

HULING COVE HOUSING CORPORATION

**FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORTS,
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2018 AND 2017

HULING COVE HOUSING CORPORATION
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Independent Auditors' Report

To the Board of Directors of
Huling Cove Housing Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Huling Cove Housing Corporation (Corporation) (a Delaware not-for-profit corporation which is a related organization of Delaware State Housing Authority), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the 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 auditors consider internal control relevant to the Corporation'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

To the Board of Directors of
Huling Cove Housing Corporation

expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huling Cove Housing Corporation as of June 30, 2018 and 2017, and the change in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying supplemental information shown on pages 28 through 40 is presented for the purposes of additional analysis as required by the Delaware State Housing Authority Audit Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures

To the Board of Directors of
Huling Cove Housing Corporation

applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 3, 2018, on our consideration of Huling Cove Housing Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Huling Cove Housing 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 Huling Cove Housing Corporation's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

December 3, 2018
Wilmington, Delaware

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HULING COVE HOUSING CORPORATION
MORTGAGOR'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplemental information of Huling Cove Housing Corporation, DSHA Project No. DE26H004010 and DE26H00435 as of and for the year ended June 30, 2018, and, to the best of our knowledge and belief, the same are accurate and complete. We also certify that no funds from operations of Huling Cove Housing Corporation were used to pay for construction or mortgagor expenses.



Officer

Huling Cove Housing Corporation

51-0252757

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**HULING COVE HOUSING CORPORATION
MANAGEMENT AGENT'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplemental information of Huling Cove Housing Corporation, DSHA Project No. DE26H004010 and DE26H00435 as of and for the year ended June 30, 2018, and, to the best of our knowledge and belief, the same are accurate and complete.



Management Agent
Delaware State Housing Authority

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Management's Discussion and Analysis

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HULING COVE HOUSING CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 and 2017

As management of Huling Cove Housing Corporation (the "Corporation"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the year ended June 30, 2018 and 2017 (FY 2018 and 2017). Please read it in conjunction with the Corporation's audited financial statements, which begin on page 18.

On March 16, 1978, Huling Cove Housing Corporation was created by filing a Certificate of Incorporation with the State of Delaware. The corporation was organized to provide housing for low income elderly households (which include persons that are 62 years of age or older, or persons with disabilities) receiving assistance under the Section 8 program established by the 1974 Federal Housing and Community Development Act. It has developed a 24- unit residence located in Lewes, Delaware.

Effective July 1, 2003, Huling Cove Annex, Inc. (the "Annex") was merged into the Huling Cove Housing Corporation. The Annex was organized to provide housing for low-income elderly households (which include persons that are 62 years of age or older, or persons with disabilities) receiving assistance under the Section 8 program established by the 1974 Federal Housing and Community Development Act. It had developed a 42- unit residence located in Lewes, Delaware.

The Corporation is a nonprofit nonstock corporation, exempt from federal income tax under the provisions of Section 115 of the Internal Revenue Code.

Financial Highlights

- Net cash provided by operations continued to be significant, totaling \$185,048 for FY 2018.
- Funded escrow and reserve balances increased by \$49,034 (9.22%) during the year.
- Debt from mortgage notes and related accrued interest decreased by \$104,920 (3.6%) during the year.
- Huling Cove Housing Corporation's net position decreased approximately 6.03% as a result of FY2018 operations, from \$(994,087) to \$(1,054,037), down from the 0.64% increase in FY2017, from \$(987,739) to \$(994,087). However, this deficit net position is due primarily to the additional debt assumed in 2009 to renovate the property.
- Total revenues increased by 3.01% compared to the prior year, from \$608,782 to \$627,096, and up from the 0.37% increase in 2017, from \$606,542 to \$608,782.
- Total expenses increased by 11.69% compared to the prior year, from \$615,130 to \$687,046, and up from the 3.71% increase in 2017, from \$593,103 to \$615,130.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of four components: statement of net position; statement of revenues, expenses, and changes in net position; the statement of cash flows; and notes to financial statements.

The Statement of Net Position presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the organization is improving or deteriorating.

The Statement of Revenue, Expenses, and Changes in Net Position presents information detailing how the Corporation's operations generated revenues and expenses, regardless of the timing of cash flows.

The Statement of Cash Flows presents information detailing the Corporation's cash receipts and payments during the fiscal year classified by principal sources and uses and segregated into key elements.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The financial statements of the Corporation have been prepared in accordance with the Government Accounting Standards Board (GASB) Statement 34. Under GASB 34, the Corporation is required to report information regarding its financial position and activities of its sole proprietary fund according to three classes of net position: invested in capital assets, net of related debt, temporarily restricted net position and unrestricted net position. In addition, the Corporation is required to present a statement of cash flows.

Financial Analysis

Huling Cove Housing Corporation's Net Position

	2018	2017	2016
Current Assets	\$ 87,785	\$ 129,134	\$ 143,509
Restricted Assets	605,078	556,449	470,925
Capital Assets	1,150,536	1,321,407	1,492,277
Total Assets	<u>1,843,399</u>	<u>2,006,990</u>	<u>2,106,711</u>
Current Liabilities	153,965	186,884	174,952
Non-Current Liabilities	2,743,471	2,814,193	2,919,498
Total Liabilities	<u>2,897,436</u>	<u>3,001,077</u>	<u>3,094,450</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	(1,660,226)	(1,594,275)	(1,510,862)
Restricted by Regulatory Agreement	580,777	531,743	445,680
Restricted by Federal Regulations	25,412	68,445	77,443
Total Net Position	<u>\$ (1,054,037)</u>	<u>\$ (994,087)</u>	<u>\$ (987,739)</u>

The Corporation's total liabilities exceeded total assets at the close of FY 2018 for a net position of \$(1,054,037).

The Corporation's total liabilities exceeded total assets at the close of FY 2017 for a net position of \$(994,087).

Total net position restricted by federal regulations decreased \$43,032, approximately 62.87%, during FY 2018. This decrease was due mainly to the Corporation realizing a decrease in cash and cash equivalents due to the combination of a greater increase in expenses than the increase in revenues compared to the prior year.

Total net position restricted by federal regulations decreased \$8,998, approximately 11.62%, during FY 2017. This decrease was due mainly to the Corporation realizing a decrease in cash and cash equivalents due to the combination of a greater increase in expenses than the increase in revenues compared to the prior year.

Total net position restricted by regulatory agreement increased \$49,034, approximately 9.22%, during FY 2018. This increase is attributable to the increase in the Corporation's replacement reserve account.

Total net position restricted by regulatory agreement increased \$86,063, approximately 19.31%, during FY 2017. This increase is attributable to the increase in the Corporation's replacement reserve account.

During FY 2018, the Corporation did not purchase any additions to capital assets, recorded depreciation of \$170,871 on existing capital assets, made payments on mortgage principal in the amount of \$125,726, and recorded an increase in accrued interest on the remaining mortgage debt of \$20,806. As a result, net position invested in capital assets, net of related debt decreased by \$65,952 approximately 4.14%, during FY 2018.

During FY 2017, the Corporation did not purchase any additions to capital assets, recorded depreciation of \$170,870 on existing capital assets, made payments on mortgage principal in the amount of \$108,250, and recorded an increase in accrued interest on the remaining mortgage debt of \$20,793. As a result, net position invested in capital assets, net of related debt decreased by \$83,413 approximately 5.52%, during FY 2017.

Huling Cove Housing Corporation's Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Rental Revenue - Tenants, Net	\$ 266,977	\$ 256,395	\$ 271,554
Rental Revenue - Housing Assistance Payments	351,408	345,388	327,810
Other Rental Revenue	6,623	5,292	5,795
Total Operating Revenue	<u>625,008</u>	<u>607,075</u>	<u>605,159</u>
Administrative	39,973	23,145	20,684
Management Fees	34,068	34,068	34,068
Insurance and Taxes	26,287	26,944	26,063
Operations, Other	388,857	331,962	312,132
Depreciation	170,871	170,870	170,870
Total Operating Expenses	<u>660,056</u>	<u>586,989</u>	<u>563,817</u>
Non-Operating Income (Expense)			
Interest Income	2,088	1,707	1,383
Interest Expense	<u>(26,990)</u>	<u>(28,141)</u>	<u>(29,286)</u>
Total Non-Operating Income (Expense)	<u>(24,902)</u>	<u>(26,434)</u>	<u>(27,903)</u>
Change in Net Position	<u>\$ (59,950)</u>	<u>\$ (6,348)</u>	<u>\$ 13,439</u>

Total revenue increased by \$18,318, approximately 3.01%, during FY 2018. A net operating revenue increase of \$17,933 accounts for most of this increase.

Total revenue increased by \$2,240, approximately 0.37%, during FY 2017. A net operating revenue increase of \$1,916 accounts for most of this increase.

Total expenses increased by \$71,916, approximately 11.69%, during FY 2018. This increase was in operating expenses, which included higher operating and maintenance costs than the prior year.

Total expenses increased by \$22,027, approximately 3.71%, during FY 2017. This increase was in operating expenses, which included higher operating and maintenance costs than the prior year.

As a result of the small increase in revenue combined with the greater increase in expenses, the Corporation recorded a change in net position in the amount of \$(59,950) for the fiscal year ended June 30, 2018.

As a result of the small increase in revenue combined with the greater increase in expenses, the Corporation recorded a change in net position in the amount of \$(6,348) for the fiscal year ended June 30, 2017.

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Financial Statements

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HULING COVE HOUSING CORPORATION
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 86,327	\$ 118,821
Tenant Accounts Receivable	1,083	1,018
Other Accounts Receivable	375	115
Prepaid Expenses	-	9,180
TOTAL CURRENT ASSETS	87,785	129,134
RESTRICTED ASSETS		
Tenant Security Deposits Escrow	24,301	24,706
Funded Escrows and Reserves	580,777	531,743
TOTAL RESTRICTED ASSETS	605,078	556,449
CAPITAL ASSETS, NON-DEPRECIABLE	127,000	127,000
CAPITAL ASSETS, DEPRECIABLE	1,023,536	1,194,407
TOTAL ASSETS	1,843,399	2,006,990
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	20,257	17,408
Accrued Payroll	4,297	3,963
Accrued Vacation and Sick Pay	8,411	10,094
Deferred Revenue	29,507	29,224
Accrued Interest Payable	441	546
Mortgage Notes Payable	91,052	125,649
TOTAL CURRENT LIABILITIES	153,965	186,884
NON-CURRENT LIABILITIES		
Tenant Security Deposits	24,202	24,706
Accrued Interest Payable	189,837	168,926
Mortgage Notes Payable	2,529,432	2,620,561
TOTAL NON-CURRENT LIABILITIES	2,743,471	2,814,193
TOTAL LIABILITIES	2,897,436	3,001,077
NET POSITION		
Invested in Capital Assets, Net of Related Debt	(1,660,226)	(1,594,275)
Restricted by Regulatory Agreement	580,777	531,743
Restricted by Federal Regulations	25,412	68,445
TOTAL NET POSITION	\$ (1,054,037)	\$ (994,087)

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

HULING COVE HOUSING CORPORATION
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
Rental Revenue - Tenants	\$ 276,216	\$ 278,796
Rental Revenue - Housing Assistance Payments	351,408	345,388
Less: Vacancy Loss	(8,768)	(22,231)
Bad Debt Expense	(471)	(170)
Net Rental Revenue	<u>618,385</u>	<u>601,783</u>
Other Rental Revenue	6,623	5,292
TOTAL OPERATING REVENUE	<u>625,008</u>	<u>607,075</u>
 OPERATING EXPENSES		
Administrative	39,973	23,145
Management Fees	34,068	34,068
Utilities	105,101	92,148
Operating and Maintenance	163,320	119,519
Labor Charge	120,436	120,295
Insurance	26,287	26,944
Depreciation	<u>170,871</u>	<u>170,870</u>
TOTAL OPERATING EXPENSES	<u>660,056</u>	<u>586,989</u>
 OPERATING INCOME/(LOSS)	(35,048)	20,086
 NON-OPERATING INCOME (EXPENSE)		
Interest Income	2,088	1,707
Interest Expense	<u>(26,990)</u>	<u>(28,141)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(24,902)</u>	<u>(26,434)</u>
 CHANGE IN NET POSITION	(59,950)	(6,348)
NET POSITION, BEGINNING OF YEAR	<u>(994,087)</u>	<u>(987,739)</u>
NET POSITION, END OF YEAR	<u>\$ (1,054,037)</u>	<u>\$ (994,087)</u>

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

HULING COVE HOUSING CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income		
Rental Receipts from Tenants	\$ 275,169	\$ 262,009
HAP Subsidies	342,640	342,828
Other Receipts	6,623	5,292
Expenses		
Administrative	(38,784)	(22,778)
Management Fees	(34,068)	(34,068)
Utilities	(103,891)	(92,244)
Operating and Maintenance	(140,579)	(113,542)
Labor Charge	(122,062)	(121,215)
NET CASH PROVIDED BY OPERATING ACTIVITIES	185,048	226,282
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits to Escrows and Reserves	(87,721)	(125,407)
Interest Earned on Escrow Deposits and Reserves	2,088	1,707
NET CASH USED BY INVESTING ACTIVITIES	(85,633)	(123,700)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest and Miscellaneous Financial Expenses	(6,183)	(7,348)
Mortgage Principal Payments	(125,726)	(108,250)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(131,909)	(115,598)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(32,494)	(13,016)
CASH AND CASH EQUIVALENTS - Beginning of Year	118,821	131,837
CASH AND CASH EQUIVALENTS - End of Year	\$ 86,327	\$ 118,821
RECONCILIATION OF OPERATING INCOME/(LOSS) TO		
NET CASH FROM OPERATING ACTIVITIES		
Operating Income/(Loss)	\$ (35,048)	\$ 20,086
Adjustments to Reconcile Change in Net Position to Net Cash from Operating Activities:		
Depreciation Expense	170,871	170,870
Interest Income	2,088	1,707
Trash Removal Payments from Escrows	12,400	12,400
Insurance Payments from Escrows	24,199	25,236
Changes in Assets and Liabilities:		
(Incr (Increase) Decrease in Accounts Receivable	(325)	664
(Increase) Decrease in Prepaid Expenses	9,180	694
Increase (Decrease) in Accounts Payable	2,849	(6,998)
Increase (Decrease) in Accrued Payroll, Vacation, and Sick Pay	(1,449)	(938)
Increase (Decrease) in Deferred Revenue	283	2,560
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 185,048	\$ 226,281
NONCASH FINANCING ACTIVITIES		
Withdrawals from Escrows and Reserves	\$ (38,687)	\$ (39,344)

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

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – On March 16, 1978, Huling Cove Housing Corporation (the “Corporation”) was created by filing a Certificate of Incorporation with the State of Delaware. The corporation was organized to provide housing for low income elderly households (which include persons that are 62 years of age or older, or persons with disabilities) receiving assistance under the Section 8 program established by the 1974 Federal Housing and Community Development Act. It has developed a 24- unit residence located in Lewes, Delaware.

Effective July 1, 2003, Huling Cove Annex, Inc. (the “Annex”) was merged into the Corporation. The Annex was organized to provide housing for low-income elderly households (which includes persons that are 62 years of age or older, or persons with disabilities) receiving assistance under the Section 8 program established by the 1974 Federal Housing and Community Development Act. It had developed a 42- unit residence located in Lewes, Delaware.

The Corporation is a related organization of the Delaware State Housing Authority (DSHA). DSHA appoints the voting majority of the Corporation’s Board of Directors. DSHA does not have a material financial benefit/burden relationship nor has an ability to impose its will. The financial activities of the Corporation are not included in DSHA’s Comprehensive Annual Financial Report since it has not met the criteria to be considered a component unit.

Basis of Presentation – The Corporation’s activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered mainly through rents and rent subsidies. The accompanying financial statements have been prepared using the economic resources focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the related cash flows. Operating revenues and expenses result from providing housing services in connection with the Corporation’s ongoing operations. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are recorded as nonoperating revenues and expenses. When an expense is incurred that can be paid either by using either restricted or unrestricted resources, it is the Corporation’s policy to first apply the expense toward restricted resources and then toward unrestricted resources.

Income Taxes - The Corporation is a nonprofit nonstock corporation, exempt from federal income tax under the provisions of Section 115 of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents – Cash and cash equivalents are considered to be unrestricted demand and other deposits held by financial institutions.

Credit Risk – At June 30, 2018 and 2017, all of the bank balance was collateralized by securities held in the name of the management agent, which is DSHA.

Restricted Deposits - Restricted deposits consist of escrow funds held by DSHA and tenant security deposits which are held in a separate bank account in the name of the Project. The DSHA Regulatory Agreement (Agreement) requires monthly payments, as specified by DSHA on an annual basis, for insurance premiums and real estate taxes where payments are made by DSHA on the Corporation’s behalf and are expensed monthly by management based on the respective effective periods, and into a restricted reserve for replacement account where withdrawals can be made for repair and/or replacement of and capital improvements to the apartment complex, subject to DSHA approval. The State of Delaware Landlord-Tenant Code requires the Corporation to receive security deposits from the tenants upon execution of the lease agreement and repay them to the tenant upon vacating the premises, depending on whether the tenant had any obligations to the Corporation at that time.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debts expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts was \$0 and \$170 as of June 30, 2018 and June 30, 2017, respectively.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is computed using the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

Buildings	27 Years
Site Improvements	15 years
Equipment	5 Years

Additions and betterments of \$100,000 or more are capitalized; equipment and vehicles are capitalized when the cost of individual items is \$25,000 or more, while repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed currently.

Certain pieces of equipment are considered fully depreciated even though they outlast their estimated useful lives. Management of the Corporation reevaluated the assets placed in service and determined the cumulative effect of the recalculation of depreciation was immaterial to the financial statements taken as a whole.

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Management of the Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during the years ended June 30, 2018 and 2017.

Rental Income - Rental income is recognized monthly as a tenant occupies a unit upon the first day the annual lease agreement is executed, and payment is due at the beginning of the month. Late charges are assessed to the tenant after the tenth day the rent payment is due. Rental payments received in advance are deferred until earned. All leases between the Corporation and the tenants of the property are operating leases. Under the Regulatory Agreement, management may not increase rents charged to tenants without DSHA approval.

Advertising - Advertising and public relations costs are expensed as incurred. Advertising and public relations costs incurred during the years ended June 30, 2018 and 2017 were \$806 and \$0, respectively.

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 2: CAPITAL ASSETS

Property and equipment activity during 2018 consisted of the following:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Capital Assets, Non-Depreciable				
Land	\$ 127,000	\$ -	\$ -	\$ 127,000
Capital Assets, Depreciable				
Buildings	\$ 2,540,714	\$ -	\$ -	\$ 2,540,714
Site Improvements	2,545,695	-	-	2,545,695
Equipment	24,905	-	-	24,905
Total Capital Assets, Depreciable	<u>5,111,314</u>	<u>-</u>	<u>-</u>	<u>5,111,314</u>
Less: Accumulated Depreciation				
Buildings	(2,538,395)	(1,158)	-	(2,539,553)
Site Improvements	(1,353,607)	(169,713)	-	(1,523,320)
Equipment	(24,905)	-	-	(24,905)
Total Accumulated Depreciation	<u>(3,916,907)</u>	<u>(170,871)</u>	<u>-</u>	<u>(4,087,778)</u>
Total Capital Assets, Depreciable, Net	<u>\$ 1,194,407</u>	<u>\$ (170,871)</u>	<u>\$ -</u>	<u>\$ 1,023,536</u>

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2: CAPITAL ASSETS - CONTINUED

Property and equipment activity during 2017 consisted of the following:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Capital Assets, Non-Depreciable				
Land	\$ 127,000	\$ -	\$ -	\$ 127,000
Capital Assets, Depreciable				
Buildings	\$ 2,540,714	\$ -	\$ -	\$ 2,540,714
Site Improvements	2,545,695	-	-	2,545,695
Equipment	24,905	-	-	24,905
Total Capital Assets, Depreciable	5,111,314	-	-	5,111,314
Less: Accumulated Depreciation				
Buildings	(2,537,237)	(1,158)	-	(2,538,395)
Site Improvements	(1,183,895)	(169,712)	-	(1,353,607)
Equipment	(24,905)	-	-	(24,905)
Total Accumulated Depreciation	(3,746,037)	(170,870)	-	(3,916,907)
Total Capital Assets, Depreciable, Net	<u>\$ 1,365,277</u>	<u>\$ (170,870)</u>	<u>\$ -</u>	<u>\$ 1,194,407</u>

NOTE 3: MORTGAGE NOTES PAYABLE

DSHA Housing Development Fund – On March 7, 2008, the Corporation entered into a construction loan agreement in the amount of \$3,891,177 with the Delaware State Housing Authority (DSHA). The proceeds of this loan were used to pay off its existing mortgage with the DSHA and to provide additional capital for capital improvements to the Corporation’s rental property. This loan did not bear interest during the construction period. In June 2009, this construction loan converted into two permanent loans in the amount of \$1,800,000 (first loan) and \$2,091,177 (second loan) for a combined total of \$3,891,177. The first loan bears interest at 1% and starting in June 2009 required monthly principal and interest payments in the amount of \$5,790 payable through February 2031. The second note also bears interest at 1% with principal and interest payments deferred over 30 years. The mortgages are secured by the Corporation’s rental property. The balance outstanding as of June 30, 2018 and 2017 amount to \$2,620,484 and \$2,746,210, respectively. As of June 30, 2018 and 2017 interest payable was \$190,278 and \$169,472, respectively. Surplus cash is required to be deposited for the payment of principal, interest and fees related to the HDF Preservation first loan.

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3: MORTGAGE NOTES PAYABLE – CONTINUED

The following is a summary of debt transactions for the years ended June 30, 2018 and 2017, including surplus cash payments of \$26,576 and \$62,435 respectively:

	<u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
DSHA Housing Development Fund Mortgage Note Payable	<u>\$ 2,746,210</u>	<u>\$ -</u>	<u>\$ 125,726</u>	<u>\$ 2,620,484</u>	<u>\$ 91,052</u>
	<u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>	<u>Due Within One Year</u>
DSHA Housing Development Fund Mortgage Note Payable	<u>\$ 2,854,460</u>	<u>\$ -</u>	<u>\$ 108,250</u>	<u>\$ 2,746,210</u>	<u>\$ 125,649</u>

Maturities of the mortgage notes payable, which includes regularly scheduled principal payments and any surplus cash available at the current year-end, are as follows:

2019	\$	91,052
2020		65,124
2021		65,778
2022		66,439
2023		67,106
Thereafter		<u>2,264,985</u>
Total	\$	<u>2,620,484</u>

Interest expense on the mortgage notes payable was \$26,990 and \$28,141 for June 30, 2018 and 2017, respectively.

NOTE 4: MANAGEMENT AGENT

During the years ended June 30, 2018 and 2017, the Corporation was obligated under an agreement with DSHA for the management of its affordable housing communities. For the years ended June 30, 2018 and 2017, the Corporation paid management fees to DSHA in the amount of \$34,068.

On the basis of wage rates previously approved by the Corporation and DSHA, DSHA shall investigate, hire, pay, supervise, and discharge all managerial (on-site) and non-managerial (maintenance) personnel. Such personnel shall in every instance be in the employment of DSHA. Expenses for which DSHA can request reimbursement from the Corporation include salaries, payroll taxes, employee benefits, and workers' compensation. The labor charges incurred by DSHA during the years ended June 30, 2018 and 2017 were \$120,436 and \$120,295, respectively.

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5: RELATED PARTY TRANSACTIONS

During the years ended June 30, 2018 and 2017, the Corporation was indebted to DSHA (Housing Development Fund) under a mortgage agreement. Huling Cove Housing Corporation is closely associated with, and related to, DSHA. (Note 1).

DSHA was created in 1968 by an act of the General Assembly of the State of Delaware (the "State"). DSHA, which is a public corporation, was originally established as the Department of Housing. It was organized under the Department of Community Affairs in 1970 and under the Delaware Economic Development Office in 1987. DSHA was established in 1998 as an independent authority in the Executive Department, reporting directly to the Governor of the State, institutionalizing the role of affordable housing as a key aspect of State policy.

DSHA is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal government and others.

The staff of DSHA performs all management and accounting functions for the Corporation. The general ledger and financial statements of Huling Cove Housing Corporation are maintained and prepared by DSHA, using a computer system that also performs these functions for other housing corporations.

NOTE 6: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Corporation's most significant asset is a 66-unit apartment complex. The Corporation's operations are concentrated in the low-income real estate market and are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, the U.S. Department of Housing and Urban Development (HUD) and/or DSHA. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD and/or DSHA. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Approximately 54% and 57%, respectively, of the Corporation's combined revenues for the years ended June 30, 2018 and 2017 is provided by Section 8 Housing Assistance Payments from the U.S. Department of Housing and Urban Development passed through DSHA.

HULING COVE HOUSING CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7: RECLASSIFICATIONS

Certain amounts in the prior year statement of cash flows have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The reclassifications had no effect on previously reported Net Increase (Decrease) in Cash and Cash Equivalents.

Supplemental Information

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
JUNE 30, 2018

Schedule of Funds in Financial Institutions -

	<u>M&T Bank</u>
Operating Account	\$ 86,327
Security Deposit	24,301
Total*	\$ 110,628

*Confirmed by financial institution as of June 30, 2018. Actual balances include outstanding transactions.

Schedule of Other Accounts Receivable -

	<u>Total</u>
Due within 30 Days	\$ 375
Employee payroll withholding	-
	\$ 375

Tenant Security Deposits - Tenant security deposits are held in a bank account insured by the Federal Deposit Insurance Corporation in the name of the Project. The balance of the bank account was confirmed by the depository in the amount of \$24,301.

Mortgage Escrow Deposits - Estimated amount required as of June 30, 2018 for future payment of:

City of Lewes Trash Removal Charge (July 1 - June 30)	\$ 12,400
Property and Liability Insurance (July 1 - June 30)	26,287
Total Expenditures	38,687
Total Deposits Required by DSHA for the Year 2018	39,408
Amount of Deposits in Excess of Estimated Requirements	\$ 721
Total Confirmed by DSHA as of June 30, 2018	\$ 41,381

Reserves - Under the terms of the loan agreements with DSHA, the Corporation has set aside these amounts for the replacement of property and other Project expenses as approved by DSHA. These funds are held in separate accounts and generally are not available for operating purposes. Activities are as follows:

	<u>Replacement Reserve</u>	<u>Residual Receipts</u>	<u>Operating Reserve</u>
Balance - Beginning	\$ 327,407	\$ 13,017	\$ 150,659
Deposits			
Operating Cash	46,225	-	-
Interest Income	1,343	163	582
Payments			
Other	-	-	-
Balance - Ending**	\$ 374,975	\$ 13,180	\$ 151,241

**Total confirmed by DSHA.

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
JUNE 30, 2018

Schedule of Accounts Payable -

Vendor	Expense	Total
Belfint, Lyons & Shuman, P.A.	Financial audit	\$ 8,800
Board of Public Works	Utilities - Electric	5,291
Board of Public Works	Utilities - Water and Sewer	2,938
WB Mason	Administrative - Supplies	11
Verizon Wireless	Administrative - Telephone	49
Express Service	Administrative - Shipping	512
Tri County Pest	Operating and Maintenance	70
North Star Heating	Operating and Maintenance	435
Corelogic	Operating and Maintenance	18
Distinctive Landscaping	Operating and Maintenance	1,056
Sherwin Williams	Operating and Maintenance	48
HD Supply	Operating and Maintenance	84
Ferguson Enterprises	Operating and Maintenance	318
Lowe's	Operating and Maintenance	627
Total		<u>\$ 20,257</u>

Accounts Payable (Other than Trade Creditors) – None

Details of Payable Due in More than 60 Days – None

Accrued Taxes – None

Identity of Interest Companies and Activities -

	2018 Amount Paid	June 30, 2018 Amount Payable
Delaware State Housing Authority - Management Fee	\$ 34,068	\$ -
Delaware State Housing Authority - Labor Charges	120,436	4,297
Total	<u>\$ 154,504</u>	<u>\$ 4,297</u>

Scheduled Letters of Credit - None

Unauthorized Distribution of Revenue - None

Compensation of Partners – None

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
JUNE 30, 2018

DSHA STATEMENT OF PROFIT AND LOSS			
Project Name:	HULING COVE HOUSING CORPORATION		
Project Number:	DE26H004010 and DE26H00435		Year Ended: 6/30/2018
Part I	Description of Account	Amount	
RENTAL INCOME 5100	Rent Revenue - Gross Potential	5120	\$ 276,216
	Tenant Assistance Payments	5121	351,408
	Total Rent Revenue Potential at 100% Occupancy		\$ 627,624
VACANCIES 5200	Miscellaneous (Specify)	5290	\$ 8,768
	Total Vacancies		\$ 8,768
	Net Rent Revenue (Rent Revenue less Vacancies)		\$ 618,856
FINANCIAL REVENUE 5400	Revenue from Investments - Residual Receipts	5430	\$ 163
	Revenue from Investments - Replacement Reserve	5440	1,343
	Revenue from Investments - Operating Reserve	5441	582
	Total Financial Revenue		\$ 2,088
OTHER REVENUE 5900	Miscellaneous Revenue	5910	\$ 5,851
	NSF and Late Charges	5920	422
	Damages and Cleaning Fees	5930	350
	Total Other Revenue		\$ 6,623
	Total Revenue		\$ 627,567
ADMINISTRATIVE EXPENSES 6200 6300	Office Supplies	6311	\$ 4,685
	Management Fee	6320	34,068
	Manager or Superintendent Salaries	6330	33,985
	Legal Expenses - Project	6340	3,156
	Auditing Expense - Project	6350	8,800
	Other Professional Services	6351	11,471
	Telephone and Answering Services	6360	2,798
	Bad Debt Expense	6370	471
	Miscellaneous Administrative Expenses	6390	9,063
	Total Administrative Expenses		\$ 108,497
UTILITIES EXPENSE 6400	Electricity (Lights and Misc. Power)	6450	\$ 70,230
	Water and Sewer	6451	34,871
	Total Utilities Expenses		\$ 105,101
OPERATING AND MAINTENANCE 6500	Custodial Supplies	6515	\$ 1,466
	Exterminating	6517	5,208
	Garbage and Trash Removal	6521	12,703
	Grounds Contract	6537	10,810
	Maintenance Payroll	6540	47,324
	Repairs Material	6541	25,412
	Repairs Contracts	6542	78,364
	Elevator Maintenance	6545	9,180
	Snow Removal	6548	19,825
	Vehicle and Maintenance Equipment Operation	6570	252
	Miscellaneous Operating and Maintenance Expense	6590	100
	Total Operating and Maintenance Expense		\$ 210,644

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION

JUNE 30, 2018

TAXES AND INSURANCE 6700	Property and Liability Insurance (Hazard)	6720	\$ 26,287	
	Payroll Taxes (FICA) (Project's Share)	6711	5,802	
	Health Insurance and other Employee Benefits	6723	33,325	
	Total Taxes and Insurance			\$ 65,414
FINANCIAL EXPENSES 6800	Interest on Mortgage Payable	6820	\$ 26,990	
	Miscellaneous Financial Expenses	6890	-	
	Total Financial Expenses			\$ 26,990
	Total Cost of Operations before Depreciation			\$ 516,646
	Profit (Loss) before Depreciation			\$ 110,921
DEPRECIATION 6600	Depreciation Expenses	6600	\$ 170,871	
	Amortization Expense	6610	-	
	Total Depreciation			\$ 170,871
	Operating Profit or (Loss)			\$ (59,950)
	Profit or Loss (Net Income or Loss)			\$ (59,950)

DSHA STATEMENT OF PROFIT AND LOSS

Project Name:	HULING COVE HOUSING CORPORATION		
Project Number:	DE26H004010 and DE26H00435	Year Ended:	6/30/2018
Part II*			
1. Total principal payments required under the mortgage, even if payments under a Workout Agreement are less or more than those required under the mortgage.		\$	63,214
2. Replacement Reserve deposits required by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.		\$	46,225
3. Replacement, Painting, or Operating Deficit Reserve releases which are included as expense items on this Profit and Loss Statement.		\$	-
4. Project Improvement Reserve Releases under the Flexible Subsidy Program that are included as expense items on this Profit and Loss Statement.		\$	-

**Part II - Must be completed for all financial statements*

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
JUNE 30, 2018

DSHA STATEMENT OF PROFIT AND LOSS			
Project Name:	HULING COVE HOUSING CORPORATION		
Project Number:	DE26H004010 and DE26H00435		Year Ended: 6/30/2017
Part I	Description of Account	Amount	
RENTAL INCOME 5100	Rent Revenue - Gross Potential	5120	\$ 278,796
	Tenant Assistance Payments	5121	345,388
	Total Rent Revenue Potential at 100% Occupancy		\$ 624,184
VACANCIES 5200	Miscellaneous (Specify)	5290	\$ 22,231
	Total Vacancies		\$ 22,231
	Net Rent Revenue (Rent Revenue less Vacancies)		\$ 601,953
FINANCIAL REVENUE 5400	Revenue from Investments - Residual Receipts	5430	\$ 107
	Revenue from Investments - Replacement Reserve	5440	1,066
	Revenue from Investments - Operating Reserve	5441	534
	Total Financial Revenue		\$ 1,707
OTHER REVENUE 5900	Miscellaneous Revenue	5910	\$ 4,763
	NSF and Late Charges	5920	377
	Damages and Cleaning Fees	5930	152
	Total Other Revenue		\$ 5,292
	Total Revenue		\$ 608,952
ADMINISTRATIVE EXPENSES 6200 6300	Office Supplies	6311	\$ 3,946
	Management Fee	6320	34,068
	Manager or Superintendent Salaries	6330	35,187
	Legal Expenses - Project	6340	430
	Auditing Expense - Project	6350	8,800
	Other Professional Services	6351	3,100
	Telephone and Answering Services	6360	2,707
	Bad Debt Expense	6370	170
	Miscellaneous Administrative Expenses	6390	4,162
	Total Administrative Expenses		\$ 92,570
UTILITIES EXPENSE 6400	Electricity (Lights and Misc. Power)	6450	\$ 57,930
	Water and Sewer	6451	34,218
	Total Utilities Expenses		\$ 92,148
OPERATING AND MAINTENANCE 6500	Custodial Supplies	6515	\$ 1,888
	Exterminating	6517	4,432
	Grounds Supplies	6536	-
	Grounds Contract	6537	26,207
	Maintenance Payroll	6540	46,960
	Repairs Material	6541	17,802
	Repairs Contracts	6542	42,230
	Elevator Maintenance	6545	9,180
	Snow Removal	6548	4,904
	Trash Removal	6560	12,517
	Vehicle and Maintenance Equipment Operation	6570	245
	Miscellaneous Operating and Maintenance Expense	6590	115
	Total Operating and Maintenance Expense		\$ 166,480

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
JUNE 30, 2018

TAXES AND INSURANCE 6700	Property and Liability Insurance (Hazard)	6720	\$ 26,944	
	Payroll Taxes (FICA) (Project's Share)	6711	5,983	
	Health Insurance and other Employee Benefits	6723	32,164	
	Total Taxes and Insurance			\$ 65,091
FINANCIAL EXPENSES 6800	Interest on Mortgage Payable	6820	\$ 28,141	
	Miscellaneous Financial Expenses	6890	-	
	Total Financial Expenses			\$ 28,141
	Total Cost of Operations before Depreciation			\$ 444,430
	Profit (Loss) before Depreciation			\$ 164,522
DEPRECIATION 6600	Depreciation Expenses	6600	\$ 170,870	
	Amortization Expense	6610	-	
	Total Depreciation			\$ 170,870
	Operating Profit or (Loss)			\$ (6,348)
	Profit or Loss (Net Income or Loss)			\$ (6,348)

DSHA STATEMENT OF PROFIT AND LOSS			
Project Name:	HULING COVE HOUSING CORPORATION		
Project Number:	DE26H004010 and DE26H00435		Year Ended: 6/30/2017
Part II*			
1. Total principal payments required under the mortgage, even if payments under a Workout Agreement are less or more than those required under the mortgage.			\$ 62,202
2. Replacement Reserve deposits required by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.			\$ 44,448
3. Replacement, Painting, or Operating Deficit Reserve releases which are included as expense items on this Profit and Loss Statement.			\$ -
4. Project Improvement Reserve Releases under the Flexible Subsidy Program that are included as expense items on this Profit and Loss Statement.			\$ -

**Part II - Must be completed for all financial statements*

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION

JUNE 30, 2018

HULING COVE HOUSING CORPORATION
DSHA/HDF Number DE26H004010 and DE26H00435

Period Ended: 06/30/2018

PART A - COMPUTE SURPLUS CASH

Section I - Cash

1	Cash	\$ 110,628	
2	Tenant Subsidy Vouchers due for Period Covered by Financial Statements	\$ -	
3	Other (Describe)	\$ -	
	(A) Total Cash (Add Lines 1, 2, & 3)	\$ 110,628	

Section II - Current Obligations

4	Accrued Mortgage Interest Payables	441	
5	Delinquent Mortgage Principal Payments	-	
6	Delinquent Deposits to Reserve for Replacements	-	
7	Accounts Payables (due within 30 days)	20,257	
8	Loans and Notes Payable (due within 30 days)	5,348	
9	Deficient Tax Insurance/Mortgage Insurance Escrow	-	
10	Accrued Expenses (not escrowed)	4,297	
11	Prepaid Rents/Housing Assistance Subsidy	29,507	
12	Tenant Security Deposits Liability	24,202	
	(B) Total Liabilities	\$ 84,052	
	(C) Surplus Cash (Deficiency)	\$ 26,576	
	Line (A) Minus Line (B)		

PART B - COMPUTE OWNERS' DISTRIBUTIONS & REQUIRED HDF LOAN BALANCE REDUCTION

1	Surplus Cash	\$ 26,576	
2a	Beginning Balance: Accrued from Prior Year Unpaid	\$ -	
	Annual Distribution Earned during Fiscal Period Covered	-	
	Annual Distribution Paid During Audit Year Against Audit Year	\$ -	
	Annual Distribution Paid During Audit Year Against Prior Years	\$ -	
2b	Ending Balance: Distributions Unpaid from Audit Year and Prior Audit Years at Year End	-	
3	Amount Available for Distribution (the Lesser of Line 1 or 2b)	\$ -	
4	Amount Due DSHA to be Applied to DSHA Permanent Loan (Line 1 Minus Line 3)	\$ 26,576	

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
JUNE 30, 2018

SIGNIFICANT VARIANCES OF BUDGET TO ACTUAL
June 30, 2018

	<u>2018</u>	<u>Budget</u>	<u>Over (Under) Budget</u>	<u>% of Budget</u>	<u>% Variance</u>	<u>Reason</u>
Ordinary Expense						
6450 - Electricity	70,230	63,000	7,230	111.48%	11.48%	Actual expenses greater than projected increase
6451 - Water and Sewer	34,871	31,000	3,871	112.49%	12.49%	Actual expenses greater than projected decrease
6537 - Grounds Contract	10,810	8,400	2,410	128.69%	28.69%	Actual expenses greater than projected increase
6541 - Repairs Material	25,412	15,900	9,512	159.82%	59.82%	Due to unexpected repairs
6542 - Repairs Contracts	78,364	30,000	48,364	261.21%	161.21%	Due to unexpected repairs
6548- Snow Removal	19,825	7,000	12,825	283.21%	183.21%	Actual expenses greater than projected increase

HULING COVE HOUSING CORPORATION
SUPPLEMENTAL INFORMATION
JUNE 30, 2018



OP ID: LA

EVIDENCE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)
09/07/2017

THIS EVIDENCE OF PROPERTY INSURANCE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE ADDITIONAL INTEREST NAMED BELOW. THIS EVIDENCE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS EVIDENCE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE ADDITIONAL INTEREST.

AGENCY L & W Insurance Agency P.O. Box 918DD Dover, DE 19903DD George Geier	PHONE (A/C, No, Ext): 302-674-3500 COMPANY Millers Capital Insurance Co 805 N. Front StDD Harrisburg, PA 17102
FAX (A/C, No): 302-674-2909 E-MAIL ADDRESS: CODE: 1082 AGENCY CUSTOMER ID #: DELAW23 SUB CODE:	LOAN NUMBER POLICY NUMBER CPP0610717
INSURED Delaware State Housing Authority 18 The GreenDD Dover, DE 19901	EFFECTIVE DATE 07/01/17 EXPIRATION DATE 07/01/18 CONTINUED UNTIL TERMINATED IF CHECKED <input type="checkbox"/>
THIS REPLACES PRIOR EVIDENCE DATED:	

PROPERTY INFORMATION

LOCATION/DESCRIPTION 1140 Savannah Rd Huling Cove Lewes, DE 19958	Apartment Building 5 Buildings 24 un its Building \$2,584,463 Re ntal Value\$108,000DD DD
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THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS EVIDENCE OF PROPERTY INSURANCE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

COVERAGE INFORMATION

COVERAGE/PERILS/FORMS	AMOUNT OF INSURANCE	DEDUCTIBLE
SPECIAL FORM PACKAGE POLICY - REPLACEMENT COST		
BUILDING	2584463	25000
BUILDING	1091716	25000
BUILDING	4915552	25000

REMARKS (Including Special Conditions)

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

ADDITIONAL INTEREST

NAME AND ADDRESS	<input type="checkbox"/>	MORTGAGEE	ADDITIONAL INSURED
	<input type="checkbox"/>	LOSS PAYEE	
	LOAN #		
AUTHORIZED REPRESENTATIVE 			

AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST

Development Name	HULING COVE HOUSING CORPORATION
DSHA/HUD/RD Number	DE26H004010 and DE26H00435
Fiscal Year End	June 30, 2018

Please answer the questions below. All answers should be based upon a review of procedures and/or actual test transactions. Any question answered "No" may be an indication of an adverse condition, which should be described in the audit report.

	<u>Yes, No or N/A</u>	<u>Working Paper Reference</u>
1. <u>Mortgage Status</u>		
A. Are payments on the mortgage(s) current?	Yes	4120
First Lien		
Second Lien		
Third Lien		
Fourth Lien		
Fifth Lien		
B. Has the mortgagor/grantee complied with the terms and conditions of the mortgage, modification, Regulatory, forbearance and/or workout agreement?	Yes	6800
C. If the workout agreement, Regulatory Agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within 60 days after the end of the specified period?	N/A	
2. <u>Books and Records</u>		
A. Are a completed set of books and records maintained in a satisfactory manner?	Yes	1301
B. Does the mortgagor/grantee make frequent postings (at least monthly) to the ledger accounts?	Yes	1500
3. <u>Cash Activities</u>		
A. Are the cash receipts deposited in an account in the name of the development/program?	Yes	2001
B. Are all account balances fully federally insured?	Yes	2001
C. Are security deposits kept in an account separate and apart from all other funds of the development?	Yes	2001
D. Are security deposits kept in an interest-bearing account and is the interest returned to the tenant or applied to a tenant balance?	Yes	2001
E. Does the balance in the security deposit account equal or exceed the liability? Note: The liability difference should include the accrued interest payable.	Yes	4010

AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST - CONTINUED

	Yes, No or N/A	Working Paper Reference
F. Does the owner and/or the management agent have a fidelity bond in an amount at least equal to potential collections for two months which provides coverage for all employees handling cash?	Yes	Pg. 37
G. Did cash disbursements exclude payments for items listed below:		
(1) Legal expenses incurred in the sale of partnership interest or in connection with permanent closing?	N/A	
(2) The fee for the preparation of a partner's, shareholder's or individual's federal, state or local income tax returns?	N/A	
(3) Expenses for advice to an owner on tax consequences of foreclosure?	N/A	
(4) Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance or provisional workout arrangements?	N/A	
(5) Were all disbursements from the operating account(s) made exclusively for operation or obligations of the development?	Yes	6200, 6300, 6500
(6) Were letter of credit fees paid for out of operations or obligations of the development?	N/A	
H. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of DSHA while the development was in a surplus cash position?	N/A	
(1) Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a "surplus cash" position for distributions.	N/A	
I. Were residual receipts deposited with the mortgagee within 30 days after mortgagee request for such deposit? (HUD Section 8/202/236 projects only)	N/A	
J. Were excess rental collections in Section 236 developments remitted to HUD each month?	N/A	
K. Does the mortgagor/grantee have a formal rent collection policy and is it posted?	Yes	6800
L. Is the collection policy uniformly enforced?	Yes	6101
M. Do tenants' accounts receivable consist exclusively of amounts due from those other than employees?	Yes	6800

AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST - CONTINUED

	<u>Yes, No or N/A</u>	<u>Working Paper Reference</u>
N. Is there a formal procedure to write off bad debts?	<u>Yes</u>	<u>603.2.1</u>
O. Have write-offs of tenants' accounts been less than one percent of the gross rent?	<u>Yes</u>	<u>6101</u>
P. Are accounts receivable other than tenants' receivable composed exclusively of amounts due from unrelated persons or firms?	<u>N/A</u>	
Q. Were there indications that payments for services, supplies or materials were substantially in excess of amounts normally paid for such services, etc.?	<u>No</u>	<u>6503.02</u>
R. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	<u>Yes</u>	<u>6503.02</u>
S. Has the mortgagee made the required deposits to the mortgage escrow accounts as required by the loan documents?	<u>Yes</u>	<u>2031</u>
4. <u>Management Compensation</u>		
A. Was compensation to the management agent limited to the amounts prescribed in the Management Agreement?	<u>Yes</u>	<u>6500</u>
B. Were development expenses paid in accordance with the Management Agreement (no expenses that management agents are required to pay charged to the development)?	<u>N/A</u>	
5. <u>Rents and Occupancy</u>		
A. On nonsubsidized tax credit developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule?	<u>N/A</u>	
B. On subsidized developments, are dwelling unit rents the same as those approved by DSHA/HUD/RD on the most recent rent schedule?	<u>Yes</u>	<u>6820</u>
6. <u>RD/HUD Subsidy Payments (Section 8/515 developments only)</u>		
A. Were the amounts requested from DSHA/HUD/RD adequately supported by the accounting records?	<u>Yes</u>	<u>6100</u>
B. Were subsidy receipts recorded in the proper accounts?	<u>Yes</u>	<u>6100</u>
C. Utility allowance payments were paid to residents within five days of receipt from DSHA/HUD/RD and in an amount equal to the corresponding utility allowance subsidy amounts received.	<u>N/A</u>	



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 of
Huling Cove Housing Corporation

We have audited, 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, the financial statements of the business-type activities of Huling Cove Housing Corporation, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Huling Cove Housing Corporation's basic financial statements, and have issued our report thereon dated December 3, 2018.

Internal Control Over Financial Reporting

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

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

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

To the Board of Directors of
Huling Cove Housing Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huling Cove Housing Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and on compliance, and the results of that testing, and not to provide an opinion on the effectiveness of Huling Cove Housing Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Huling Cove Housing Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

December 3, 2018
Wilmington, Delaware