HULING COVE HOUSING CORPORATION
LEWES, DELAWARE

REPORT ON AUDIT OF FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

JUNE 30, 2010 AND 2009

HULING COVE HOUSING CORPORATION

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INDEPENDENT AUDITOR'S REPORT

September 22, 2010

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

We have audited the accompanying statements of financial position of Huling Cove Housing Corporation (a non-profit organization) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the 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 audit 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 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 Huling Cove Housing Corporation as of June 30, 2010 and 2009, and the changes in its net assets and its 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 September 22, 2010 on our consideration of Huling Cove Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information shown on pages 10-17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental information on pages 18-20 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

BARBACANE
THORNTON
&COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

HULING COVE HOUSING CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 154,536	$ 92,523
Accounts receivable	1,864	1,636
Prepaid expense	9,231	8,647
TOTAL CURRENT ASSETS	165,631	102,806
OTHER ASSETS		
Tenant security deposits	21,202	19,951
Escrow deposits and reserves	277,711	229,149
TOTAL OTHER ASSETS	298,913	249,100
CAPITAL ASSETS		
Land, buildings, equipment, building and land/site improvements	5,207,607	5,207,607
Less: accumulated depreciation	(2,512,931)	(2,274,131)
NET CAPITAL ASSETS	2,694,676	2,933,476
TOTAL ASSETS	$ 3,159,220	$ 3,285,382
LIABILITIES AND NET DEFICT		
CURRENT LIABILITIES		
Accounts payable	$ 15,210	$ 21,789
Accrued payroll	2,918	2,518
Interest payable	1,453	1,496
Accrued vacation and sick pay	4,075	13,193
Note payable	52,274	51,754
TOTAL CURRENT LIABILITIES	75,930	90,750
LONG-TERM LIABILITIES		
Tenant security deposits	21,202	19,951
Interest payable	22,573	-
Note payable	3,782,860	3,835,134
TOTAL LONG-TERM LIABILITIES	3,826,635	3,855,085
TOTAL LIABILITIES	3,902,565	3,945,835
NET DEFICIT	(743,345)	(660,453)
TOTAL LIABILITIES AND NET DEFICIT	$ 3,159,220	$ 3,285,382

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

HULING COVE HOUSING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RENT REVENUES		
POTENTIAL RENT REVENUE		
Rental revenue - gross potential	$ 553,344	$ 531,284
Less: vacancies	(24,453)	(37,716)
Net rental revenue	528,891	493,568
FINANCIAL REVENUES		
Interest income - operations	569	1,081
Interest income - restricted deposits and reserves	1,213	1,029
	1,782	2,110
OTHER REVENUES		
Other revenue	6,218	6,349
	6,218	6,349
TOTAL REVENUE	536,891	502,027
EXPENSES		
Administrative expenses	54,116	120,116
Utilities expense	108,037	117,839
Operating and maintenance expenses	120,319	140,853
Taxes and insurance	58,261	64,772
Interest expense	40,250	2,997
Depreciation expense	238,800	94,101
TOTAL EXPENSES	619,783	540,678
CHANGE IN NET ASSETS	(82,892)	(38,651)
NET DEFICIT, BEGINNING OF YEAR	(660,453)	(621,802)
NET DEFICIT, END OF YEAR	$ (743,345)	$ (660,453)

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

HULING COVE HOUSING CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Rental receipts	$ 528,663	$ 491,988
Interest receipts	569	1,081
Other operating receipts	6,218	6,349
Total receipts	535,450	499,418
Cash disbursed		
Administrative expenses	23,407	134,598
Management fee	31,293	-
Utilities expense	108,037	117,839
Operating and maintenance	135,616	197,472
Taxes and insurance	58,261	64,772
Interest paid	17,720	1,501
Total cash disbursed	374,334	516,182
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	161,116	(16,764)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of rental property and improvements	-	(1,382,497)
(Increase) in restricted deposits	(48,562)	(159,370)
Interest earned on restricted deposits	1,213	1,029
NET CASH USED BY INVESTING ACTIVITIES	(47,349)	(1,540,838)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	-	1,595,017
Repayment of long term debt	(51,754)	(4,290)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(51,754)	1,590,727
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,013	33,125
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	92,523	59,398
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 154,536	$ 92,523
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Change in net assets	$ (82,892)	$ (38,651)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	238,800	94,101
Interest earned on restricted deposits	(1,213)	(1,029)
(Increase) Decrease in assets:		
Accounts receivable	(228)	(1,580)
Prepaid expenses	(584)	(8,647)
Increase (Decrease) in liabilities:		
Accounts payable	(6,579)	(49,775)
Interest payable	22,530	1,496
Accrued payroll	400	(1,491)
Accrued vacation and sick pay	(9,118)	(11,188)
Total Adjustments	244,008	21,887
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 161,116	$ (16,764)

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

HULING COVE HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE A ORGANIZATION

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 includes persons that are 62 years of age or older, handicapped or disabled) 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, the Huling Cove Annex, Inc. was merged into the Huling Cove Housing Corporation. The Annex was organized to provide housing for low-income elderly households (which includes persons that are 62 years of age or older, handicapped or disabled) receiving assistance under the Section 8 program established by the 1974 Federal Housing Community Development Act. It has developed a 41-unit residence located in Lewes, Delaware.

The Corporation's income is exempt under the provisions of Section 115 of the Internal Revenue Code.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting.

Capital Assets

The Corporation's capitalization policy is as follows:

All land and buildings are capitalized, regardless of cost. Equipment purchases are capitalized when the cost of individual items is $5,000 or more.

Capital assets of the Corporation are depreciated using the straight line method over the following estimated useful lives:

Buildings	27 years
Buildings and Land/Site Improvements	15 years
Equipment	5 years

Cash and Cash Equivalents

As of June 30, 2010, the Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits and investments held by Wilmington Trust. As of June 30, 2009, the Corporation's cash and cash equivalents were considered to be cash on hand, demand deposits and short-term investments held by the Treasurer of the State of Delaware.

Investments held for the Corporation by the Treasurer of the State of Delaware were maintained in a common pool of funds for all participating state agencies and associated nonprofit associations. The pool was comprised of four categories of investments although a

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

detailed accounting by category was not maintained for each depositor. Only the total invested for each depositor was made available on a periodic basis. The Corporation's funds were maintained in the following four pools:

(1) Cash Account
Objective - Liquidity
Maturity - Maximum maturity is one year.

(2) Liquidity Account
Objective - Maximum yield and maintain safety of principal
Maturity - Maximum maturity is two years.

(3) Reserve Cash (Intermediate) Account
Objective - Maximum yield and maintain safety of principal
Maturity - Maximum maturity is five years.

(4) Endowment Accounts
Objective - To provide a long-term funding source
Maturity - Maximum maturity is 10 years.

The permissible types of investments for all these pools were as follows:

- U.S. Government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptance
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities

Use of Estimates in the Preparation of Financial Statements

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.

NOTE C CASH AND CASH EQUIVALENTS

At June 30, 2010, the reported amount of the Corporation's deposits held with Wilmington Trust was $154,536 and the bank balance was $154,536. At June 30, 2009, the reported amount of the Corporation's deposits held by Wilmington Trust was $79,423 and the bank balance was $79,423. At June 30, 2010 and 2009, all of the bank balance was collateralized by securities held in the name of the management agent, which is DSHA.

NOTE C CASH AND CASH EQUIVALENTS (continued)

At June 30, 2010 and 2009, the Corporation's cash and cash equivalents balance held with the State Treasurer's Office amounted to $0 and $13,100, respectively. Cash and cash equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The funds held by the State of Delaware Investment pool, an internal investment pool, are specifically identified for the Corporation, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware.

NOTE D LONG-TERM DEBT

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 payoff their 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 amounts 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 May 2039. The second note also bears interest at 1% with principal and interest payments deferred over 30 years. The balance outstanding as of June 30, 2010 and 2009 amounted to $3,835,134 and $3,886,888 respectively.

The maturities of the notes payable are as follows:

Years Ending June 30	
2011	$ 52,274
2012	52,799
2013	53,329
2014	53,865
2015	54,406
Thereafter	3,568,461
Total	$3,835,134

NOTE E ESCROW DEPOSITS

In accordance with the regulatory agreement between the Corporation and DSHA, certain escrow accounts must be maintained with DSHA. The escrows consisted of the following:

	June 30	
	2010	2009
Insurance	$ 19,614	$ 17,310
Taxes	13,857	13,407
Residual receipts	12,465	12,385
Replacement reserve	84,142	53,840
Operating reserve	147,633	132,207
TOTAL	$ 277,711	$ 229,149

NOTE F CAPITAL ASSETS

As of June 30, 2010 and 2009, capital assets consisted of the following:

	June 30	
	2010	2009
Land	$ 127,000	$ 127,000
Buildings	2,540,714	2,540,714
Equipment	24,905	24,905
Building and land/site Improvements	2,514,988	2,514,988
Accumulated depreciation	(2,512,931)	(2,274,131)
TOTAL	$ 2,694,676	$ 2,933,476

NOTE G RENTAL ASSISTANCE

The Corporation entered into a contract for Section 8 Housing Assistance Payments with the U.S. Department of Housing and Urban Development (HUD). Under the terms of this contract, HUD will disburse to the Corporation rental assistance payments on behalf of qualified tenants. Under the regulatory agreement, the Corporation may not increase rents charged to tenants without HUD approval.

NOTE H PENSION PLAN

DSHA maintains a contributory retirement plan, covering substantially all of its employees, which is a defined contribution pension plan. The Corporation's contribution to the plan was $5,668 and $6,156 for the years ended June 30, 2010 and 2009, respectively, equal to the required contribution to the plan.

NOTE I RELATED PARTY TRANSACTIONS

During the years ended June 30, 2010 and 2009, the Corporation was obligated under an agreement with the DSHA for the management of its housing projects.

For the year ended June 30, 2010, the Corporation paid management fees to the DSHA totaling $31,293. For the year ended June 30, 2009, DSHA waived the requirement to pay the management fee.

During the years ended June 30, 2010 and 2009, the Corporation was indebted to the DSHA under a mortgage agreement. See footnote D for additional information. Huling Cove Housing Corporation is closely associated with, and related to, the DSHA.

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.

NOTE I RELATED PARTY TRANSACTIONS (continued)

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 the 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 the DSHA, using a computer system that also performs these functions for other housing corporations.

NOTE J CONCENTRATION OF REVENUE

Approximately 57 and 60 percent of the Corporation' s combined revenues for the years ended June 30, 2010 and 2009, respectively, is provided by Section 8 Housing Assistance Payments from the U.S. Department of Housing and Urban Development passed through DSHA.

NOTE K SUBSEQUENT EVENTS

The Corporation has evaluated all subsequent events through September 22, 2010, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

HULING COVE HOUSING CORPORATION

SUPPLEMENTAL INFORMATION

ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2010

RESERVE FOR REPLACEMENTS

In accordance with the regulatory agreement, a monthly payment is required to fund reserve for replacements. This payment is made in cash and is on deposit with DSHA, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	$ 53,840
Interest Income	335
Monthly Deposits	33,770
DSHA Approved Disbursements	(3,803)
ENDING BALANCE CASH	$ 84,142

RESIDUAL RECEIPTS RESERVE

The mortgagee, DSHA, has periodically made deposits and disbursements to and from the reserve on behalf of the project. Transactions are as follows:

BEGINNING BALANCE	$ 12,385
Interest Income	180
DSHA Approved Disbursements	(100)
ENDING BALANCE CASH	$ 12,465

INSURANCE ESCROW

In accordance with the regulatory agreement, a monthly payment is required to fund an insurance reserve. This payment is made in cash and is on deposit with the DSHA, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	$ 17,310
Monthly deposits	22,600
DSHA Approved Disbursements	(20,296)
ENDING BALANCE CASH	$ 19,614

HULING COVE HOUSING CORPORATION

SUPPLEMENTAL INFORMATION

ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2010

TAX ESCROW

In accordance with the regulatory agreement, a reserve for taxes has been established and is on deposit with DSHA. Transactions are as follows:

BEGINNING BALANCE	$ 13,407
Deposits	12,850
DSHA Approved Disbursements	(12,400)
ENDING BALANCE CASH	$ 13,857

OPERATING RESERVE

In accordance with the regulatory agreement, an operating reserve has been established and is on deposit with DSHA. Transactions are as follows:

BEGINNING BALANCE	$132,207
Interest Income	698
Deposits	23,040
DSHA Approved Disbursements	(8,312)
ENDING BALANCE CASH	$147,633

CAPITAL ASSETS

CHANGES IN PROPERTY AND EQUIPMENT:	Balance July 1, 2009	Additions Deletions During Year	Balance June 30,2010
Land	$ 127,000	$ -	$ 127,000
Building	2,540,714	-	2,540,714
Equipment	24,905	-	24,905
Buildings and land/site improvements	2,514,988	-	2,514,988
Accumulated depreciation	(2,274,131)	(238,800)	(2,512,931)
TOTALS	$2,933,476	$ (238,800)	$2,694,676

DELINQUENT TENANT ACCOUNTS RECEIVABLE

Delinquent 0 -30 days	$ 1,864

SUMMARIZED ACCOUNTS PAYABLE

Payable within 30 days	$ 15,210

HULING COVE HOUSING CORPORATION

SUPPLEMENTAL INFORMATION

ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY

JUNE 30, 2010

LONG TERM DEBT

Refer to note D.

BUDGET VS ACTUAL

Below is a summary of the significant changes from budget to actual for the year ended June 30, 2010.

Interest Expense – The Corporation's budgeted amount includes principal and interest while the actual amount only includes interest.

Depreciation Expense - Budgeted amounts reported to the DSHA are based on projected cash flows and thus do not require a budgeted amount for depreciation expense.

ADDITIONAL INFORMATION REQUIRED

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DSHA STATEMENT OF PROFIT AND LOSS
PROJECT NAME: Huling Cove Housing Corporation
PROJECT NUMBER: DE26H004010 and DE26H00435
YEAR ENDED: June 30, 2010

Part I	Description of Account	Acct. No.	Amount*	
RENTAL INCOME 5100	Rent Revenue - Gross Potential	5120	246,859	
	Tenant Assistance Payments	5121	306,485	
	Rent Revenue - Stores and Commercial	5140	-	
	Garage and Parking Space	5170	-	
	Flexible Subsidy Revenue	5180	-	
	Miscellaneous Rent Revenue	5190	-	
	Excess Rent	5191	-	
	Rent Revenue - Insurance	5192		
	Special Claims Revenue	5193	-	
	Retained Excess Income	5194	-	
	Lease Revenue (Nursing Homes)	5195	-	
	Total Rent Revenue			553,344
VACANCIES 5200	Apartments	5220	-	
	Stores and Commercial	5240	-	
	Rental Concessions	5250	-	
	Garage and Parking Space	5270	-	
	Miscellaneous	5290	24,453	
	Total Vacancies			24,453
	Net Rent Revenue (Rent Revenue less Vacancies)			528,891
	Nursing Homes / Assisted Living / Board & Care / Other Elderly Care / Coop / and Other Revenue	5300	-	
	Members Group Life Insurance Expense (Coops)	5320	-	
FINANCIAL REVENUE 5400	Financial Revenue - Project Operations	5410	569	
	Revenue from Investments - Residual Receipts	5430	180	
	Revenue from Investments - Replacement Reserve	5440	335	
	Revenue from Investments- Operating Reserve	5441	698	
	Expiration of Gift Donor Restrictions (Non-Profits)	5460	-	
	Gifts (Non-Profits)	5470		
	Revenue from Investments - Miscellaneous	5490	-	
	Total Financial Revenue			1,782
OTHER REVENUE 5900	Laundry and Vending Revenue	5910	-	
	Tenant Charges (NSF and Late Charges)	5920	-	
	Damages and Cleaning Fees	5930	-	
	Forfeited Tenant Securtiy Deposits	5940	-	
	Interest Reduction Payments Revenue	5945	-	
	Miscellaneous Revenue	5990	6,218	
	Total Other Revenue			6,218
	Total Revenue			536,891

ADMINISTRATIVE EXPENSES 6200 6300	Conventions and Meetings	6203	-	
	Management Consultants	6204	-	
	Advertising and Marketing	6210	-	
	Other Renting Expenses	6250	-	
	Office Salaries	6310	-	
	Office Expenses	6311	-	
	Office or Model Apartment Rent	6312	-	
	Management Fee	6320	31,293	
	Manager or Superintendent Salaries	6330	-	
	Administrative Rent Free Unit	6331	-	
	Legal Expenses - Project	6340	8,313	
	Auditing Expense - Project	6350	6,626	
	Bookkeeping Fees / Accounting Services	6351	-	
	Telephone and Answering Services	6360	2,406	
	Bad Debt Expense	6370	-	
	Relocation Costs	6380	-	
	Miscellaneous Administrative Expenses	6390	5,478	
	Total Administrative Expenses			54,116
UTILITIES EXPENSE 6400	Fuel Oil / Coal	6420	-	
	Electricity (Lights and misc. power)	6450	86,782	
	Water	6451	21,255	
	Gas	6452	-	
	Sewer	6453	-	
	Total Utilities Expense			108,037
OPERATING AND MAINTENANCE 6500	Janitor and Cleaning Payroll	6510	65,211	
	Janitorial Supplies	6515	-	
	Janitorial Cleaning Contracts	6517	-	
	Exterminating Contract/Payroll	6519	3,160	
	Exterminating Supplies	6520	-	
	Operating and Maintenance Rent Free Unit	6521	-	
	Garbage and Trash Removal	6525	6	
	Security Payroll / Contract	6530	-	
	Security Rent Free Unit	6531	-	
	Grounds Payroll	6535	-	
	Grounds Supplies	6536	-	
	Grounds Contract	6537	-	
	Repairs Payroll	6540	-	
	Repairs Material	6541	11,542	
	Repairs Contracts	6542	27,884	
	Elevator Maintenance	6545	-	
	Heating / Cooling / Repairs and Maintenance	6546	-	
	Swimming Pool Maintenance/Contract	6547	-	
	Snow Removal	6548	-	
	Decorating Payroll/Contract	6560	-	
	Decorating Supplies	6561	-	
	Vehicle and Maintenance Equipment Operation	6570	-	
	Miscellaneous Operating and Maintenance Expense	6590	12,516	
	Total Operating and Maintenance Expense			120,319

TAXES AND INSURANCE 6700	Real Estate Taxes	6710	-	
	Payroll Taxes (FICA)(Project's Share)	6711	-	
	Property and Liability Insurance (Hazard)	6720	20,690	
	Fidelity Bond Insurance	6721	-	
	Workmen's Compensation	6722	-	
	Health Insurance and other Employee Benefits	6723	25,171	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6790	12,400	
	Total Taxes and Insurance			58,261
	Total Operating Expenses			340,733
FINANCIAL EXPENSES 6800	Interest on Bonds Payable	6819	-	
	Interest on Mortgage Payable	6820	40,250	
	Interest on Notes Payable (Long Term)	6830	-	
	Interest on Notes Payable (Short Term)	6840	-	
	Mortgage Insurance Premium / Service Charge	6850	-	
	Miscellaneous Financial Expenses	6890		
	Total Financial Expenses			40,250
	Nursing Homes / Assisted Living / Board & Care / Other Elderly Care / Coop / and Other Expenses	6900	-	
	Total Cost of Operations Before Depreciation			380,983
DEPRECIATION 6600	Depreciation Expenses	6600	238,800	
	Amortization Expense	6610	-	
	Total Depreciation			238,800
CORPORATE OR MORTGAGOR ENTITY EXPENSES 7100	Entity Revenue	7105	-	
	Officers Salaries	7110	-	
	Legal Expenses	7120	-	
	Federal, State, And Other Income Taxes	7130	-	
	Interest Income	7140	-	
	Interest on Notes Payable	7141	-	
	Interest on Mortgage Payable	7142	-	
	Other Expense	7190	-	
	Net Entity Expenses			-
	Profit or Loss (Net Income or Loss)			(82,892)

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.	$ 51,754
2. Replacement Reserve deposits required by the Regulatory Agreement or Amendments thereto, even if payments may be temporarily suspended or waived.	$ 33,770
3. Replacement or Painting 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***

DELAWARE STATE HOUSING AUTHORITY
COMPUTATION OF SURPLUS CASH AND DISTRIBUTIONS

Property Name	Fiscal Period Ending	DSHA/HDF Number
Huling Cove Housing Corporation	June 30, 2010	DE26H004010 and DE26H00435

****

PART A. - COMPUTE SURPLUS CASH

Section I - Cash

1.	Cash	$ 175,738	
2.	Tenant Subsidy Vouchers due for Period Covered by Financial Statements	$ -	
3.	Other (Describe)	$ -	
	(A) Total Cash (Add Lines 1, 2, & 3)		$ 175,738

Section II. - Current Obligations

4.	Accrued Mortgage Interest Payables	$ 1,453	
5.	Delinquent Mortgage Principal Payments	$ -	
6.	Delinquent Deposits to Reserve for Replacements	$ -	
7.	Accounts Payables (due within 30 days)	$ 15,210	
8.	Loans and Notes Payables (due within 30 days)	$ 4,336	
9.	Deficient Tax Insurance/Mortgage Insurance Escrow	$ -	
10.	Accrued Expenses (not escrowed)	$ 2,918	
11.	Prepaid Rents	$ -	
12.	Tenant Security Deposits Liability	$ 21,202	
13.	Other (Describe) Accounts Payable Construction	$ -	
	(B) Total Liabilities		$ 45,119
	(C) **Surplus Cash (Deficiency)** Line (A) Minus Line (B)		$ 130,619

****

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

1.	Surplus Cash		$ -
2.	a. Beginning Balance: Accrued Distributions from Prior Year(s) Unpaid	$ -	
	Annual Distribution Earned During Fiscal Period Covered	$ -	
	Annual Distribution Paid During Audit Year Against Audit	$ -	
	Annual Distribution Paid During Audit Year Against Prior `	$ -	
	b. Ending Balance: Distributions Unpaid From Audit Year and Prior Years(s) at Audit Year End (Amount Carried on Balance Sheet		$ -
3.	Amount available for distribution (the lesser of Line 1 or Line 2b)		$ -
4.	Amount due DSHA to be applied to DSHA Permanent Loan or deposited in to residual receipts (Line 1 minus Line 3		$ -

****

Prepared By: _____ Date

Reviewed By: _____ Date

HULING COVE HOUSING CORPORATION
COMPARISON OF BUDGET TO ACTUAL SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts	Actual Amounts	Variance with Budget Positive (Negative)
REVENUES			
Rent revenue - gross potential	$ 553,344	$ 553,344	$ -
Vacancies	(5,533)	(24,453)	(18,920)
Interest income	1,942	1,782	(160)
Other revenue	4,270	6,218	1,948
TOTAL REVENUES	554,023	536,891	(17,132)
EXPENSES			
Administrative expenses:			
Advertising and marketing	500	-	500
Management fee	35,295	31,293	4,002
Legal expenses	-	8,313	(8,313)
Auditing expense	7,245	6,626	619
Telephone and answering	2,523	2,406	117
Miscellaneous administrative expenses	9,254	5,478	3,776
Utilities expense:			
Electricity	74,672	86,782	(12,110)
Water	21,940	21,255	685
Operating and maintenance expenses:			
Janitor payroll	82,447	65,211	17,236
Janitor supplies	1,321	-	1,321
Exterminating contract/payroll	2,000	3,160	(1,160)
Repairs material and contracts	22,482	39,426	(16,944)
Snow removal	500	-	500
Miscellaneous operating and maintenance expenses	-	12,522	(12,522)
Taxes and insurance:			
Property and liability insurance	23,010	20,690	2,320
Health insurance and other employee benefits	35,159	25,171	9,988
Miscellaneous taxes, licenses, permits and insurance	12,400	12,400	-
Financial Expenses:			
Interest expense	69,474	40,250	29,224
Depreciation expense	-	238,800	(238,800)
TOTAL EXPENSES	400,222	619,783	(219,561)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	$ 153,801	$ (82,892)	$ (236,693)

IX. AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST

Property Name	Fiscal Period Ending	DSHA/HDF Number
Huling Cove Housing Corporation	June 30, 2010	DE26H004010 and DE26H00435

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 indicate of an adverse condition which should be described in the audit report.

		Yes, No or N/A
1.	**Mortgage Status**	
	A. Are payments on the mortgage(s) current?	Yes
	B. Has the mortgagor/grantee complied with the terms and conditions of the mortgage, modification, Regulatory, forbearance and/or workout agreement?	Yes
	C. If the workout agreement , Regulatory Agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period?	N/A
2.	**Books and Records**	
	A. Are a completed set of books and records maintained in a satisfactory manner?	Yes
	B. Does the mortgagor/grantee make frequent postings (at least monthly) to the ledger accounts?	Yes
3	**Cash Activities**	
	A. Are the cash receipts deposited in an account in the name of the development/program?	Yes
	B. Are all account balances fully federally insured?	Yes
	C. Are security deposits kept in an account separate and apart from all other funds of the development?	Yes
	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
	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
		Yes, No or N/A
	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

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? Yes

(2) The fee for the preparation of a partner's , shareholder's or individual's federal, state or local income tax returns? Yes

(3) Expenses for advice to an owner on tax consequences of foreclosure? Yes

(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? Yes

(5) Were all disbursements from the operating account(s) made exclusively for operation or obligations of the development? Yes

(6) Were letter of credit fees paid for out of operations or obligations of the development? Yes

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 thirty days after mortgagee request for such deposit?
(HUD Section 8/202/236 projects only) N/A

Yes, No or 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

L. Is the collection policy uniformly enforced? Yes

M. Do tenants' accounts receivables consist exclusively of amounts due from those other than employees? Yes

N. Is there a formal procedure to write-off bad debts? Yes

O. Have write-offs of tenant's accounts been less than one percent of the gross rent? Yes

P. Are accounts receivables other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms? N/A

Q. Were there indications that payments for services, supplies or materials were substantially in excess of amounts normally paid for such services, etc? No

R. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties? Yes

S. Has the mortgagee made the required deposits to the mortgage escrow accounts as required by the loan documents? Yes

4. **Management Compensation**

A. Was compensation to the management agent limited to the amounts prescribed in the Management Agreement? Yes

B. Were development expenses paid in accordance with the management agreement (no expenses that management agent are required to pay charged to the development)? Yes

5. **Rents and Occupancy**

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? N/A

B. On subsidized developments, are dwelling unit rents the same as those approved by DSHA/ HUD/RD on the most recent rent schedule? Yes

Yes, No or N/A

6. **RD/HUD Subsidy Payments (Section 8/515 developments only)**

A. Were the amounts requested from DSHA/HUD/RD adequately supported by the accounting records? N/A

B. Were subsidy receipts recorded in the proper accounts? N/A

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? N/A

ADDITIONAL REPORTS

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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*

September 22, 2010

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

We have audited the financial statements of Huling Cove Housing Corporation as of and for the year ended June 30, 2010, and have issued our report thereon dated September 22, 2010. 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

In planning and performing our audit, we considered Huling Cove Housing Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huling Cove Housing 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.

BARBACANE
THORNTON
&COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Huling Cove Housing Corporation
Lewes, Delaware

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 the Board of Directors, management, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, and the Office of Auditor of Accounts; and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP