30, 2012 and 2011, respectively.

10. Subsequent Events

Wilmington Housing Partnership Corporation has evaluated subsequent events through November 20, 2012, the date the financial statements were available to be issued.

NOTE B – FINANCIAL INSTRUMENTS

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>2012</u>	<u>2011</u>
Wilmington Trust Company	\$ -	\$ 80,000
City of Wilmington	378,312	750,000
Less: unamortized discount (1.62% for 2012 and 3.18% for 2011)	<u>(3,056)</u>	<u>(30,287)</u>
Net pledges receivable	<u>\$ 375,256</u>	<u>\$ 799,713</u>
Amount due in less than one year	\$ 250,000	\$ 330,000
Amount due in one to five years	<u>125,256</u>	<u>469,713</u>
	<u>\$ 375,256</u>	<u>\$ 799,713</u>

NOTE D – NOTES RECEIVABLE

Notes receivable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Note receivable from Cameo Enterprises – interest at 4% for 30 years, secured by property.*	\$ 66,125	\$ 67,340
Note receivable from Bethel Villa Associates, L.P. – (\$300,000 original loan, \$187,000 loan for property taxes), non-interest bearing, balloon payment due May 30, 2014, secured by a mortgage and all tangible property of the project.	187,000	187,000

NOTE D – NOTES RECEIVABLE (CONTINUED)

	<u>2012</u>	<u>2011</u>
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.*	\$1,825,116	\$1,819,458
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 4 % to 7%, 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> 2,347,721	<u>133,605</u> 2,343,278
*Less: allowance for uncollectible amounts	<u>(606,329)</u>	<u>(587,129)</u>
	<u>\$1,741,392</u>	<u>\$1,756,149</u>

NOTE E – LIVE-WORK RECEIVABLE

During 2011, an employee of the Corporation purchased one of the properties that had been rehabilitated as part of its RISE initiative. As part of the Live-Work purchase program, the Corporation loaned funds to assist the employee with closing costs. Under terms of the agreement, the loan is forgiven provided the employee remains in the home for one year. During 2012, the one-year term had expired, and the loan was forgiven.

NOTE F – 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>2012</u>	<u>2011</u>
Cameo Enterprises	\$ <u>22,150</u>	\$ <u>22,150</u>

NOTE G – CAPITAL ASSETS

Capital assets consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ <u>29,727</u>	\$ <u>28,817</u>
Less: accumulated depreciation	<u>(26,286)</u>	<u>(23,884)</u>
	\$ <u>3,441</u>	\$ <u>4,933</u>

Depreciation expense charged to operations was \$2,402 and \$2,575 at June 30, 2012 and 2011, respectively.

NOTE H – LOANS PAYABLE – CITY OF WILMINGTON

The Corporation had an unsecured loan from the City of Wilmington allowing the Corporation to borrow up to \$1.6 million for the purchase of properties to be rehabilitated and sold. The interest rate for this loan was determined by the lender, but was equal to either the adjusted London interbank offered rate (Libor) for the period in effect plus one-quarter percent or the prime rate. Interest payments were made quarterly, and principal payments were due only when properties for which the loans were created were sold. The balance of this loan was \$0 at June 30, 2012 and 2011. The Corporation had no subsequent draws, and the loan matured and was fully repaid in November 2010.

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 Libor for the period in effect plus .70% or the prime rate. Interest payments are made quarterly, and principal payments are due only when properties for which the loans were created are sold. The loan matures on September 30, 2013, at which time any unpaid balance becomes due. The balance on this loan was \$1,800,000 and \$1,200,000 at June 30, 2012 and 2011, respectively.

NOTE H – LOANS PAYABLE – CITY OF WILMINGTON (CONTINUED)

In October 2009, the Corporation received a loan from the City of Wilmington in the amount of \$371,688, derived from Federal Neighborhood Stabilization Program Funds (NSP). This loan was for the purchase of an abandoned parcel comprised of 106 7th Avenue, 1315 Brown Street, and 1400 Anchorage 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 by January of 2011. 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 a grant. As of June 30, 2011, no units had been constructed, and the balance on the loan was \$371,688. During 2012, no units had been constructed, and, under the terms of the agreement, the loaned funds were returned to the City, and the balance on the loan was \$0 at June 30, 2012.

During 2011 and 2012, the Corporation received funding through the City of Wilmington in the form of a loan derived from Federal Neighborhood Stabilization Program Funds (NSP). 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 a grant. As of June 30, 2012 and 2011, no units had been constructed, and the balance on the loan was \$279,762 and \$111,732, respectively.

NOTE I – CONTRIBUTIONS

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

	2012	2011
Artisan’s Bank	\$ 2,000	\$ 2,000
Bank of America	75,000	75,000
City of Wilmington	300,000	-
Comenity Bank	10,000	
Delaware State Housing Authority	124,650	-
HSBC Bank	25,000	15,000
JPMorgan Chase	-	250,000
Laffey-McHugh Foundation	-	20,000
PNC Bank	20,000	-
Welfare Foundation	-	100,000
WSFS Bank	-	5,000
	<u>\$ 556,650</u>	<u>\$ 467,000</u>

NOTE J – GRANTS

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

	2012	2011
Federal HOME Funds	\$ -	\$ 220,345
Federal HOME Administrative Funds	-	35,625
Federal CDBG Funds	168,030	308,685
Federal CDBG ARRA Funds	-	16,125
City of Wilmington Strategic Funds	264,357	231,594
Delaware State Housing Authority	51,750	-
JPMorganChase – Study Funds	150,000	-
	<u>634,137</u>	<u>812,374</u>
Less: NSP loan funds (see NOTE H)	(168,030)	(111,732)
Less: City recapture (see NOTE H)	-	(127,239)
	<u>\$ 466,107</u>	<u>\$ 573,403</u>

NOTE K – INCOME FROM EQUITY SHARING

McCaulley Court properties were initially sold in 1998 with an agreement that the homeowner would owe the Corporation a proportionate share of the appreciated value if the initial purchaser sold the home within 10 years. During 2012 and 2011, initial homeowners who sold McCaulley Court properties were liable to the Corporation for varying amounts determined by their retention agreements. Amounts recognized as income from equity sharing sales were \$0 and \$13,831 at June 30, 2012 and 2011, respectively.

In 2005, the Corporation entered into an agreement with Habitat for Humanity for New Castle County, Inc. (Habitat) whereby the Corporation transferred property located on Bennett, Church and E. 7th streets to Habitat. Habitat will act as developer on this property. Upon the eventual sale of each house developed, the Corporation is due \$15,000. There were no amounts received during the years ended June 30, 2012 and 2011.

NOTE L – 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.

SUPPLEMENTARY INFORMATION

WILMINGTON HOUSING PARTNERSHIP CORPORATION

SCHEDULES OF PROJECT CONTRIBUTIONS

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Interfaith Community Housing	\$ 38,611	\$ 21,389
Greater Brandywine Village Revitalization	8,727	-
	<u>\$ 47,338</u>	<u>\$ 21,389</u>

WILMINGTON HOUSING PARTNERSHIP CORPORATION
 SCHEDULES OF PROGRAM ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Advertising	\$ 6,847	\$ 10,770
Consulting/promotion fees	90	26,023
Depreciation	2,402	2,575
Dues and subscriptions	1,915	3,367
Interest expense	2,373	-
Legal and accounting fees	59,624	43,990
Meetings	5,426	6,736
Office expense	14,157	6,028
Payroll expenses	50,417	54,845
Postage	46	123
Printing	14	32
Public relations	1,031	7,358
Salaries	254,757	275,294
Taxes and licenses	270	25
Training	1,306	1,707
Travel	<u>6,626</u>	<u>2,574</u>
 Total program administrative expenses	 <u>\$ 407,301</u>	 <u>\$ 441,447</u>

OTHER REPORT



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 the financial statements of the Wilmington Housing Partnership Corporation, as of and for the year ended June 30, 2012 and have issued our report thereon dated November 20, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Wilmington Housing Partnership Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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*.

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.



Robert J. Anderson, CPA

November 20, 2012
Wilmington, Delaware