

DELAWARE STATE HOUSING AUTHORITY
A Component Unit of the State of Delaware

Basic Financial Statements
And Supplemental Information
For the Fiscal Year Ended June 30, 2014
With Summarized Totals for June 30, 2013

Including Requirements of
The Single Audit Act and
Independent Auditor's Reports

Issued: October 30, 2014

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Independent Auditors' Report

To the Delaware State Housing Authority
Dover, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Delaware State Housing Authority (DSHA), a component unit of the State of Delaware, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise DSHA'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 opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 opinions.

To the Delaware State Housing Authority
Dover, Delaware

Opinions

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of DSHA, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note V.H. to the financial statements, during the year ended June 30, 2014, DSHA adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65 *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited DSHA's June 30, 2013 financial statements, and our report dated October 29, 2013 expressed unmodified opinions on those financial statements. In our opinion, with the exception of the matter described in the following paragraph, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

As discussed in Note V.H. to the financial statements, DSHA has adjusted its June 30, 2013 financial statements for the adoption of new accounting guidance, GASB 65. As part of our audit of the June 30, 2014 financial statements, we also audited the adjustments described in Note V.H. that were applied to restate the June 30, 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. The opinions expressed in our report dated October 29, 2013 on the June 30, 2013 financial statements are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for the Delaware State Housing Authority Retiree Medical Plan on pages 5 through 13 and page 61, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our

To the Delaware State Housing Authority
Dover, Delaware

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 opinions on the financial statements that collectively comprise DSHA's basic financial statements. The combining and individual non-major fund financial statements labeled in the Table of Contents and hereafter referred to as "Other Supplementary Information," and the supplemental statement of public housing actual modernization capital fund grant costs are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Other Supplementary Information, supplemental statement of public housing actual modernization capital fund grant costs, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures 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 Other Supplementary Information, supplemental statement of public housing actual modernization capital fund grant costs, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014, on our consideration of DSHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 DSHA's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

October 28, 2014
Wilmington, Delaware



DELAWARE STATE HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The Delaware State Housing Authority (the Authority), a component unit of the State of Delaware, is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The Authority's functions are to provide home ownership, affordable rental housing, and both housing and community rehabilitation assistance. Funding for the home ownership program is derived from the issuance of single family mortgage revenue bonds. The affordable rental housing programs are supported through Federal grant funds from the U.S. Department of Housing and Urban Development (HUD), and the State Housing Development Fund. Housing rehabilitation is also funded through the State sponsored Housing Development Fund. Community rehabilitation is provided through grants from HUD.

As management of the Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the Fiscal Year Ended June 30, 2014. The Authority's Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements (beginning on page 15).

Financial Highlights

- The Authority's assets exceeded liabilities at the close of the fiscal year by \$432,680,101 (net position).
- The Authority's total net position increased by \$21,091,373 (5.1%) in fiscal year 2014 when compared to the previous year's ending net position as restated. Net position of governmental activities increased by \$13,404,856 (4.7%) from the previous year and net position of business-type activities increased by \$7,686,517 (6.1%) from the previous year.

The most significant factors contributing to the governmental activities increases were: (1) the appropriation of \$10,070,000 from the State of Delaware to the Housing Development Fund for the purpose of making loans and grants to meet affordable housing needs; and (2) total revenue in the Delaware Emergency Mortgage Assistance Program of \$1,022,843, resulting in a net increase in loans receivable of \$997,654; (3) a cash transfer from the DSHA Mortgage Backed Securities Purchase Program to the DSHA Second Mortgage Assistance Loan Program in the amount of \$1,094,638 in support of program initiatives; and (4) a noncash transfer of \$820,371 from Single Family Programs to the General Fund in the form of loans and accrued interest remaining after the partial redemption of the Second Mortgage Assistance Loans Revenue Bonds 2001 Series A in fiscal year 2013.

The most significant factors contributing to the business-type activities increases were: (1) the receipt of \$2,962,144 in HOME Investment Partnership Program federal grant funds for the purpose of making loans and grants to meet affordable housing needs; (2) the receipt of over \$2,400,000 in gains on sales of investments within the DSHA Mortgage Backed Securities (MBS) Purchase Program resulting from MBS purchases and sales in the To-Be-Announced (TBA) market; and (3) a total operating income of over \$6,000,000 in Single Family Mortgage Revenue Bond programs as of June 30, 2014 resulting from interest received on mortgage loans exceeding interest paid on bonds.

- Unrestricted net position totaled \$29,566,487. This amount is dedicated to the Authority's operations, pursuant to Title 31, Chapter 40 of the Delaware Code and Authority bond resolutions. A General Fund cash and investment balance of \$21,954,434 contributes to this unrestricted net position total.

- At the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$298,272,114, an increase of \$13,507,231 (4.7%) in comparison with the prior year balances.
- The Authority's total debt, excluding compensated absences, decreased by \$155,839,707 (24.4%) during fiscal year 2014. The Single Family Programs paid revenue bond scheduled maturities of \$3,445,000, bond calls of \$148,055,625, primarily the result of bond refunding and mortgage prepayments, and \$3,960,952 representing the net of accretion on capital appreciation bonds, deferred amounts on refunding, and bond forgiveness. The Single Family Programs also report a net decrease in a note payable to the Federal Home Loan Bank of Pittsburgh in the amount of \$378,130.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Entity-wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the entity-wide financial statements distinguish functions of the Authority that are principally supported by state grants, interest income, and transfers (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through federal grants and interest income (business-type activities). The governmental activities of the Authority include administrative, home ownership, affordable rental housing, and housing rehabilitation. The business-type activities of the Authority include home ownership, affordable rental housing, and community rehabilitation. The entity-wide financial statements can be found on pages 15-16 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for the same functions reported as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the

long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation between governmental funds and governmental activities to facilitate this comparison.

The Authority maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Housing Development Fund, and the DSHA Second Mortgage Assistance Loan program, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of supplementary combining schedules elsewhere in this report. The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary Funds

The Authority maintains one type of proprietary fund. Enterprise funds are used to report the same activities presented as business-type activities in the entity-wide financial statements. The Authority uses enterprise funds to account for its federal and single family programs.

Proprietary funds provide the same type of information as the entity-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the federal and single family funds, both of which are considered to be major funds of the Authority. The basic proprietary fund financial statements can be found on pages 22-25 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the entity. Fiduciary funds are not reflected in the entity-wide financial statements because the resources of those funds are not available to support the Authority's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Authority reports one fiduciary type fund, the DSHA Retiree Medical Trust Fund. This fund accounts for transactions, assets, liabilities, and net assets available for post-employment healthcare insurance premiums of the Authority's non-state employees. The basic fiduciary fund financial statements can be found on pages 26-27 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the financial statements can be found on pages 28-58 of this report.

Other Information

This report contains certain individual fund, program, and bond financial schedules on pages 65-79. Also contained in this report is the Authority's Single Audit Supplement, pages 81-93, presented in compliance with U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations.

Entity-wide Financial Analysis

The following condensed financial information is derived from the entity-wide Statement of Net Position and reflects the net position at June 30, 2014:

Delaware Housing Authority's Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Noncapital assets | \$ 329,706,454 | \$ 313,951,717 | \$ 608,900,275 | \$ 755,388,123 | \$ 938,606,729 | \$ 1,069,339,840 |
| Capital assets | 1,763,891 | 1,872,592 | 15,297,862 | 16,612,189 | 17,061,753 | 18,484,781 |
| Total assets | <u>331,470,345</u> | <u>315,824,309</u> | <u>624,198,137</u> | <u>772,000,312</u> | <u>955,668,482</u> | <u>1,087,824,621</u> |
| Deferred outflow of resources | - | - | 271,455 | 318,192 | 271,455 | 318,192 |
| Long-term liabilities outstanding | 31,733,101 | 29,475,378 | 478,907,994 | 631,037,271 | 510,641,095 | 660,512,649 |
| Other liabilities | 305,653 | 322,196 | 11,921,636 | 15,306,217 | 12,227,289 | 15,628,413 |
| Total liabilities | <u>32,038,754</u> | <u>29,797,574</u> | <u>490,829,630</u> | <u>646,343,488</u> | <u>522,868,384</u> | <u>676,141,062</u> |
| Deferred inflow of resources | - | - | 391,452 | 413,023 | 391,452 | 413,023 |
| Net position: | | | | | | |
| Invested in capital assets | 1,763,891 | 1,872,592 | 15,297,862 | 16,612,189 | 17,061,753 | 18,484,781 |
| Restricted | 268,101,213 | 253,927,217 | 117,950,648 | 108,949,804 | 386,051,861 | 362,877,021 |
| Unrestricted | 29,566,487 | 30,226,926 | - | - | 29,566,487 | 30,226,926 |
| Total net position | <u>\$ 299,431,591</u> | <u>\$ 286,026,735</u> | <u>\$ 133,248,510</u> | <u>\$ 125,561,993</u> | <u>\$ 432,680,101</u> | <u>\$ 411,588,728</u> |

The following condensed financial information is derived from the entity-wide Statement of Activities and reflects the changes in net position during the fiscal year ending June 30, 2014:

Delaware State Housing Authority's Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 7,737,806 | \$ 7,646,450 | \$ 32,314,828 | \$ 42,098,769 | \$ 40,052,634 | \$ 49,745,219 |
| Operating grants & contributions | 14,196,000 | 21,807,818 | 56,208,932 | 58,154,831 | 70,404,932 | 79,962,649 |
| Capital grants & contributions | - | - | 493,015 | 878,292 | 493,015 | 878,292 |
| General revenues, principally | | | | | | |
| Investment income (loss) | 232,531 | 98,871 | 2,647,601 | (31,259,424) | 2,880,132 | (31,160,553) |
| Total revenues | <u>22,166,337</u> | <u>29,553,139</u> | <u>91,664,376</u> | <u>69,872,468</u> | <u>113,830,713</u> | <u>99,425,607</u> |
| Expenses: | | | | | | |
| Administrative | 5,071,861 | 5,056,455 | - | - | 5,071,861 | 5,056,455 |
| Home ownership | 1,960,558 | 1,842,008 | 24,295,925 | 35,446,444 | 26,256,483 | 37,288,452 |
| Affordable rental housing | 5,226,568 | 3,979,630 | 51,523,848 | 50,878,183 | 56,750,416 | 54,857,813 |
| Housing rehabilitation | 49,259 | 18,473 | - | - | 49,259 | 18,473 |
| Community rehabilitation | - | - | 4,611,321 | 7,339,036 | 4,611,321 | 7,339,036 |
| Total expenses | <u>12,308,246</u> | <u>10,896,566</u> | <u>80,431,094</u> | <u>93,663,663</u> | <u>92,739,340</u> | <u>104,560,229</u> |
| Change in net position before transfers | 9,858,091 | 18,656,573 | 11,233,282 | (23,791,195) | 21,091,373 | (5,134,622) |
| Transfers | 3,546,765 | 185,563 | (3,546,765) | (185,563) | - | - |
| Changes in net position | <u>13,404,856</u> | <u>18,842,136</u> | <u>7,686,517</u> | <u>(23,976,758)</u> | <u>21,091,373</u> | <u>(5,134,622)</u> |
| Net position, beginning, restated | 286,026,735 | 267,184,599 | 125,561,993 | 149,538,751 | 411,588,728 | 416,723,350 |
| Net position, ending, restated for 2013 | <u>\$ 299,431,591</u> | <u>\$ 286,026,735</u> | <u>\$ 133,248,510</u> | <u>\$ 125,561,993</u> | <u>\$ 432,680,101</u> | <u>\$ 411,588,728</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Authority's assets exceeded its liabilities by \$432,680,101 at the close of the fiscal year.

Of the Authority's total assets, 76.3% represent mortgage loans outstanding, including securitized mortgage loans. Cash and investments comprise 15.9% of the total assets, while other noncapital assets make up 6.0% of total assets. Investment in capital assets accounts for 1.8% of total assets. Of the Authority's total liabilities, 92.5% consists of revenue bonds payable. Escrow deposits represent 7.1% of total liabilities, with miscellaneous liabilities comprising 0.4% of total liabilities.

Restricted net positions are net assets that have to be spent for particular purposes because of the requirement of bond covenants, HUD regulations, and State requirements. Unrestricted net positions are amounts available to

be spent to meet the Authority's needs.

Most (89.2%) of the Authority's net position is restricted by bond covenants, federal and state grantors, and the Authority's Loan Program. Another 4.0% of net position reflects the Authority's investment in capital assets (e.g. land, buildings, improvements, and equipment). The remaining 6.8% of net position is unrestricted. Net position for the previous fiscal year had a similar composition.

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net position, both for the Authority as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

As a result of its operations, the Authority's total net position increased by \$21,091,373 for the fiscal year ending June 30, 2014. Of this amount, governmental activities net position increased by \$13,404,856 and business-type net position increased by \$7,686,517.

Of the Authority's total revenues, 61.8% are derived from operating grants and contributions, mostly from HUD. Another 35.2% comes from charges for services which are mostly comprised of mortgage interest. Investment income represents 2.5% of total revenues, while capital grants make up the remaining 0.5%.

Of the Authority's total expenses, 61.2% are for affordable rental housing. Another 28.3% of total expenses are for homeownership. Community and housing rehabilitation account for 5.0% and 0.1%, respectively, leaving only 5.4% of total costs attributable to Authority administration.

During the fiscal year, net transfers of \$3,546,765 were made from business-type activities to the governmental activities. The most significant transfers for the fiscal year were as follows: (1) cash transfers of \$1,633,573 from Single Family Programs, a business-type activity, to the Authority's General Fund in the form of administrative fees; (2) a cash transfer of \$1,094,638 from the DSHA Mortgage Backed Securities Purchase Program to the DSHA SMAL program in support of the program's objective to make down payment assistance available to qualified homebuyers; and (3) a noncash transfer of \$820,371 from Single Family Programs to the General Fund in the form of loans and accrued interest remaining after a partial redemption of the Second Mortgage Assistance Loan Bonds 2001 Series A in fiscal year 2013. Additional information regarding the Authority's interfund transactions can be found in note IV., E. on page 50 of this report.

Governmental Activities

Governmental Activities Net (Expenses)/Revenues by Function

| <u>Function</u> | Fiscal Year 2014 | | | Fiscal |
|---------------------------|------------------|---------------|----------------|----------------|
| | Expenses | Revenues | Net (Exp)/Rev | Year 2013 |
| Administration | \$ 5,071,861 | \$ 974,410 | \$ (4,097,451) | \$ (3,727,538) |
| Home ownership | 1,960,558 | 2,100,050 | 139,492 | 9,870,752 |
| Affordable rental housing | 5,226,568 | 18,785,235 | 13,558,667 | 12,367,688 |
| Housing rehabilitation | 49,259 | 74,111 | 24,852 | 46,800 |
| Total | \$ 12,308,246 | \$ 21,933,806 | \$ 9,625,560 | \$ 18,557,702 |

Governmental Activities Revenues by Source

| <u>Source</u> | Fiscal Year 2014 | | Fiscal Year 2013 | |
|------------------------------------|------------------|---------|------------------|---------|
| | Revenue | Percent | Revenue | Percent |
| Charges for services | \$ 7,737,806 | 30% | \$ 7,646,450 | 26% |
| Operating grants and contributions | 14,196,000 | 55% | 21,807,818 | 73% |
| Other general revenues | 232,531 | 1% | 98,871 | 0% |
| Transfers | 3,546,765 | 14% | 185,563 | 1% |
| Total | \$ 25,713,102 | 100% | \$ 29,738,702 | 100% |

Governmental activities increased the Authority's net position by \$13,404,856. The most significant factors contributing to the governmental activities increases were: (1) the appropriation of \$10,070,000 from the State of Delaware to the Housing Development Fund for the purpose of making loans and grants to meet affordable housing needs; and (2) total revenue in the Delaware Emergency Mortgage Assistance Program of \$1,022,843, resulting in a net increase in loans receivable of \$997,654; (3) a cash transfer from the DSHA Mortgage Backed Securities Purchase Program, a business-type activity, to the DSHA Second Mortgage Assistance Loan Program in the amount of \$1,094,638 in support of program initiatives; and (4) a noncash transfer of \$820,371 from Single Family Programs, a business-type activity, to the General Fund in the form of loans and accrued interest remaining after the partial redemption of the Second Mortgage Assistance Loans Revenue Bonds 2001 Series A in fiscal year 2013.

Business-type Activities

Business-type Activities Net (Expenses)/Revenues by Function

| <u>Function</u> | Fiscal Year 2014 Program | | | Fiscal Year 2013 |
|---------------------------|-----------------------------|---------------|---------------|---------------------|
| | Expenses | Revenues | Net (Exp)/Rev | Net (Exp)/Rev |
| Home ownership | \$ 24,295,925 | \$ 30,236,877 | \$ 5,940,952 | \$ 5,247,425 |
| Affordable rental housing | 51,523,848 | 54,168,577 | 2,644,729 | 2,283,669 |
| Community rehabilitation | 4,611,321 | 4,611,321 | - | (62,865) |
| Total | \$ 80,431,094 | \$ 89,016,775 | \$ 8,585,681 | \$ 7,468,229 |

Business-type Activities Revenues by Source

| <u>Source</u> | Fiscal Year 2014 | | Fiscal Year 2013 | |
|------------------------------------|------------------|---------|------------------|---------|
| | Revenue | Percent | Revenue | Percent |
| Charges for services | \$ 32,314,828 | 35% | \$ 42,098,769 | 60% |
| Operating grants and contributions | 56,208,932 | 61% | 58,154,831 | 83% |
| Capital grants and contributions | 493,015 | 1% | 878,292 | 1% |
| Other general revenues | 2,647,601 | 3% | (31,259,424) | -44% |
| Total | \$ 91,664,376 | 100% | \$ 69,872,468 | 100% |

Business-type activities increased the Authority's net position by \$7,686,517. The key elements of this increase were: (1) the receipt of \$2,962,144 in HOME Investment Partnership Program federal grant funds for the purpose of making loans and grants to meet affordable housing needs; (2) the receipt of over \$2,400,000 in gains on sales of investments within the DSHA Mortgage Backed Securities (MBS) Purchase Program resulting from MBS purchases and sales in the To-Be-Announced (TBA) market; and (3) a total operating income of over \$6,000,000 in Single Family Mortgage Revenue Bond programs as of June 30, 2014 resulting from interest received on mortgage loans exceeding interest paid on bonds; offset by transfers to governmental activities of \$3,546,765, as previously discussed.

Financial Analysis of the Authority's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the Authority's governmental funds reported combined ending fund balances of \$298,272,114, an increase of \$13,507,231 (4.7%) in comparison with the prior year. All of the fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, the fund balance of the General Fund was \$41,281,765, a decrease of \$894,076 (-2.1%) in comparison with the prior year. The key factors of this decrease were General Fund revenues of \$1,721,345 declining by 6.7% from the previous year while expenditures of \$5,044,362 increased by 2.4% from the previous year, resulting in a deficit of \$3,323,017. This deficit of revenues over expenses was offset by the transfer in from the Single Family Mortgage Revenue Bond Programs of administrative fees of \$1,633,573 to support operations and a noncash transfer in of a \$820,371 loan and accrued interest portfolio remaining after the partial redemption of the Second Mortgage Assistance Loan Revenue Bonds 2001 Series A in fiscal year 2013. All of the General Fund fund balance is classified as either nonspendable, in the form of receivables and other prepaid items, or committed by the Authority to support operations and program activities.

The Housing Development Fund (HDF) has a total fund balance of \$213,767,335, of which \$162,401,318 is designated as nonspendable. Additionally, \$39,475,155 is designated as restricted, to be used for the specific purposes of HDF activities per enabling legislation and \$11,890,862 is designated as committed, authorized for specific purposes but not yet disbursed at the statement date. The net increase in the fund balance during the current year in the HDF was \$10,370,556 (5.1%) in comparison with the prior year. The increase is the result of grants in the amount of \$10,070,000 from the State of Delaware used to generate mortgages and grants, \$3,280,212 in interest income, \$977,905 in fee revenue, and \$6,402 in other revenue offset by administrative and grant expenditures of \$757,941 and \$1,206,022, respectively, and a cash transfer of \$2,000,000 to the DSHA Second Mortgage Assistance Loan Program.

The DSHA Second Mortgage Assistance Loan Program (DSHA SMAL) has a total fund balance of \$20,647,485, of which \$19,092,688 is reported as nonspendable and \$1,554,797 is reported as assigned. The net increase in the fund balance during the fiscal year was \$3,850,231 (22.9%) in comparison with the prior year. The increase was the result of interest income received and accrued in the amount of \$679,991, other revenue of \$70, and transfers from the Housing Development Fund, the Housing Rehabilitation Loan Program, a non-major governmental fund, and the DSHA Mortgage Backed Securities Purchase Program totaling \$3,554,638 to fund the Authority's second mortgage assistance loan initiatives. These revenue sources were offset by program costs of \$384,477, mainly due to the need to adjust the allowance for doubtful accounts because of increased loans receivable.

Proprietary Funds

The financial statements for the Authority's proprietary funds, which are all enterprise funds, provide the same type of information found in the entity-wide financial statements, but in more detail.

Restricted net position of the Federal Programs Fund at the end of the year amounted to \$81,523,925, and those of the Single Family Programs Funds amounted to \$51,724,585.

The total increase in net position for the Federal Programs Fund was \$2,668,961 (3.4%) in comparison with the prior year, primarily due to the receipt of \$2,962,144 in HOME Investment Partnership Program grant funds for affordable rental housing mortgage loans and grants offset by grant expense in the program of \$610,967.

The total increase in net position for the Single Family Program Funds was \$5,017,556 (10.7%) in comparison with the prior year as restated, primarily due to the receipt of over \$2,400,000 in gains on the sale of investments within the DSHA Mortgaged Backed Securities Purchase Program resulting for mortgage backed security purchases and sales in the To-Be-Announced (TBA) market and a total operating income of over \$6,000,000 in the Single Family Mortgage Revenue Bond Programs resulting from interest received on mortgage loans exceeding interest paid on bonds; offset by transfers to governmental funds of \$3,546,765, as previously discussed.

General Fund Budget

Under Governmental Accounting Standards Board (GASB) Statement No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Authority is not legally required to adopt a budget for the general fund. Therefore, budget

comparison information is not included in the Authority's financial statements. However, the Authority does implement an executive budget each fiscal year. The executive budget is reviewed and approved by the Director, monitored for compliance on a monthly basis, and any use of the general fund beyond the approved executive budget must be approved by the Director.

Capital Asset and Debt Administration

Capital Assets

The Authority's investment in capital assets for its governmental and business type activities as of June 30, 2014, amounts to \$17,061,753 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment. The total decrease in the Authority's investment in capital assets for the current fiscal year was 7.7 % (a 5.8% decrease for governmental activities and a 7.9% decrease for business-type activities). The net decrease in capital assets was due to depreciation expense on existing capital assets being greater than capital asset additions and improvements for the fiscal year. Major capital asset events during the fiscal year included the following:

- Ceiling and roof replacements at one public housing site.
- Heat pump and water heater replacements at one public housing site.
- Various mechanical repairs and replacements at three public housing sites.

Delaware State Housing Authority's Capital Assets (net of depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------|----------------------------|--------------|-----------------------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | \$ 797,960 | \$ 797,960 | \$ 2,336,842 | \$ 2,336,842 | \$ 3,134,802 | \$ 3,134,802 |
| Buildings held for resale | - | - | 330,911 | 330,911 | 330,911 | 330,911 |
| Construction in progress | - | - | 220,588 | 880,369 | 220,588 | 880,369 |
| Buildings | 799,351 | 855,984 | 4,286,110 | 4,867,812 | 5,085,461 | 5,723,796 |
| Land/site improvements | 22,828 | 26,978 | 7,911,993 | 7,854,980 | 7,934,821 | 7,881,958 |
| Vehicles | - | - | - | - | - | - |
| Other equipment | 143,752 | 191,670 | 211,418 | 341,275 | 355,170 | 532,945 |
| Total | \$ 1,763,891 | \$ 1,872,592 | \$ 15,297,862 | \$ 16,612,189 | \$ 17,061,753 | \$ 18,484,781 |

Additional information on the Authority's capital assets can be found in note IV., D. on page 49 of this report.

Long-term Debt

At the end of the current fiscal year, Delaware State Housing Authority had total bonded debt outstanding of \$483,725,337. The Authority's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

Delaware State Housing Authority's Outstanding Debt

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------|----------------------------|------|-----------------------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Notes payable | \$ - | \$ - | \$ - | \$ 378,130 | \$ - | \$ 378,130 |
| Revenue bonds payable | - | - | 483,725,337 | 639,186,914 | 483,725,337 | 639,186,914 |
| Total | \$ - | \$ - | \$ 483,725,337 | \$ 639,565,044 | \$ 483,725,337 | \$ 639,565,044 |

The Authority's outstanding debt, excluding compensated absences, decreased by \$155,839,707 (24.4%) in comparison to the prior year. Key factors in this decrease were Single Family Programs Enterprise Fund bond calls of \$148,055,625, scheduled maturities of \$3,445,000, bond accretion of \$3,960,952, and a note payable decrease of \$378,130 in the DSHA Mortgage Backed Security Purchase Program within the Single Family

Programs Enterprise Fund. The bond calls of \$148,055,625 in the Single Family programs were primarily the result of the redemption of one older bond issue during the year and numerous mortgage prepayments in all the programs.

The Authority maintains a range of “A3” to “Aaa” ratings from Moody’s for revenue bonds. The Authority is authorized to issue bonds and notes in order to exercise its authorized powers. The Authority must abide by federal private activity caps. Authority bonds and notes issued are not the debt of the State of Delaware and the State is not liable for repayment of such debt.

Additional information on the Authority’s long-term debt can be found in note IV., F. on pages 51-52 of this report.

Requests for Information

This financial report is designed to provide a general overview of the Authority’s finances for all those with an interest in the Authority’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Management, Delaware State Housing Authority, 18 The Green, Dover, DE 19901.



DELAWARE STATE HOUSING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013)

| | GOVERNMENTAL ACTIVITIES | BUSINESS TYPE ACTIVITIES | TOTAL 2014 | TOTAL 2013 |
|--|----------------------------|-----------------------------|-----------------------|-----------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 31,588,631 | \$ 6,287,456 | \$ 37,876,087 | \$ 43,869,964 |
| Investments | 60,174,841 | 16,768,100 | 76,942,941 | 52,427,372 |
| Mortgage loans receivable, net | 7,655,846 | 1,864,837 | 9,520,683 | 2,606,914 |
| Accrued interest & other receivables | 2,079,975 | 7,275,233 | 9,355,208 | 9,111,978 |
| Grants receivable-US Dept of HUD | - | 473,871 | 473,871 | 280,458 |
| Internal balances | 5,498,921 | (5,498,921) | - | - |
| Other post employment benefits (OPEB) asset | 1,507 | - | 1,507 | 2,595 |
| Prepaid expenses | 92,270 | 3,526,316 | 3,618,586 | 3,530,018 |
| Total current assets | 107,091,991 | 30,696,892 | 137,788,883 | 111,829,299 |
| Non-current assets: | | | | |
| Cash, restricted for payment of escrows | - | 833,244 | 833,244 | 964,363 |
| Investments | 29,583,120 | 6,361,155 | 35,944,275 | 52,323,546 |
| Securitized mortgage loans | - | 469,324,676 | 469,324,676 | 606,955,334 |
| Mortgage loans receivable, net | 156,433,328 | 94,129,268 | 250,562,596 | 255,441,576 |
| Accrued interest & other receivables, net | 33,392,539 | 10,760,516 | 44,153,055 | 41,825,722 |
| Internal balances | 3,205,476 | (3,205,476) | - | - |
| Capital assets: | | | | |
| Capital assets not being depreciated | 797,960 | 2,888,341 | 3,686,301 | 4,346,082 |
| Capital assets net of accumulated depreciation | 965,931 | 12,409,521 | 13,375,452 | 14,138,699 |
| Total non-current assets | 224,378,354 | 593,501,245 | 817,879,599 | 975,995,322 |
| TOTAL ASSETS | 331,470,345 | 624,198,137 | 955,668,482 | 1,087,824,621 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred amounts on bond refundings | - | 271,455 | 271,455 | 318,192 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | - | 271,455 | 271,455 | 318,192 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable and other current liabilities | 285,033 | 788,208 | 1,073,241 | 1,051,038 |
| Due to State of Delaware-pension costs | 4,150 | 4,274 | 8,424 | 6,146 |
| Compensated absences payable | 16,470 | 7,291 | 23,761 | 19,620 |
| Accrued interest payable | - | - | - | 18,071 |
| Notes payable | - | - | - | 378,130 |
| Revenue bonds payable | - | 11,121,863 | 11,121,863 | 14,155,408 |
| Total current liabilities | 305,653 | 11,921,636 | 12,227,289 | 15,628,413 |
| Non-current liabilities: | | | | |
| Compensated absences payable | 589,451 | 425,285 | 1,014,736 | 980,159 |
| Escrow deposits | 31,143,650 | 5,879,235 | 37,022,885 | 34,500,984 |
| Revenue bonds payable | - | 472,603,474 | 472,603,474 | 625,031,506 |
| Total non-current liabilities | 31,733,101 | 478,907,994 | 510,641,095 | 660,512,649 |
| TOTAL LIABILITIES | 32,038,754 | 490,829,630 | 522,868,384 | 676,141,062 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred amounts on bond refundings | - | 391,452 | 391,452 | 413,023 |
| TOTAL DEFERRED INTFLOWS OF RESOURCES | - | 391,452 | 391,452 | 413,023 |
| NET POSITION | | | | |
| Invested in capital assets | 1,763,891 | 15,297,862 | 17,061,753 | 18,484,781 |
| Restricted by federal and state regulations | 256,990,349 | 66,226,063 | 323,216,412 | 304,831,817 |
| Restricted by bond covenants, restated | - | 51,724,585 | 51,724,585 | 46,707,029 |
| Restricted for Authority Loan Program | 11,110,864 | - | 11,110,864 | 11,338,175 |
| Unrestricted, for Authority's purposes | 29,566,487 | - | 29,566,487 | 30,226,926 |
| TOTAL NET POSITION, RESTATED FOR 2013 | \$ 299,431,591 | \$ 133,248,510 | \$ 432,680,101 | \$ 411,588,728 |

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

DELAWARE STATE HOUSING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

| FUNCTION | PROGRAM REVENUE | | | | NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS | | | |
|---|-----------------|-------------------------|--|--|---|-----------------------------|----------------|----------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL 2014 | TOTAL 2013 |
| Governmental activities: | | | | | | | | |
| Administrative | \$ 5,071,861 | \$ 948,410 | \$ 26,000 | \$ - | \$ (4,097,451) | \$ - | \$ (4,097,451) | \$ (3,727,538) |
| Home ownership | 1,960,558 | 2,100,050 | - | - | 139,492 | - | 139,492 | 9,870,752 |
| Affordable rental housing | 5,226,568 | 4,615,235 | 14,170,000 | - | 13,558,667 | - | 13,558,667 | 12,367,688 |
| Housing rehabilitation | 49,259 | 74,111 | - | - | 24,852 | - | 24,852 | 46,800 |
| Total governmental activities | \$ 12,308,246 | \$ 7,737,806 | \$ 14,196,000 | \$ - | 9,625,560 | - | 9,625,560 | 18,557,702 |
| Business-type activities: | | | | | | | | |
| Home ownership | \$ 24,295,925 | \$ 29,825,683 | \$ 411,194 | \$ - | - | 5,940,952 | 5,940,952 | 5,247,425 |
| Affordable rental housing | 51,523,848 | 2,489,145 | 51,186,417 | 493,015 | - | 2,644,729 | 2,644,729 | 2,283,669 |
| Community rehabilitation | 4,611,321 | - | 4,611,321 | - | - | - | - | (62,865) |
| Total business-type activities | \$ 80,431,094 | \$ 32,314,828 | \$ 56,208,932 | \$ 493,015 | - | 8,585,681 | 8,585,681 | 7,468,229 |
| General revenues: | | | | | | | | |
| Investment income, gains/(losses) on investments, and miscellaneous earnings | | | | | 232,531 | 2,647,601 | 2,880,132 | (31,160,553) |
| Transfers | | | | | 3,546,765 | (3,546,765) | - | - |
| Total general revenues and transfers | | | | | 3,779,296 | (899,164) | 2,880,132 | (31,160,553) |
| Change in net position, restated | | | | | 13,404,856 | 7,686,517 | 21,091,373 | (5,134,622) |
| Net position, beginning of year, restated | | | | | 286,026,735 | 125,561,993 | 411,588,728 | 416,723,350 |
| Net position, end of year, restated for 2013 | | | | | \$ 299,431,591 | \$ 133,248,510 | \$ 432,680,101 | \$ 411,588,728 |

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



DELAWARE STATE HOUSING AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013)

| | GENERAL FUND | HOUSING DEVELOPMENT FUND | DSHA SECOND MORTGAGE ASSISTANCE LOAN PROGRAM | | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS | |
|--|----------------------|--------------------------------|--|----------------------|-----------------------------------|-----------------------------|--|
| | | | 2014 | 2013 | | | |
| ASSETS | | | | | | | |
| Cash & cash equivalents | \$ 3,954,600 | \$ 19,606,860 | \$ 1,847,061 | \$ 6,180,110 | \$ 31,588,631 | \$ 34,393,362 | |
| Investments | 17,999,834 | 61,621,674 | - | 10,136,453 | 89,757,961 | 78,569,878 | |
| Interfund receivables | 9,587,558 | - | 662 | 6,266 | 9,594,486 | 8,448,465 | |
| Loans receivable: | | | | | | | |
| Mortgages receivable, net | 9,825,103 | 133,245,803 | 14,635,726 | 6,382,542 | 164,089,174 | 159,495,793 | |
| Interfund | - | 251,672 | - | - | 251,672 | 252,622 | |
| Accrued interest & other receivables | 1,686,104 | 28,903,843 | 4,456,962 | 425,605 | 35,472,514 | 33,519,312 | |
| Prepaid items | 92,270 | - | - | - | 92,270 | 104,551 | |
| TOTAL ASSETS | \$ 43,145,469 | \$ 243,629,852 | \$ 20,940,411 | \$ 23,130,976 | \$ 330,846,708 | \$ 314,783,983 | |
| LIABILITIES & FUND BALANCES | | | | | | | |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 283,506 | \$ - | \$ - | \$ 1,527 | \$ 285,033 | \$ 309,537 | |
| Due to St of Delaware-pension costs | 4,150 | - | - | - | 4,150 | 4,178 | |
| Interfund payables | 43,243 | - | 292,926 | 553,920 | 890,089 | 582,239 | |
| Escrow deposits | 1,281,133 | 29,862,517 | - | - | 31,143,650 | 28,870,524 | |
| Interfund loans payable | 251,672 | - | - | - | 251,672 | 252,622 | |
| TOTAL LIABILITIES | 1,863,704 | 29,862,517 | 292,926 | 555,447 | 32,574,594 | 30,019,100 | |
| FUND BALANCES | | | | | | | |
| Nonspendable | 12,716,083 | 162,401,318 | 19,092,688 | 6,764,271 | 200,974,360 | 196,739,333 | |
| Restricted | - | 39,475,155 | - | 12,994,673 | 52,469,828 | 36,914,098 | |
| Committed | 28,565,682 | 11,890,862 | - | - | 40,456,544 | 46,762,755 | |
| Assigned | - | - | 1,554,797 | 2,816,585 | 4,371,382 | 4,348,697 | |
| TOTAL FUND BALANCES | 41,281,765 | 213,767,335 | 20,647,485 | 22,575,529 | 298,272,114 | 284,764,883 | |
| TOTAL LIABILITIES & FUND BALANCES | \$ 43,145,469 | \$ 243,629,852 | \$ 20,940,411 | \$ 23,130,976 | \$ 330,846,708 | \$ 314,783,983 | |

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

DELAWARE STATE HOUSING AUTHORITY
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
 THE STATEMENT OF NET POSITION
 JUNE 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|---|-----------------------|
| TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS (page 18) | \$ 298,272,114 |
| Other post-employment benefits (OPEB) assets are not financial resources and, therefore, are not reported in the funds. | 1,507 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 1,763,891 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(605,921)</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES (page 15) | <u>\$ 299,431,591</u> |

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

DELAWARE STATE HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

| | GENERAL FUND | HOUSING DEVELOPMENT FUND | DSHA SECOND MORTGAGE ASSISTANCE LOAN PROGRAM | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS | |
|--|----------------------|--------------------------------|--|-----------------------------------|-----------------------------|-----------------------|
| | | | | | 2014 | 2013 |
| REVENUES | | | | | | |
| Interest income: | | | | | | |
| Investments | \$ 134,439 | \$ 51,803 | \$ - | \$ 25,045 | \$ 211,287 | \$ 304,668 |
| Loans | 593,227 | 3,228,409 | 679,991 | 145,417 | 4,647,044 | 4,543,834 |
| Total interest income | 727,666 | 3,280,212 | 679,991 | 170,462 | 4,858,331 | 4,848,502 |
| Grants | 26,000 | - | - | - | 26,000 | 748,895 |
| Payments from primary government | - | 10,070,000 | - | 4,100,000 | 14,170,000 | 21,058,923 |
| Gains/(losses) on investments | 4,743 | (1,494) | - | 17,995 | 21,244 | (205,797) |
| Fees | 875,844 | 977,905 | - | 193,500 | 2,047,249 | 2,361,834 |
| Other revenue | 87,092 | 7,896 | 79 | 948,446 | 1,043,513 | 740,782 |
| TOTAL REVENUES | 1,721,345 | 14,334,519 | 680,070 | 5,430,403 | 22,166,337 | 29,553,139 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Administrative | 5,044,362 | - | - | - | 5,044,362 | 4,909,078 |
| Home ownership | - | - | 384,477 | 1,501,204 | 1,885,681 | 1,842,008 |
| Affordable rental housing | - | 1,963,963 | - | 3,262,606 | 5,226,569 | 3,979,630 |
| Housing rehabilitation | - | - | - | 49,259 | 49,259 | 18,473 |
| TOTAL EXPENDITURES | 5,044,362 | 1,963,963 | 384,477 | 4,813,069 | 12,205,871 | 10,749,189 |
| EXCESS/(DEFICIT) REVENUE OVER EXPEDITURES | (3,323,017) | 12,370,556 | 295,593 | 617,334 | 9,960,466 | 18,803,950 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 2,475,339 | - | 3,554,638 | 30,730 | 6,060,707 | 3,780,268 |
| Transfers out | (46,398) | (2,000,000) | - | (467,544) | (2,513,942) | (3,594,705) |
| TOTAL OTHER FINANCING SOURCES (USES) | 2,428,941 | (2,000,000) | 3,554,638 | (436,814) | 3,546,765 | 185,563 |
| NET CHANGE IN FUND BALANCES | (894,076) | 10,370,556 | 3,850,231 | 180,520 | 13,507,231 | 18,989,513 |
| FUND BALANCES, BEGINNING | 42,175,841 | 203,396,779 | 16,797,254 | 22,395,009 | 284,764,883 | 265,775,370 |
| FUND BALANCES, ENDING | \$ 41,281,765 | \$ 213,767,335 | \$ 20,647,485 | \$ 22,575,529 | \$ 298,272,114 | \$ 284,764,883 |

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

DELAWARE STATE HOUSING AUTHORITY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|----------------------|
| NET CHANGES IN FUND BALANCE-TOTAL GOVERNMENTAL FUNDS (page 20) | \$ 13,507,231 |
| Governmental funds report other post-employment benefit (OPEB) expenditures equal to the amount contributed to the plan or expected to be liquidated with expendable available financial resources. However, in the statement of activities, OPEB expense for the year is reported in relation to the annual required contribution (ARC) equal to the annual OPEB cost. This amount is the net effect of this difference in the treatment of OPEB expenditures/expense. | (1,088) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the net effect of the difference in the treatment of capital outlay. | (108,701) |
| Compensated absences which are reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | 7,414 |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (page 16) | <u>\$ 13,404,856</u> |

DELAWARE STATE HOUSING AUTHORITY
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2013)

| | FEDERAL | SINGLE | TOTAL ENTERPRISE | |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | PROGRAMS | FAMILY | FUNDS | |
| | ENTERPRISE | PROGRAMS | | |
| | FUND | ENTERPRISE | 2014 | 2013 |
| | FUND | FUND | | |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash & cash equivalents | \$ 2,693,249 | \$ 3,594,207 | \$ 6,287,456 | \$ 9,476,602 |
| Investments | 3,346,572 | 13,421,528 | 16,768,100 | 16,948,911 |
| Mortgage loans receivable, net | - | 1,864,837 | 1,864,837 | 1,819,366 |
| Accrued interest and other receivables | 110,515 | 7,164,718 | 7,275,233 | 7,753,081 |
| Grants receivable-US Dept of HUD | 473,871 | - | 473,871 | 280,458 |
| Interfund receivables | 12,453 | 1,183 | 13,636 | 20,597 |
| Prepaid expenses | 3,526,316 | - | 3,526,316 | 3,425,467 |
| Total current assets | 10,162,976 | 26,046,473 | 36,209,449 | 39,724,482 |
| Non-Current Assets: | | | | |
| Cash, restricted for payment of escrows | 833,244 | - | 833,244 | 964,363 |
| Investments | 2,688,858 | 3,672,297 | 6,361,155 | 9,232,129 |
| Securitized mortgage loans | - | 469,324,676 | 469,324,676 | 606,955,334 |
| Mortgage loans receivable, net | 52,089,016 | 42,040,252 | 94,129,268 | 96,733,331 |
| Accrued interest and other receivables, net | 10,760,516 | - | 10,760,516 | 9,665,307 |
| Interfund receivables | 24,524 | - | 24,524 | 24,827 |
| Capital assets not being depreciated | 2,888,341 | - | 2,888,341 | 3,548,122 |
| Capital assets net of accumulated depreciation | 12,409,521 | - | 12,409,521 | 13,064,067 |
| Total non-current assets | 81,694,020 | 515,037,225 | 596,731,245 | 740,187,480 |
| TOTAL ASSETS | 91,856,996 | 541,083,698 | 632,940,694 | 779,911,962 |
| DEFERRED OUTFLOW OF RESOURCES | | | | |
| Deferred amount on bond refunding | - | 271,455 | 271,455 | 318,192 |
| TOTAL DEFERRED OUTFLOW OF RESOURCES | - | 271,455 | 271,455 | 318,192 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 785,220 | 2,988 | 788,208 | 741,501 |
| Due St of Delaware-pension costs | 4,274 | - | 4,274 | 1,968 |
| Interfund payables | 1,766 | 5,510,791 | 5,512,557 | 3,980,898 |
| Compensated absences payable | 7,291 | - | 7,291 | 11,139 |
| Accrued interest payable | - | - | - | 18,071 |
| Notes payable | - | - | - | 378,130 |
| Revenue bonds payable | - | 11,121,863 | 11,121,863 | 14,155,408 |
| Total current liabilities | 798,551 | 16,635,642 | 17,434,193 | 19,287,115 |
| Non-Current Liabilities: | | | | |
| Compensated absences payable | 425,285 | - | 425,285 | 375,305 |
| Interfund payables | 3,230,000 | - | 3,230,000 | 3,930,752 |
| Escrow deposits | 5,879,235 | - | 5,879,235 | 5,630,460 |
| Revenue bonds payable | - | 472,603,474 | 472,603,474 | 625,031,506 |
| Total non-current liabilities | 9,534,520 | 472,603,474 | 482,137,994 | 634,968,023 |
| TOTAL LIABILITIES | 10,333,071 | 489,239,116 | 499,572,187 | 654,255,138 |
| DEFERRED INFLOW OF RESOURCES | | | | |
| Deferred amount on bond refunding | - | 391,452 | 391,452 | 413,023 |
| TOTAL DEFERRED INFLOW OF RESOURCES | - | 391,452 | 391,452 | 413,023 |
| NET POSITION | | | | |
| Invested in capital assets | 15,297,862 | - | 15,297,862 | 16,612,189 |
| Restricted by federal regulations | 66,226,063 | - | 66,226,063 | 62,242,775 |
| Restricted by bond covenants, restated | - | 51,724,585 | 51,724,585 | 46,707,029 |
| TOTAL NET POSITION, RESTATED FOR 2013 | \$ 81,523,925 | \$ 51,724,585 | \$ 133,248,510 | \$ 125,561,993 |

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

DELAWARE STATE HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

| | FEDERAL | SINGLE | TOTAL ENTERPRISE | |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | PROGRAMS | FAMILY | FUNDS | |
| | ENTERPRISE | PROGRAMS | ENTERPRISE | |
| | FUND | ENTERPRISE | 2014 | 2013 |
| OPERATING REVENUES | | | | |
| Interest income on loans | \$ 1,275,913 | \$ 25,280,293 | \$ 26,556,206 | \$ 34,918,140 |
| Federal housing program grants | 56,208,932 | - | 56,208,932 | 58,154,831 |
| Rental income | 675,145 | - | 675,145 | 579,923 |
| Discount on securitized mortgage loans | - | - | - | 58,358 |
| Amortization of deferred revenues | - | 4,448,580 | 4,448,580 | 5,685,018 |
| Miscellaneous | 538,087 | 96,810 | 634,897 | 907,084 |
| TOTAL OPERATING REVENUES | 58,698,077 | 29,825,683 | 88,523,760 | 100,303,354 |
| OPERATING EXPENSES | | | | |
| Interest expense on bonds | - | 23,087,065 | 23,087,065 | 32,840,675 |
| Administrative | 5,507,864 | 87,003 | 5,594,867 | 6,531,976 |
| Grants and housing assistance payments | 47,528,402 | 154,803 | 47,683,205 | 50,321,835 |
| Public housing maintenance & utilities | 1,790,038 | - | 1,790,038 | 1,644,546 |
| Premium on securitized mortgage loans | - | - | - | 8,341 |
| Amortization of deferred expenses | - | 46,737 | 46,737 | 49,754 |
| Depreciation | 1,677,151 | - | 1,677,151 | 1,673,459 |
| Loan servicing fees | - | 66,947 | 66,947 | 80,905 |
| Other expenses | - | 485,084 | 485,084 | 561,926 |
| TOTAL OPERATING EXPENSES | 56,503,455 | 23,927,639 | 80,431,094 | 93,713,417 |
| OPERATING INCOME | 2,194,622 | 5,898,044 | 8,092,666 | 6,589,937 |
| NON-OPERATING INCOME/(EXPENSES) | | | | |
| Interest income on investments | 2,135 | 230,612 | 232,747 | 1,599,441 |
| Change in fair value of investments | - | 2,414,854 | 2,414,854 | (32,858,865) |
| TOTAL NON-OPERATING INCOME/(EXPENSES) | 2,135 | 2,645,466 | 2,647,601 | (31,259,424) |
| INCOME/(LOSS) BEFORE CAPITAL GRANTS AND OPERATING TRANSFERS | | | | |
| Capital grants | 2,196,757 | 8,543,510 | 10,740,267 | (24,669,487) |
| Transfers in | 493,015 | - | 493,015 | 878,292 |
| Transfers out | - | 33,212 | 33,212 | 2,840,747 |
| | (20,811) | (3,559,166) | (3,579,977) | (3,026,310) |
| CHANGE IN NET POSITION, RESTATED | 2,668,961 | 5,017,556 | 7,686,517 | (23,976,758) |
| NET POSITION, BEGINNING, RESTATED | 78,854,964 | 46,707,029 | 125,561,993 | 149,538,751 |
| NET POSITION, ENDING, RESTATED | \$ 81,523,925 | \$ 51,724,585 | \$ 133,248,510 | \$ 125,561,993 |

DELAWARE STATE HOUSING AUTHORITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

| | FEDERAL | SINGLE | TOTAL ENTERPRISE | |
|--|---------------------|----------------------|----------------------|----------------------|
| | PROGRAMS | FAMILY | FUNDS | |
| | ENTERPRISE | ENTERPRISE | 2014 | 2013 |
| | FUND | FUND | | |
| OPERATING ACTIVITIES: | | | | |
| Securitized mortgage loans principal repayments received | \$ - | \$ 137,605,391 | \$ 137,605,391 | \$ 207,977,895 |
| Mortgage loans principal repayments received | 297,979 | 3,932,469 | 4,230,448 | 7,605,003 |
| Mortgage interest payments received | 178,793 | 25,241,163 | 25,419,956 | 33,973,193 |
| Grants received | 56,113,970 | - | 56,113,970 | 58,245,659 |
| Rental and related rental income | 706,201 | - | 706,201 | 604,023 |
| Discount on securitized mortgage loans | - | - | - | 58,358 |
| Insurance claims received | - | 217,861 | 217,861 | 118,095 |
| Escrow receipts | 1,683,456 | - | 1,683,456 | 2,892,292 |
| Other receipts | 502,359 | 6,972 | 509,331 | 317,474 |
| Purchase of securitized mortgage loans | - | - | - | (56,602,308) |
| New mortgages disbursed | (2,548,929) | - | (2,548,929) | (7,964,043) |
| Grants disbursed | (47,629,251) | (125,558) | (47,754,809) | (50,178,121) |
| Administrative expenses | (6,208,809) | (87,023) | (6,295,832) | (5,264,868) |
| Maintenance and utility expenses | (1,790,038) | - | (1,790,038) | (1,649,041) |
| Premium on securitized mortgage loans | - | - | - | (8,341) |
| Trustee and servicing fees paid | - | (198,401) | (198,401) | (221,149) |
| Bond insurance premiums | - | (17,973) | (17,973) | (21,754) |
| Mortgage pool insurance premiums paid | - | (471) | (471) | (101) |
| Foreclosure disbursements | - | - | - | (31,646) |
| Escrow disbursements | (1,436,222) | - | (1,436,222) | (2,046,656) |
| Other disbursements | - | - | - | (1,512) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (130,491) | 166,574,430 | 166,443,939 | 187,802,452 |
| NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Proceeds from revenue bonds | - | - | - | 108,080,000 |
| Note proceeds | - | - | - | 152,759,398 |
| Interfund payments received | - | 6,358,486 | 6,358,486 | 154,008,829 |
| Repayments of principal on revenue bonds | - | (151,500,624) | (151,500,624) | (275,433,558) |
| Payments of interest on revenue bonds | - | (22,360,739) | (22,360,739) | (32,086,990) |
| Payments of interest on notes payable | - | (931) | (931) | (146,196) |
| Bond issuance costs | - | - | - | (1,065,000) |
| Repayments of notes payable | - | (378,130) | (378,130) | (168,336,110) |
| Premium on bond call | - | (196,733) | (196,733) | (74,417) |
| Interfund payments made | - | (9,075,916) | (9,075,916) | (149,588,310) |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | - | (177,154,587) | (177,154,587) | (211,882,354) |
| CAPITAL FINANCING ACTIVITIES: | | | | |
| Capital grant funds from US Dept of HUD | 394,564 | - | 394,564 | 878,292 |
| Purchase of capital assets | (264,373) | - | (264,373) | (878,292) |
| NET CASH USED BY CAPITAL FINANCING ACTIVITIES | 130,191 | - | 130,191 | - |
| INVESTING ACTIVITIES: | | | | |
| Proceeds from sales and maturities of investments | 19,409,038 | 185,654,174 | 205,063,212 | 695,920,695 |
| Interest income on investments | 2,135 | 235,927 | 238,062 | 7,601,187 |
| Purchase of investment securities | (19,742,092) | (178,298,990) | (198,041,082) | (672,388,664) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | (330,919) | 7,591,111 | 7,260,192 | 31,133,218 |
| NET INCREASE (DECREASE) IN CASH/CASH EQUIVALENTS | (331,219) | (2,989,046) | (3,320,265) | 7,053,316 |
| CASH/CASH EQUIVALENTS, BEGINNING OF YEAR | 3,857,712 | 6,583,253 | 10,440,965 | 3,387,649 |
| CASH/CASH EQUIVALENTS, END OF YEAR | \$ 3,526,493 | \$ 3,594,207 | 7,120,700 | \$ 10,440,965 |

Continued on next page.

DELAWARE STATE HOUSING AUTHORITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

| | FEDERAL PROGRAMS ENTERPRISE FUND | SINGLE FAMILY PROGRAMS ENTERPRISE FUND | TOTAL ENTERPRISE FUNDS | |
|--|---|--|---------------------------|-----------------------|
| | | | 2014 | 2013 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES | | | | |
| OPERATING INCOME | \$ 2,194,622 | \$ 5,898,044 | \$ 8,092,666 | \$ 6,589,937 |
| Adjustments to reconcile operating income to net cash provided(used) by operating activities: | | | | |
| Amortization of deferred expenses | - | 46,737 | 46,737 | 737,150 |
| Amortization of deferred revenues | - | (4,448,580) | (4,448,580) | (5,685,018) |
| Depreciation expense | 1,677,151 | - | 1,677,151 | 1,673,459 |
| Interest expense on bonds | - | 23,087,954 | 23,087,954 | 32,982,859 |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in accrued interest and other receivables | (1,267,506) | 461,407 | (806,099) | (629,686) |
| (Increase) decrease in securitized mortgage loans | - | 137,605,391 | 137,605,391 | 151,375,586 |
| (Increase) decrease in mortgage loans receivable | (2,250,950) | 4,809,541 | 2,558,591 | (80,057) |
| (Increase) decrease in other assets | (100,849) | - | (100,849) | 150,857 |
| Increase (decrease) in accounts payable and accrued expenses | (630,193) | 15,875 | (614,318) | 308,114 |
| Increase (decrease) in interfund activity | - | (820,371) | (820,371) | (342,939) |
| Decrease in bonds payable | - | (81,568) | (81,568) | (123,446) |
| Increase (decrease) in escrow deposits | 247,234 | - | 247,234 | 845,636 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ (130,491) | \$ 166,574,430 | \$ 166,443,939 | \$ 187,802,452 |
| NONCASH NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers in | \$ - | \$ - | \$ - | \$ 184 |
| Transfers out | - | (820,371) | (820,371) | (343,123) |
| NET NONCASH TRANSFERS | \$ - | \$ (820,371) | \$ (820,371) | \$ (342,939) |
| NONCASH INVESTING ACTIVITIES | | | | |
| Increase (decrease) in fair value of investments | \$ 1,541 | \$ 2,414,856 | \$ 2,416,397 | \$ (38,861,811) |

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

DELAWARE STATE HOUSING AUTHORITY
 STATEMENTS OF FIDUCIARY NET POSITION
 JUNE 30, 2014 AND 2013

| | <u>DSHA RETIREE MEDICAL TRUST</u> | |
|---|-----------------------------------|---------------------|
| | <u>2014</u> | <u>2013</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 258,207 | \$ - |
| Interest receivable | 8,918 | 9,592 |
| Investments, at fair value: | | |
| Savings account | 51,290 | 80,331 |
| Corporate Notes | 1,466,887 | 1,089,697 |
| U.S. Treasury Obligations | 616,687 | 868,920 |
| U.S. Government Agencies | 1,996,358 | 1,667,484 |
| Total assets | <u>4,398,347</u> | <u>3,716,024</u> |
| LIABILITIES | | |
| Accounts payable | <u>531</u> | <u>479</u> |
| Total liabilities | <u>531</u> | <u>479</u> |
| NET POSITION | | |
| Assets held in trust for retiree health benefits and other purposes | <u>\$ 4,397,816</u> | <u>\$ 3,715,545</u> |

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

DELAWARE STATE HOUSING AUTHORITY
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | <u>DSHA RETIREE MEDICAL TRUST</u> | |
|---------------------------------------|-----------------------------------|---------------------|
| | 2014 | 2013 |
| ADDITIONS | | |
| Contributions: | | |
| Employer contributions | \$ 665,919 | \$ 667,338 |
| Other | 4,333 | 7,656 |
| Total contributions | <u>670,252</u> | <u>674,994</u> |
| Investment earnings: | | |
| Interest | 44,009 | 42,928 |
| Net increase (decrease) in fair value | 34,712 | (87,435) |
| Total investment earnings | <u>78,721</u> | <u>(44,507)</u> |
| Less: Investment expense | (2,008) | (2,600) |
| Net investment earnings | <u>76,713</u> | <u>(47,107)</u> |
| Total additions | <u>746,965</u> | <u>627,887</u> |
| DEDUCTIONS | | |
| Benefits paid | 54,883 | 61,737 |
| Administrative expenses | 9,811 | 7,500 |
| Total deductions | <u>64,694</u> | <u>69,237</u> |
| CHANGE IN NET POSITION | | |
| Net position - beginning | 682,271 | 558,650 |
| Net position - ending | <u>3,715,545</u> | <u>3,156,895</u> |
| Net position - ending | <u>\$ 4,397,816</u> | <u>\$ 3,715,545</u> |

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

**DELAWARE STATE HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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**DELAWARE STATE HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Delaware State Housing Authority (the Authority) was created in 1968 by an act of the General Assembly of the State of Delaware (the State). The Authority, 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. The Authority was established in July 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. For financial reporting purposes, the Authority is a discretely presented component unit of the State.

The Authority 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 Authority is authorized to issue bonds and notes in order to exercise its authorized powers. The Authority must abide by federal private activity caps. Bonds and notes issued by the Authority are not a debt or liability of the State (nor any political subdivision or agency thereof), and the faith, credit, nor taxing power of the State is not liable for repayment of such obligations. Bonds and notes of the Authority are secured solely by the revenues, loans and other pledged assets under the related Bond Indenture and are not payable from any other revenues of the Authority. Furthermore, the Authority has no taxing power.

In 1987, the State transferred the administrative responsibility for the Housing Development Fund (HDF), Community Development Block Grant and the Delaware Housing Insurance Fund to the Authority, and accordingly, the basic financial statements of the Authority include these activities.

B. Entity-wide and fund financial statements

The financial statements include certain prior-year summarized comparative information in total but not by activity type or fund. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2013 from which the summarized information was derived.

The Authority's financial report consists of entity-wide financial statements and fund financial statements, accompanied by these notes to the financial statements, a management's discussion and analysis, and supplementary information.

The entity-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the Authority. Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by state grants, interest income, and transfers, are reported separately from business-type activities, which rely to a significant extent on federal grants, interest income, mortgage repayments, and bond proceeds for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are

offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are allocated to a specific function in accordance with the Authority's U.S. Department of Housing and Urban Development (HUD) approved cost allocation plan. Interest expense on long-term debt is included in the direct expense of an individual function on the entity-wide statement of activities. Program revenues include 1) charges to clients or applicants who use or directly benefit from services provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Investment income and other items not properly included among program revenues are reported instead as general revenues.

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as applicable. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent in accordance with the Authority's enabling legislation, the various note and bond resolutions and indentures, and/or the requirements of the HUD.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the entity-wide financial statements. Major governmental and enterprise funds are reported as separate columns in the fund financial statements. The Authority reports the General Fund, the Housing Development Fund, and the Delaware State Housing authority (DSHA) Second Mortgage Assistance Loan Program as major governmental funds. All other governmental funds are reported as non-major. The Authority also reports its only enterprise funds, the Federal Programs and the Single Family Programs funds, as major.

The Authority's funds are as follows:

Governmental Fund Types

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund. The General Fund accounts for the primary operations of the Authority. The operational costs are supported by transfers of administrative fees, indirect cost fees, management fees, and surplus funds from the Single Family and Federal programs. The General Fund also receives support from the collection of certain other charges for services. The General Fund also accounts for certain single family, multi-family, and second mortgage assistance loans released from bond indenture requirements as a result of refunding the bonds with which the loans were originally associated. Once released from the bond indentures, these loans are considered assets of the Authority and revenues generated from them are accounted for in the General Fund.

Special Revenue Funds are used for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (other than for major capital projects). The Authority's Special Revenue Funds are as follows:

- **Housing Development Fund (HDF)** – This program provides for the development of affordable housing on a statewide level. Funding for this program is made through appropriations from the General Assembly. These funds are typically loaned to qualified borrowers who can be either non-profit developers or for-profit developers; however, a small portion of these funds are granted to non-profit groups when debt service or repayments are not feasible. To qualify, developers must commit to rent to a predetermined percentage of low and moderate-income individuals for 20 years or the term of the loan, whichever is longer. Various restrictions are placed on mortgages, loans and grants as specified in the closing documents. Because the HDF is a revolving fund, most of its financing activity is in the form of both short and long-term loans which are used to finance pre-development expenses and construction costs, as well as assist in permanent financing. The HDF is used for homeownership assistance on a limited basis.

- DSHA Second Mortgage Assistance Program (DSHA SMAL) – This program accounts for a program originally financed by the Housing Development Fund that provided second mortgage assistance loans to qualified first time home buyers who had inadequate savings to cover up-front costs associated with a home purchase. The Authority discontinued that program in February 2007, with no new loans being made after that date. Additionally, in August of 2008, the Delaware Housing Partnership granted a loan portfolio of over \$9 million to this program for the purpose of securing additional funding for second mortgage assistance. To date over \$4.5 million of this program’s loan portfolio has been granted to the Authority’s Single Family program to be used as collateral for bond issues that included over \$9 million of bond proceeds to be made available for second mortgage assistance loans.

In fiscal year 2014, DSHA SMAL funded additional second mortgage assistance loans to qualified homebuyers with funds provided by the DSHA Mortgage Backed Securities Purchase/TBA Financing Program, a grant from the Housing Development Fund (HDF), and program income.

- Delaware Emergency Mortgage Assistance Program (DEMAP) – Funded through the Housing Development Fund, State Banking Commission licensing fees, and contributions, DEMAP is a loan program to help homeowners who have fallen behind on their mortgages due to financial hardships beyond their control. DEMAP low-interest loans provide eligible homeowners up to \$25,000 for reinstating delinquent mortgages and keeping the mortgage up to date for a period of up to 24 months from the date of delinquency. The Authority’s Housing Finance Office originates, underwrites, approves, and services these loans. There is a mortgage recorded against the subject property, in second or third lien position.

In fiscal year 2013, The Authority received additional funding for DEMAP from the Delaware Department of Justice (DOJ) Mortgage Multistate Settlement Funds. The agreement between DOJ and the Authority transferred \$3,812,500 into DEMAP for additional loans and allows principal repayments to remain in the original DEMAP account.

- Delaware Housing Insurance Fund (DHIF) – This program accounts for the activity related to the Authority’s administration of State funds which provide loan insurance for certain housing development loans. Additionally, the DHIF is used to pay debt service to SMAL bondholders for loans that foreclosed but were not forgiven by the bondholders.
- Delaware Mortgage Mediation Program – In January 2012, the Superior Court of the State of Delaware (the Court) delegated responsibility of administering the Automatic Residential Mortgage Foreclosure Mediation Program (Mediation Program) to the Consumer Protection Unit (CPU) of the Delaware Department of Justice. The CPU sub-delegated certain administrative responsibilities to the Authority. The Authority receives mediation fee payments from the Court and makes disbursements as detailed in a Memorandum of Understanding between the Authority, the CPU, and the Court. Disbursements include program and operating expenses and reimbursements to housing counseling agency and non-profit legal service entities that have provided housing counseling assistance in the Mediation Program.
- Delaware Department of Justice (DOJ) Mortgage Multistate Settlement Funds – This program accounts for \$8,888,923 paid to the State of Delaware from the National Mortgage Foreclosure Settlement. The settlement was the result of an investigation by State Attorneys General into widespread mortgage servicing fraud by five of the nation’s largest banks. The use of the funds is restricted to housing-related and financial fraud-related purposes. The Authority entered into a Memorandum of Understanding (MOU) with the Delaware DOJ detailing joint oversight and coordination of the settlement funds. The MOU specifies the allocation of the funds for housing counseling, education and outreach, legal aid, and foreclosure prevention assistance.

- Foreclosure Prevention Program (FPP) – The Authority received \$250,000 from the State of Delaware in fiscal year 2011 and an additional \$615,600 in fiscal 2012 for the purpose of funding foreclosure prevention services throughout the state. Program funds were fully disbursed in July 2013.
- Housing Rehabilitation Loan Program (HRLP) - The HRLP was funded through the Housing Development Fund. The purpose of the program is to encourage the preservation of existing housing stock already occupied by low and moderate income people. This program provides an interest rate of 3% on housing rehabilitation loans to qualified owner-occupants and to landlords who rent their units to low-income persons. Owner occupants and investors may borrow 100% of rehabilitation costs. The limit on such rehabilitation costs is \$35,000 for owner-occupied and \$25,000 for investor owned. Loans carry up to a 15 year term. These loans are originated by one of four Local Administering Agencies (LAA), New Castle County, Kent County, Sussex County, and City of Wilmington. The Authority underwrites and approves the loans. Artisans Bank services these loans. Based on declining demand, the Authority suspended accepting new HRLP applications as of November 2013. Disposition of the remaining HRLP funds will be reviewed and options explored.
- State Rental Assistance Program (SRAP) – SRAP is designed to serve individuals who have access to continuing supportive services but require affordable housing to live safely and independently in the community. This population includes youth exiting foster care, families for whom the lack of affordable housing is a barrier to reunification, individuals exiting long-term care facilities, and individuals at-risk of being admitted to, or requiring supportive services from, a state-supported institution. The program will utilize rental subsidies administered by the Authority for households referred by the Department of Health and Social Services (DHSS) and the Departments of Services for Children, Youth, and their Families (DSCYF). Funding for this program is received through appropriations from the General Assembly.
- Wexford Village Rehab (WVR) – Accounts for Authority funds that management has designated for use in the rehabilitation of Wexford Village, a 48 unit Low Income Housing Tax Credit (LIHTC) site located in Laurel, DE, owned by Wexford Village Housing Corporation, a non-profit corporation of the Authority.
- Wilmington Senior Tax Assistance Program (WSTAP) – The Wilmington Senior Tax assistance Program is designed to assist homeowners in the City of Wilmington who are 62 years of age or older and facing imminent foreclosure due to delinquent property taxes, or sewer and water bills. This program is funded with grants from United Way of Delaware and the City of Wilmington. Program payments of taxes and/or water/sewer bills for approved applicants are made by the Authority directly to the City of Wilmington. The maximum grant amount available under this program is \$3,000.

Proprietary Fund Type

Two Enterprise funds are used to account for the activities of the Authority's Federal Programs and Single Family Programs as described below:

Federal Programs Fund

Moving To Work Demonstration Program (MTW) – The MTW Demonstration Program offers the Authority the opportunity to design and test housing and self-sufficiency strategies for low-, very-low, and extremely low-income families by allowing exemptions from existing public housing and tenant-based Housing Choice Voucher rules and, with HUD approval, permits the Authority to combine operating, capital, and tenant-based assistance funds into a single agency-wide funding source.

The MTW program provides housing assistance for a maximum of five years to low-income

Delawareans. Participants in the Moving To Work Program sign a Contract of Mutual Participation which outlines a plan to assist them in becoming more financially independent.

The MTW Demonstration Program does not provide any additional funding to the Authority. Funding originates from the following HUD programs:

- Capital Fund Program (CFP) – This program provides funding for the modernization of the Authority’s public housing sites.
- Housing Choice Voucher Program (HCVP) - This program provides housing subsidies through the Authority’s consolidated MTW program to eligible low-income individuals and families to rent existing privately owned units from participating landlords in Kent and Sussex Counties. The Authority administers this program and rents are subsidized by HUD. To qualify, residents must meet income criteria and each landlord must meet federal housing quality standards.
- Public Housing (PH) - Accounts for the activity related to the Authority’s operation of ten housing projects or sites under the HUD Low Income Housing Program. Under this Program, HUD provides funding via an annual contributions contract. These funds, combined with the rental income received from tenants, are available solely to meet the operating and debt service expenses of the projects. Escrow deposits in this program represent amounts set aside from rental income for participants within the Public Housing Program who also participate in the Authority’s Moving To Work (MTW) Program. The MTW Program provides housing assistance for a maximum of five years to low-income Delawareans. Participants in the MTW program sign a Contract of Mutual Participation which outlines a plan to assist them in becoming more financially independent.

Community Development Block Grants - Grants received from HUD are distributed as loans or grants in furtherance of community development. The grants accounted for under this program are as follows:

- Community Development Block Grant (CDBG) - This grant program provides funding for rehabilitation, demolition, and Housing Code enforcement to maintain and improve existing housing, and provide the infrastructure to support this housing for low and moderate income persons. Eligible local governments implement this program by adopting a local Community Housing and Development Plan and submitting an application to the Authority for approval. A review panel evaluates applications based upon the extent of low-income individuals affected. Currently, only Kent and Sussex Counties, and municipalities within those two counties are eligible to apply under this program.
- Emergency Shelter Grant Program (ESGP) - This grant program provides existing emergency housing providers with assistance to expend and renovate homeless shelters and provides supportive housing service assistance to homeless persons and families in Kent and Sussex Counties.
- Housing Opportunities for People With AIDS (HOPWA) - This grant program provides funding for payment of project-based and/or tenant-based rental assistance, including shared housing, rent, mortgage, and/or utility payments to prevent homelessness for the tenant or mortgagor, in Kent and Sussex Counties. Funds may also be used for supportive services. The funds are awarded to the Delaware HIV Consortium.
- Neighborhood Stabilization Program (NSP1) and (NSP3) - The purpose of this grant program is (1) to assist communities that have been, or are likely to be, affected by foreclosed and abandoned properties by stimulating re-use of the property, and (2) to provide affordable rental and homeownership opportunities to households at or below 120% of Area Median

Income (AMI), with 25% of the funds targeted to provide assistance to households at less than 50% of AMI.

Other Federal Funded Programs

- Comprehensive Housing Counseling Program (CHC) – This program accounts for HUD funding provided for housing counseling grants to HUD-approved local housing counseling agencies. These agencies counsel homeowners, homebuyers, prospective renters, and tenants under HUD, conventional and other government programs in improving their housing conditions and in meeting the responsibilities of tenancy and homeownership.
- Delaware Emergency Mortgage Assistance Program/Emergency Homeowners Loan Program (DEMAP/EHLP) – the Authority was awarded \$6 million through the HUD by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The DEMAP/EHLP offered a forgivable loan of up to \$50,000 to assist homeowners who were unemployed or underemployed with past due and future mortgage payments, including insurance and property taxes. Those homeowners faced with foreclosure as a result of serious medical events may also have qualified. This program terminated in December 2013. All outstanding loans were assigned to HUD.
- Family Unification Program (FUP) – HUD funding provided for housing vouchers to be made available to families for whom the lack of adequate housing is a primary factor in the separation, or threat of imminent separation, of children from their families or in the prevention of reunifying the children with their families. The vouchers are also available to provide housing assistance to youth between 18 and 21 years of age who have left foster care. To qualify, residents must meet income criteria and each landlord must meet federal housing quality standards.
- HOME Investment Partnership Program (HOME) - HUD funding provided for low-interest and interest-free loans and/or grants to nonprofit and limited profit housing sponsors for the development of certain housing for low-to-moderate income persons.
- NeighborWorks America Grants Program – The Authority administers awards from NeighborWorks America, a congressionally chartered nonprofit organization dedicated to improving distressed communities. The Authority’s role is that of an administrative pass-through agency to local nonprofit agencies. Currently the Authority administers two NeighborWorks America grant programs: (1) National Foreclosure Mitigation Counseling Program (NFMC) – agencies are paid set fees per client for mortgage delinquency and foreclosure prevention counseling sessions and (2) Making Home Affordable Outreach and Intake Project (MHA) – agencies are paid a set fee per client for homeownership pre-purchase counseling sessions.
- Section 8 Contract Administration (CA) – the Authority administers Housing Assistance Payment (HAP) contracts for 59 HUD financed/insured Section 8 developments in Delaware.
- Section 811 Project Rental Assistance Demonstration Program (S811 PRAD) – This program accounts for HUD funding provided to create and sustain 170 units of affordable housing over five years for persons with disabilities who have extremely low incomes. The Authority and Delaware Department of Health and Social Services work together to identify persons with disabilities who require long-term services and support to live independently in the community with the Authority managing the housing subsidy.

The American Reinvestment and Recovery Act of 2009 Programs

The American Recovery and Reinvestment Act of 2009 (ARRA), created to help the economy and

increase employment, provided the Authority with increased funding to be used to make capital improvements to public housing sites, provide additional resources to the Community Development Block Grant Program, and fund a new program for homeless prevention. ARRA also created the Housing Tax Credit Assistance Program which, along with additional funding for exchanging unused tax credits for cash through the IRS, was used in the financing of low income housing development projects. The funding was short-term and finite in nature. The only remaining Authority program in operation under this act is:

- Neighborhood Stabilization Program (NSP2) Competitive Grant – the Authority’s NSP2 targets the census tracts identified by HUD as those most at risk of being destabilized because of foreclosures. The NSP2 funds of over \$10 million will be used for two activities to stabilize those neighborhoods, (1) financing and (2) purchase/rehabilitation. Financing may include down payment assistance, below interest mortgages or second mortgages where the principal due is reduced during the tenure of the homeowner. Purchase/Rehabilitation allows local governments and nonprofits to acquire foreclosed and abandoned properties to restore to code and upgrade with energy efficient appliances and other green technologies. These homes will be sold using finance mechanisms listed above. The Authority has allocated funds to four Jurisdictions who will act as our sub-recipients and work with the venders. The Jurisdictions are as follows: New Castle County, City of Wilmington, Kent County, and Sussex County. These sub recipients will carry out the NSP activities in their targeted census tracts. This grant is reported in the Community Development Block Grant Program subfund of the Federal Programs. As of June 30, 2014, \$9,096,424 of the grant was spent.

Single Family Programs Fund

- Single Family Bond Program - This program accounts for the proceeds of the single family mortgage revenue bonds that are used to purchase long-term mortgage loans on owner occupied single family homes or mortgage loans securitized by Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), and Federal Home Loan Mortgage Corporation (FHLMC). Beginning in fiscal 2009, the Authority included provisions for some bond proceeds to be used to purchase second mortgage assistance loans for qualifying home buyers. Private financial institutions act as agents for the Authority and process, disburse and service individual mortgage loans, second mortgage assistance loans are serviced by the Authority. Separate accounts are maintained for each series of bonds in accordance with the applicable bond resolution and indenture; however, for financial statement presentation, these accounts have been combined. Any excess of revenues over expenses in these accounts, as defined by the resolution and indenture, is not available for the general and lawful use of the Authority until all of the restrictive covenants of the applicable bond resolutions and indentures have been met.
- Delaware State Housing Authority (DSHA) Mortgage Backed Securities Purchase Program – This program accounts for the purchasing of mortgaged backed securities to be held as investments prior to the issuance of revenue bonds under the 1994 General Resolution. The mortgaged backed securities are purchased with funds provided by a note payable to the Federal Home Loan Bank (FHLB) Pittsburgh. Proceeds from the next bond issue will be used to pay the note and the mortgaged backed securities will become assets of the bond issue.

During fiscal year 2013, the Authority began utilizing the To-Be-Announced (TBA) market for single family homeownership financing. Under the DSHA TBA model: (1) Originators issue loans; (2) US Bank purchases and pools the loans; (3) DSHA, using funds borrowed from FHLB, purchases the MBS pools from US Bank; and (4) DSHA sell the MBS pools on the same day to First Southwest Bank at a predetermined price, resulting in funds to pay back FHLB and recognize revenue. The TBA financing allows DSHA to provide competitively priced mortgage loans while generating revenue.

- Second Mortgage Assistance Loan (SMAL) Bond Program - This program accounts for the

proceeds of the Senior SMAL Mortgage Revenue Bonds, which provided second mortgages for qualifying home buyers.

Fiduciary Fund Type

The DSHA Retiree Medical Trust Fund accounts for transactions, assets, liabilities, and net assets held in trust for post-employment healthcare insurance premiums of DSHA non-state employees (Note V.,D.).

C. Measurement focus, basis of accounting, and financial statement presentation

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue when all eligibility requirements have been met.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing mortgages and grants in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise funds are HUD grants and mortgage interest. Operating grants are classified as operating revenues if they finance a program that the Authority would not otherwise undertake. These grants reimburse the costs of these programs whose activity is inherently part of the operations of the Authority. The Authority also recognizes as operating revenue rental income from Public Housing sites. Operating expenses for enterprise funds include grant expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The governmental fund financial statements (General and Special Revenue Funds) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues are recognized for the major revenue categories subject to the availability criteria as follows:

- Grant revenues (wherein monies must be expended on specific purposes prior to the Authority being reimbursed) are recognized as reimbursable expenditures as incurred.
- Service revenues are recognized as earned.
- Interest revenues on cash and investments are recognized as earned.
- Interest revenues on mortgage loans are recognized as earned.

However, changes in the fair value of investments are recognized as revenue without reference to the availability criteria.

Under the modified accrual basis of accounting, expenditures (operating, capital and debt service) are generally recognized when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Impact of Future Accounting Pronouncements

In 2013, the GASB issued No. 68 "*Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27.*" The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by

other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. This Statement is effective for fiscal years beginning after June 15, 2014. The Authority is currently evaluating the future impact of this statement.

In 2013, the GASB issued No. 69 “*Government Combinations and Disposals of Government Operations.*” This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term “*government combinations*” includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. The Authority is currently evaluating the future impact of this statement.

In 2014, the GASB issued No. 71 “*Pension Transition for Contributions Made Subsequent to the Measure Date – An Amendment of GASB Statement No. 68.*” The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognizes its contribution as a deferred outflow of

resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

D. Assets, liabilities, and net assets or equity

Cash and Cash Equivalents

The Authority considers all checking deposits, demand deposits and uninvested principal cash to be cash and cash equivalents (see Note IV., A.).

Investments

The Authority considers all interest bearing bank money market, money market savings and State of Delaware investment pool accounts to be investments. Investment securities are recorded at fair value, except that investment securities with a remaining maturity at time of purchase of one year or less are reported at cost adjusted for the amortization of premium or the accretion of discount over the term of the investment, which approximates fair value (see Note IV., A.). These securities are stated at fair value based upon quoted market prices and changes in the fair value are reported in the statements of revenue, expenses, and changes in net assets as net increase (decrease) in fair value of investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB No. 31).

Securitized Mortgage Loans

Securitized mortgage loans consist of Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), and Federal Home Loan Mortgage Corporation (FHLMC) mortgage backed securities (MBS), which were pooled and securitized by a contract servicer utilizing Single Family Mortgage Program loans purchased by the Authority. These securities are stated at fair value, and changes in fair value are reported as revenue in the statements of revenues, expenses, and changes in net assets as net increase (decrease) in fair value of investments, in accordance with GASB No. 31. The bond issue trustee uses a third-party pricing service to compute the MBS fair value. Proceeds from the sale of mortgage backed securities are restricted for payment of corresponding bonds assigned to underlying mortgages.

Mortgage Loans Receivable

Mortgage loans are recorded at their unpaid principal balances net of allowances for doubtful accounts (see Note IV., B.). Allowances are estimated as a percentage of total outstanding balances within the following loans programs at June 30: First and second homeowner mortgages of the Authority Loan Programs within the General Fund, DSHA Second Mortgage Assistance Loan Program (DSHA

SMAL), Delaware Emergency Mortgage Assistance Loans (DEMAP), Housing Rehab Loan Program (HRLP), and Single Family Programs. These percentages are reviewed and revised by the Authority on an annual basis.

Accrued Interest and Other Receivables

An allowance for doubtful accounts in the amount of \$15,232 has been established for tenant accounts receivable in the business-type activities and the Federal Programs Enterprise Fund as of June 30, 2014. The allowance is based upon an aging of the tenant accounts receivable and is adjusted annually. All tenant account receivable balances with no payment activity within 120 days are considered doubtful accounts.

Capital Assets

Capital assets acquired for general Authority operations are capitalized at cost and reported in the entity-wide and proprietary fund financial statements net of accumulated depreciation.

All land and buildings are capitalized, regardless of cost. Buildings and land/site improvements are capitalized when the cost of the project equals \$100,000 or more. Software purchases are capitalized when the cost equals or exceeds \$50,000. Equipment and vehicles are capitalized when the cost of individual items is \$25,000 or more, with the exception of items purchased with federal funds, which are capitalized when the cost exceeds \$5,000 in accordance with OMB Circular A-87.

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

| | |
|--------------------------------------|----------|
| Buildings | 27 years |
| Buildings and Land/Site Improvements | 15 years |
| Computer Software | 10 years |
| Telecommunications Equipment | 10 years |
| Computer Equipment | 3 years |
| Vehicles | 3 years |
| Other Equipment | 5 years |

Deferred Amounts on Bond Refunding

The Authority incurs deferred amounts on bond refunding which are accreted over the remaining life of the bonds at the time of each refunding as deferred revenues or deferred expenses.

Compensated Absences Payable

In accordance with GASB Statement No. 16, the Authority has accrued a liability for future absences, recognizing the obligation relating to compensation for absences attributable to services already rendered. The current portion of compensated absences for both the entity-wide and fund proprietary financial statements includes all annual leave amounts that exceed a 318 hour maximum allowable carryover per employee, as these amounts will have to be used within the next year or be forfeited. The Authority believes that those balances will be used and not forfeited. Additionally, current compensated absences include annual leave balances payable to employees at fiscal yearend based on the Authority’s knowledge of pending retirements or resignations. The balance of annual leave accrual is considered noncurrent. The Authority considers all sick leave accruals noncurrent.

Escrow Deposits

In the General Fund, escrow deposits represent amounts withheld from housing assistance contributions received from HUD for the payment of property insurance, property taxes and property replacement requirements for the multi-family authority loans.

In the Federal Programs Fund, escrow deposits are held for the HOME and MTW programs. The HOME escrow deposits represent funds received from project owners for the payment of property insurance, property taxes, and property replacement requirements. MTW escrow deposits represent amounts set aside from rental income for the Moving To Work Rental Housing Program.

In the Housing Development Fund, escrow deposits represent funds received from project owners for the payment of property insurance, property taxes, and property replacement requirements for the Housing Development Fund. Interest earnings from the investment of such escrows are distributed to the escrow accounts.

Restricted Resources

The Authority spends restricted resources first and uses unrestricted resources for purposes for which restricted resources are not available.

Net Position/Fund Equity

In the entity-wide statement of net position, the Authority reports net position in three categories - invested in capital assets, restricted, and unrestricted. The amount of unrestricted net position is dedicated to the Authority's operations, pursuant to Title 31, Chapter 40 of the Delaware Code and the Authority's bond resolutions.

Beginning with the Year Ended June 30, 2011, the Authority has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Authority's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

General Fund

- **Nonspendable:** Balances include items that cannot be spent. This includes activity that is not in a spendable form (prepaid amounts, long-term portion of loans and interfund receivables) and activity that is legally or contractually required to remain intact.
- **Committed:** Balances designated by General Order of the Authority, as approved by the Director, a position appointed by the Governor and authorized by Delaware Code, found at Title 31, Chapters 40 and 43, imposed by the Delaware Legislature, the State's highest level of decision-making authority, as follows:

Program Activities – amount based upon the greater of the Authority's current administrative budget or the projected general fund balance amount needed to support operations over a ten year period as identified in the most recent Resource Allocation Plan.

Program Investments – amount in excess of program activity needs, as described above, to be conservatively invested in existing or proposed Authority programs to further the Authority's mission.

The Director can create, modify, or rescind an appropriation within the statutes of the Code.

Housing Development Fund

- **Nonspendable:** Balances include items that cannot be spent. This includes activity that is not in a spendable form (prepaid amounts, long-term portion of loans and interfund receivables) and activity that is legally or contractually required to remain intact.
- **Restricted:** Balances in excess of nonspendable and committed fund balances to be used for the specific purpose of Housing Development Fund activities per enabling legislation.

- **Committed:** Balances can be used only for specific purposes (i.e. loans and grants) but not yet disbursed at the statement date, pursuant to constraints imposed by the passage of resolutions by the Delaware Council on Housing, an eleven member board appointed by the Governor and authorized by Delaware Code, Title 31, Chapter 40, imposed by the Delaware Legislature, the State's highest level of decision-making authority. The Council can create, modify, or rescind an appropriation within the statutes of the Code.

Other Governmental Funds

- **Nonspendable:** Balances include items that cannot be spent. This includes activity that is not in a spendable form (prepaid amounts, long-term portion of loans and interfund receivables) and activity that is legally or contractually required to remain intact.
- **Restricted:** Balances in excess of nonspendable fund balances to be used for the specific program activities per enabling legislation.
- **Assigned:** Balances include amounts that are constrained by the Authority's intent, as approved by the Director, a position appointed by the Governor and authorized by Delaware Code, Title 31, Chapters 40 and 43, to be used for a specific purpose, but are neither restricted nor committed.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Authority has provided otherwise in its commitment or assignment actions. Commitments may be modified or rescinded only through General Order or by Housing Council.

A summary of governmental fund balances at June 30, 2014, is as follows:

| | General Fund | DSHA Second | | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------|----------------------------------|-----------------------------|--------------------------|
| | | Housing Development Fund | Mortgage Assistance Loan Program | | |
| Nonspendable: | | | | | |
| Interfund receivables and payables, noncurrent, net | \$ 8,768,452 | \$ 251,672 | \$ - | \$ (43,876) | \$ 8,976,248 |
| Mortgages loans receivable, noncurrent, net | 2,169,257 | 133,245,803 | 14,635,726 | 6,382,542 | 156,433,328 |
| Accrued interest & other receivables, noncurrent | 1,686,104 | 28,903,843 | 4,456,962 | 425,605 | 35,472,514 |
| Prepaid items | 92,270 | - | - | - | 92,270 |
| Total nonspendable | 12,716,083 | 162,401,318 | 19,092,688 | 6,764,271 | 200,974,360 |
| Restricted: | | | | | |
| Cash | - | - | - | 4,697,709 | 4,697,709 |
| Investments, restricted | - | 39,475,155 | - | 8,299,252 | 47,774,407 |
| Interfund receivables and payables, current, net | - | - | - | (1,183) | (1,183) |
| Accounts payable | - | - | - | (1,105) | (1,105) |
| Total restricted | - | 39,475,155 | - | 12,994,673 | 52,469,828 |
| Committed: | | | | | |
| Cash | 3,954,600 | 19,606,860 | - | - | 23,561,460 |
| Investments, committed | 17,999,834 | 22,146,519 | - | - | 40,146,353 |
| Interfund receivables and payables, current, net | 524,191 | - | - | - | 524,191 |
| Mortgages loans receivable, current, net | 7,655,846 | - | - | - | 7,655,846 |
| Accounts payable | (287,656) | - | - | - | (287,656) |
| Escrow deposits held | (1,281,133) | (29,862,517) | - | - | (31,143,650) |
| Total committed | 28,565,682 | 11,890,862 | - | - | 40,456,544 |
| Assigned: | | | | | |
| Cash | - | - | 1,847,061 | 1,482,401 | 3,329,462 |
| Investments, assigned | - | - | - | 1,837,201 | 1,837,201 |
| Interfund receivables and payables, current, net | - | - | (292,264) | (502,595) | (794,859) |
| Accounts payable | - | - | - | (422) | (422) |
| Total assigned | - | - | 1,554,797 | 2,816,585 | 4,371,382 |
| Total Fund Balance | \$ 41,281,765 | \$ 213,767,335 | \$ 20,647,485 | \$ 22,575,529 | \$ 298,272,114 |

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the Authority's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the Authority's June 30, 2013, financial statements to be comparative with the current-year presentation.

Statement of Cash Flows

For purposes of reporting cash flows of Proprietary Funds, cash balances consist of checking deposits, demand deposits, and uninvested principal cash. GASB Statement No. 9 requires reporting both purchases and sales of investments under Investing Activities. As permitted under Statement No. 9, however, certain investment transactions have been reported as a net change in the statement of cash flows because the turnover rate of such investments is high and their maturities are short.

Budgetary Comparisons

Under GASB No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority's financial statements. However, the Authority does implement an executive budget each fiscal year. The executive budget is reviewed and approved by the Director, monitored for compliance on a monthly basis, and any use of the general fund beyond the approved executive budget must be approved by the Director.

II. RECONCILIATION OF ENTITY-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the entity-wide statement of net position

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the entity-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and therefore, are not reported in the funds. The details of this \$1,872,592 difference are as follows:

| | |
|--------------------------------|--------------------|
| Capital assets | \$3,661,772 |
| Less: Accumulated depreciation | (1,789,180) |
| Net capital asset adjustment | <u>\$1,872,592</u> |

The other element of that reconciliation explains that long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The details of this \$605,921 difference are as follows:

| | |
|----------------------|-----------|
| Compensated absences | \$605,921 |
|----------------------|-----------|

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the entity-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the entity-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$(108,701) difference are as follows:

| | |
|------------------------------|--------------------|
| Capital outlay | \$ - |
| Less: Depreciation expense | <u>(108,701)</u> |
| Net capital asset adjustment | <u>\$(108,701)</u> |

III. COMPLIANCE AND ACCOUNTABILITY

The Authority implements an executive budget each fiscal year. The executive budget is reviewed and approved by the Director, monitored for compliance on a monthly basis, and any use of the general fund beyond the approved executive budget must be approved by the Director.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Investment Policies

The Authority has an investment policy that encompasses all moneys related to the issuance of bonds, as well as, all funds otherwise held by the Authority. The Authority seeks first and foremost to ensure safety of principal, and secondly, to attain the highest possible return available given the risk constraints. The Authority is allowed to invest in certain qualified investments as defined by amended Section 4013, Chapter 40, Title 31, of the Delaware Code and the Authority’s formal investment policy. Subject to certain limitations, such as the credit ratings on bonds and the capitalization level of depositories, “qualified investments” include:

- Obligations of or explicitly guaranteed by the US or Delaware state governments.
- Obligations of US government-sponsored enterprises and US government agencies and instrumentalities.
- Obligations of depositories and other financial institutions.
- Bankers’ acceptances.
- Commercial paper.
- Money market mutual funds.
- Corporate debt obligations.
- The State of Delaware investment pool with the State Treasurer’s Office.
- Other investment arrangements made pursuant to an investment agreement authorized by a resolution of the Authority.

Certain federal funds administered by the Authority are subject to additional limitations within the qualified investments listed above.

For the State of Delaware Investment Pool, fair value of the pool shares is the same as the carrying value of the pool shares. The State of Delaware Cash Management Policy Board provides oversight for this pool.

The Authority’s securitized mortgage loans are primarily mortgage loans originated under various bond resolutions that have been pooled and securitized by a servicer under contract to the Authority. Upon securitization, these Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), and Federal Home Loan Mortgage Corporation (FHLMC) securities are then purchased by the bond issue trustee utilizing the proceeds of the respective bonds. The bonds in turn are secured, respectively, by the securities purchased with the bond proceeds. The fixed-rate securitized mortgage loans are sensitive to changes in interest rates, which may result in prepayments of underlying mortgages.

Investments

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchange prices for all investments, except for the State of Delaware Investment Pool. The State pool is valued based on the pool's share price. The following is a listing of investments and their maturities:

| Investment type | Fair Value | Investment Maturities (in Years) | | | | |
|--|----------------|----------------------------------|---------------|---------|------------|----------------|
| | | Less than 1 | 1 to 5 | 5 to 10 | 10 to 20 | 20 to 30 |
| Governmental activities: | | | | | | |
| U.S.Treasury Notes | \$ 9,160,922 | \$ 3,411,015 | \$ 5,749,907 | \$ - | \$ - | \$ - |
| U.S.Treasury Strips | 196,875 | 7,999 | - | - | 188,876 | - |
| U.S. Agencies | 14,069,516 | 2,559,632 | 11,509,884 | - | - | - |
| Corporate Notes | 13,279,720 | 1,145,267 | 12,134,453 | - | - | - |
| Commercial Paper | 6,878,421 | 6,878,421 | - | - | - | - |
| Bank Money Market Accounts | 34,674,235 | 34,674,235 | - | - | - | - |
| State of Delaware Investment Pool | 11,498,272 | 11,498,272 | - | - | - | - |
| Total Governmental Activities Investments | 89,757,961 | 60,174,841 | 29,394,244 | - | 188,876 | - |
| Business-type activities: | | | | | | |
| U.S.Treasury Notes | 3,284,689 | 2,068,811 | 1,064,194 | - | 151,684 | - |
| U.S.Treasury Bonds | 26,092 | - | - | - | 26,092 | - |
| U.S.Agencies | 4,283,520 | 822,484 | 3,461,036 | - | - | - |
| Corporate Notes | 1,033,765 | 108,911 | 924,854 | - | - | - |
| Commercial Paper | 108,075 | 108,075 | - | - | - | - |
| Investment Agreements | 733,295 | - | - | - | 238,218 | 495,077 |
| Money Market Saving Accounts | 6,680,056 | 6,680,056 | - | - | - | - |
| Bank Money Market Accounts | 6,979,759 | 6,979,759 | - | - | - | - |
| State of Delaware Investment Pool | 4 | 4 | - | - | - | - |
| Securitized Mortgage Loans | 469,324,676 | - | - | - | - | 469,324,676 |
| Total Business-type Activities Investments | 492,453,931 | 16,768,100 | 5,450,084 | - | 415,994 | 469,819,753 |
| Total Entity-wide Investments | \$ 582,211,892 | \$ 76,942,941 | \$ 34,844,328 | \$ - | \$ 604,870 | \$ 469,819,753 |
| Fiduciary Fund Investments: | | | | | | |
| U.S.Treasury Notes | \$ 616,687 | \$ - | \$ 616,687 | \$ - | \$ - | \$ - |
| U.S.Agencies | 1,996,358 | - | 1,996,358 | - | - | - |
| Corporate Notes | 1,466,887 | - | 1,466,887 | - | - | - |
| Bank Money Market Accounts | 51,290 | 51,290 | - | - | - | - |
| Total Fiduciary Fund Investments | \$ 4,131,222 | \$ 51,290 | \$ 4,079,932 | \$ - | \$ - | \$ - |

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy places limits on maturities for the various funds as follows:

- **Single Family Program Funds:** Investment contracts for bond program funds should have a maturity that matches the final bond maturity to minimize reinvestment risk. Individual investments of bond program funds should match anticipated cash requirements or provide sufficient liquidity to allow funds to be accessed to meet bond resolution requirements without incurring material principal losses.
- **Federal Program Funds:** HUD funds held by the Authority should have a maximum maturity of one year. HUD-related funds held by the Authority (escrows, replacement reserves, residual receipts) shall have a maximum maturity of three years.
- **General Fund:** The Operating Reserve Account, which is managed externally, should have a maximum maturity at the time of purchase of ten years. However, specific investments may be transferred into the account from time to time that may have a longer maturity. The Authority may further reduce the maximum maturity of the operating reserve investments

from time to time.

- Other Authority funds should be invested with a maturity that matches, or is prior to, the anticipated time at which the funds will be needed.
- Authority investments (other than deposit accounts, money market fund shares, or deposits with the State Treasurer’s Office) should have a fixed maturity date by which principal and accrued interest will be fully repaid. The Authority is not permitted to enter into investments that have an expected maturity date that can be extended depending upon market conditions.

Credit Risk

The Authority’s general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. The Authority’s investment policy limits its investment choices as mentioned above under Investments. For the Authority’s Single Family Programs, the investment rating must be equal to or exceed the bond rating. The Authority’s Operating Reserve Account has a specific credit quality requirement as follows: Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or Aa, respectively by Standard & Poor’s (S&P) and Moody’s at the time of purchase. The State of Delaware Investment Pool and money market accounts are not rated by any of the nationally recognized statistical rating organizations. As of June 30, 2014, the Authority’s investments were rated as follows:

| Investment Type | Ratings (S & P) | | | | | | | U.S. government guaranteed |
|----------------------------------|-----------------|--------------|----|--------------|--------------|---------------|------------|----------------------------------|
| | A1 | A1+ | A2 | AA- | AA | AA+ | AAA | |
| Governmental activities: | | | | | | | | |
| U.S. Treasury Notes | | | | | | | | \$ 9,160,922 |
| U.S. Treasury Strips | | | | | | | | \$ 196,875 |
| U.S.Agencies | | | | | | \$ 14,069,516 | | |
| Corporate Notes | | | | \$ 6,084,154 | \$ 5,697,285 | \$ 844,510 | \$ 653,771 | |
| Commercial Paper | \$ 4,631,980 | \$ 2,246,441 | | | | | | |
| Business-type activities: | | | | | | | | |
| U.S. Treasury Notes | | | | | | | | \$ 3,284,689 |
| U.S. Treasury Bonds | | | | | | | | \$ 26,092 |
| U.S.Agencies | | | | | | \$ 4,283,520 | | |
| Corporate Notes | | | | \$ 389,484 | \$ 415,884 | \$ 117,920 | \$ 110,477 | |
| Commercial Paper | \$ 108,075 | | | | | | | |
| Securitized Mortgage Loans | | | | | | | | \$ 469,324,676 |
| Fiduciary Fund: | | | | | | | | |
| U.S. Treasury Notes | | | | | | | | \$ 616,687 |
| U.S.Agencies | | | | | | \$ 1,996,358 | | |
| Corporate Notes | | | | \$ 357,095 | \$ 791,955 | \$ 317,837 | | |

Custodial Credit Risk

For deposits (i.e., cash and cash equivalents) custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. All of the Authority’s deposits are insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2014, the carrying value and the bank balances of the Authority’s deposits were \$38,967,538 and \$39,691,295, respectively.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Authority’s \$117,273,135 investment balance, \$733,295 represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and uncollateralized. The funds are specifically identified

for the Authority, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by securities pledged and identified as held in the Authority's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments meet certain ratings, investment types and maturity criteria. The Authority's investment policy does not limit the amount of securities that can be held by the counterparties.

B. Receivables

Total receivables as of June 30, 2014 are as follows:

| Receivables | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|-----------------------|
| Mortgage loans | \$ 164,576,914 | \$ 96,448,958 | \$ 261,025,872 |
| Accrued interest | 35,227,026 | 17,845,653 | 53,072,679 |
| Other receivables | 396,821 | 278,317 | 675,138 |
| Grants receivable | - | 473,871 | 473,871 |
| Total receivables | <u>200,200,761</u> | <u>115,046,799</u> | <u>315,247,560</u> |
| Allowance for doubtful accounts | 639,073 | 543,074 | 1,182,147 |
| Total receivables, net | <u>\$ 199,561,688</u> | <u>\$ 114,503,725</u> | <u>\$ 314,065,413</u> |
| Amounts not scheduled for collection during the subsequent year | <u>\$ 189,825,867</u> | <u>\$ 104,889,784</u> | <u>\$ 294,715,651</u> |

Mortgage loans receivable

A summary of mortgage loans receivable as of June 30, 2014 is shown below:

Governmental activities:

| | |
|--|--------------------|
| General Fund | \$ 9,849,226 |
| Housing Development Fund | 133,283,242 |
| DSHA Second Mortgage Assistance Loan Program | 14,934,639 |
| Non-major governmental funds | <u>6,509,807</u> |
| Mortgage loans receivable, governmental activities | 164,576,914 |
| Less: Allowance for doubtful accounts | <u>(487,740)</u> |
| Net mortgage loan receivables, governmental activities | <u>164,089,174</u> |

Business-type activities:

| | |
|---|-------------------|
| Federal Programs Fund | 52,089,016 |
| Single Family Programs Fund | <u>44,359,942</u> |
| Mortgage loans receivable, business-type activities | 96,448,958 |
| Less: Allowance for doubtful accounts | <u>(454,853)</u> |
| Net mortgage loan receivables, business-type activities | <u>95,994,105</u> |

Total mortgage loans receivable, net

\$ 260,083,279

Mortgage loans receivable in the General Fund consist of single family, multi-family, and second mortgage assistance loans released from bond indenture requirements as a result of refunding the bonds with which the loans were originally associated. Once released from the bond indentures, these loans are considered assets of the Authority. Interest rates on the loans range from 5.375% to 11.50% with maturities ranging from 1 to 15 years. Additionally, during fiscal year 2013, the Authority established the DSHA Loan Program within its General Fund. This program funded a 24 month construction loan in the amount of \$5,771,460 at a rate of 3% interest, due monthly.

Mortgage loans outstanding in the Housing Development Fund are collateralized by first, second or third mortgages on the properties and, in limited instances, are guaranteed by corporate sponsors.

Mortgage loans receivable in the Single Family Programs Fund are secured by first liens on real property. Loans purchased in the Single Family Programs Fund that have a loan to value ratio in excess of 72% (80% for loans purchased after 1986) are insured or guaranteed by either the Federal Housing Administration ("FHA"), the Farmers Home Administration ("FmHA"), the Department of Veterans' Affairs ("VA"), or by a private primary mortgage insurance policy. All loans purchased under this Program, exclusive of FHA and VA loans, are also insured by a mortgage pool insurance policy. Interest rates on the loans range from 4.50% to 10.85% with maturities of such loans ranging from 15 to 40 years. Mortgage loans receivable in the Single Family Programs also include second mortgage assistance loans with interest rates ranging from 0% to 8%. The second mortgage is a lien against the property with monthly payments deferred until (1) the first mortgage is paid off; (2) the property is sold or transferred; or (3) the property is no longer the borrower's primary residence. However, the borrower can voluntarily repay at any time with no prepayment penalty.

Accrued interest and other receivables

Accrued interest and other receivables as of June 30, 2014 are as follows:

| | Governmental Activities | | | Business-type Activities | | | | Total |
|---------------------|-------------------------|----------------------|---------------------|--------------------------|----------------------|---------------------|----------------------|-------|
| | General Fund | Housing | DSHA Second | Nonmajor | Federal | Single | | |
| | | Development | Mortgage | | | | Governmental | |
| | Fund | Assistance | Loan Program | Funds | Programs | Programs | | |
| Loan interest | \$ 1,274,661 | \$ 28,900,087 | \$ 4,456,962 | \$ 393,637 | \$ 10,760,516 | \$ 7,002,733 | \$ 52,788,596 | |
| Investment interest | 50,277 | 3,756 | - | 3,513 | - | 9,415 | 66,961 | |
| HDF projects | 21,595 | - | - | - | - | - | 21,595 | |
| Other projects | 280,502 | - | - | - | - | - | 280,502 | |
| Servicers | 11,100 | - | - | - | - | 140,353 | 151,453 | |
| Tenants, net | - | - | - | - | 8,126 | - | 8,126 | |
| Other | 47,969 | - | - | 28,455 | 102,389 | 12,217 | 191,030 | |
| Total | \$ 1,686,104 | \$ 28,903,843 | \$ 4,456,962 | \$ 425,605 | \$ 10,871,031 | \$ 7,164,718 | \$ 53,508,263 | |

C. Accounts payable

Accounts payables as of June 30, 2014 are as follows:

| | Governmental Activities | | Business-type Activities | | | Total |
|-------------------|-------------------------|-----------------|--------------------------|-----------------|---------------------|-------|
| | General | Nonmajor | Federal | Single | | |
| | | | | | Governmental | |
| | Fund | Funds | Programs | Programs | | |
| Vendors | \$ 99,767 | \$ 1,527 | \$ 370,995 | \$ - | \$ 472,289 | |
| Salaries | 173,932 | - | 100,534 | - | 274,466 | |
| Security deposits | - | - | 180,837 | - | 180,837 | |
| Other | 9,807 | - | 132,854 | 2,988 | 145,649 | |
| Total | \$ 283,506 | \$ 1,527 | \$ 785,220 | \$ 2,988 | \$ 1,073,241 | |

D. Capital assets

Capital asset activity for the year ended June 30, 2014 was as follows:

| | Beginning Balance | | Increases | | Decreases | | Ending Balance | |
|--|-------------------|------------|-----------|-----------|-----------|-----------|----------------|------------|
| | June 30, 2013 | | | | | | June 30, 2014 | |
| Governmental activities: | | | | | | | | |
| Capital assets, not being depreciated: | | | | | | | | |
| Land | \$ | 797,960 | \$ | - | \$ | - | \$ | 797,960 |
| Total capital assets, not being depreciated | | 797,960 | | - | | - | | 797,960 |
| Capital assets, being depreciated: | | | | | | | | |
| Buildings | | 1,934,902 | | - | | - | | 1,934,902 |
| Land/Site Improvements | | 211,929 | | - | | - | | 211,929 |
| Computer Equipment | | 415,167 | | - | | - | | 415,167 |
| Equipment | | 265,067 | | - | | - | | 265,067 |
| Telecommunications Equipment | | 36,747 | | - | | - | | 36,747 |
| Total capital assets being depreciated | | 2,863,812 | | - | | - | | 2,863,812 |
| Less accumulated depreciation for: | | | | | | | | |
| Buildings | | 1,078,918 | | 56,633 | | - | | 1,135,551 |
| Land/Site Improvements | | 184,951 | | 4,150 | | - | | 189,101 |
| Computer Equipment | | 415,167 | | - | | - | | 415,167 |
| Equipment | | 73,397 | | 47,918 | | - | | 121,315 |
| Telecommunications Equipment | | 36,747 | | - | | - | | 36,747 |
| Total accumulated depreciation | | 1,789,180 | | 108,701 | | - | | 1,897,881 |
| Total capital assets, being depreciated, net | | 1,074,632 | | (108,701) | | - | | 965,931 |
| Governmental activities capital assets, net | \$ | 1,872,592 | \$ | (108,701) | \$ | - | \$ | 1,763,891 |
| Business-type activities: | | | | | | | | |
| Capital assets, not being depreciated: | | | | | | | | |
| Land | \$ | 2,336,842 | \$ | - | \$ | - | \$ | 2,336,842 |
| Buildings held for resale | | 330,911 | | - | | - | | 330,911 |
| Construction in Progress | | 880,369 | | 362,824 | | 1,022,605 | | 220,588 |
| Total capital assets, not being depreciated | | 3,548,122 | | 362,824 | | 1,022,605 | | 2,888,341 |
| Capital assets, being depreciated: | | | | | | | | |
| Buildings | | 22,600,570 | | - | | - | | 22,600,570 |
| Land/Site Improvements | | 19,356,476 | | 1,022,605 | | - | | 20,379,081 |
| Vehicles | | 41,908 | | - | | - | | 41,908 |
| Equipment | | 826,090 | | - | | - | | 826,090 |
| Total capital assets being depreciated | | 42,825,044 | | 1,022,605 | | - | | 43,847,649 |
| Less accumulated depreciation for: | | | | | | | | |
| Buildings | | 17,732,758 | | 581,702 | | - | | 18,314,460 |
| Land/Site Improvements | | 11,501,496 | | 965,592 | | - | | 12,467,088 |
| Vehicles | | 41,908 | | - | | - | | 41,908 |
| Equipment | | 484,815 | | 129,857 | | - | | 614,672 |
| Total accumulated depreciation | | 29,760,977 | | 1,677,151 | | - | | 31,438,128 |
| Total capital assets, being depreciated, net | | 13,064,067 | | (654,546) | | - | | 12,409,521 |
| Business-type activities capital assets, net | \$ | 16,612,189 | \$ | (291,722) | \$ | 1,022,605 | \$ | 15,297,862 |

Depreciation expense of \$108,701 was charged to the administrative function in the governmental activities. Depreciation expense of \$1,677,151 was charged to the affordable rental housing function in the business-type activities.

Certain vehicles and equipment are considered fully depreciated even though they outlasted their respective estimated useful lives. The Authority re-evaluated 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.

Construction commitments

The Authority has active capital projects as of June 30, 2014. The projects include renovations at the various public housing developments. At year end, the Authority had commitments with contractors of \$238,262, relating to business-type activities and the Federal Programs Enterprise Fund.

E. Interfund transactions

The composition of interfund balances as of June 30, 2014, is as follows:

| Due to: | Governmental Activities | | | Business-type Activities | | |
|--|-------------------------|--|-----------------------------|--------------------------|------------------------|--------------|
| | Due from: | | | | | |
| | General Fund | DSHA Second Mortgage Assistance Loan Program | Nonmajor Governmental Funds | Federal Programs | Single Family Programs | Total |
| Current: | | | | | | |
| General Fund | \$ - | \$ 292,926 | \$ 2,737 | \$ 1,766 | \$ 5,510,129 | \$ 5,807,558 |
| DSHA Second Mortgage Assistance Loan Program | - | - | - | - | 662 | 662 |
| Nonmajor Governmental Funds | 6,266 | - | - | - | - | 6,266 |
| Federal Programs | 12,453 | - | - | - | - | 12,453 |
| Single Family Programs | - | - | 1,183 | - | - | 1,183 |
| Total | \$ 18,719 | \$ 292,926 | \$ 3,920 | \$ 1,766 | \$ 5,510,791 | \$ 5,828,122 |
| Non-current: | | | | | | |
| General Fund | \$ - | \$ - | \$ 550,000 | \$ 3,230,000 | \$ - | \$ 3,780,000 |
| Housing Development Fund | 251,672 | - | - | - | - | 251,672 |
| Federal Programs | 24,524 | - | - | - | - | 24,524 |
| Total | \$ 276,196 | \$ - | \$ 550,000 | \$ 3,230,000 | \$ - | \$ 4,056,196 |

The current balances resulted from the time lag between the dates payments between funds are made. The non-current balance of \$251,672 represents a loan made from the Housing Development Fund to the general fund for the purpose of the Lewes land acquisition.

Interfund transfers for the year ended June 30, 2014 consisted of the following:

| Transfers in: | Governmental Activities | | | Business-type Activities | | |
|--|-------------------------|--------------------------|-----------------------------|--------------------------|------------------------|--------------|
| | Transfers out: | | | | | |
| | General Fund | Housing Development Fund | Nonmajor Governmental Funds | Federal Programs | Single Family Programs | Total |
| General Fund | \$ - | \$ - | \$ - | \$ 20,811 | \$ 2,454,528 | \$ 2,475,339 |
| DSHA Second Mortgage Assistance Loan Program | - | 2,000,000 | 450,000 | - | 1,104,638 | 3,554,638 |
| Nonmajor Governmental Funds | 30,730 | - | - | - | - | 30,730 |
| Single Family Programs | 15,668 | - | 17,544 | - | - | 33,212 |
| Total transfer out | \$ 46,398 | \$ 2,000,000 | \$ 467,544 | \$ 20,811 | \$ 3,559,166 | \$ 6,093,919 |

The Housing Development Fund, a major governmental fund, transferred \$2,000,000 to the DSHA Second Mortgage Assistance Loan Program in support of the program’s objective to make down payment assistance available to qualified homebuyers.

The Housing Rehabilitation Loan Program, a nonmajor governmental fund, transferred \$450,000 to the DSHA Second Mortgage Assistance Loan Program in support of the program’s objective to make down payment assistance available to qualified homebuyers.

The Single Family Programs report cash transfers consisting mainly of the transfer of: (1) administrative fees of \$1,633,573 from the Single Family Mortgage Revenue Bond programs to the General fund in support of operations; and (2) \$1,094,638 from the DSHA Mortgage Backed Securities Purchase Program to the DSHA Second Mortgage Assistance Loan Program in support of the program’s objective to make down payment assistance available to qualified homebuyers.

The Single Family Programs also report a noncash transfer of \$820,371 to the General Fund in the form of loans and accrued interest following a partial redemption of the Second Mortgage Assistance Loans Revenue Bonds 2001 Series A bonds in fiscal year 2013.

F. Short-term and long-term debt

Short-term and long-term debt activity for the year ended June 30, 2014, was as follows:

| | Beginning Balance June 30, 2013 | Increases | Decreases | Ending Balance June 30, 2014 | Due Within One Year |
|---|------------------------------------|---------------|----------------|---------------------------------|------------------------|
| Governmental activities: | | | | | |
| Compensated absences, relating to the General Fund | \$ 613,335 | \$ 328,937 | \$ 336,351 | \$ 605,921 | \$ 16,470 |
| Governmental activity long-term liabilities | \$ 613,335 | \$ 328,937 | \$ 336,351 | \$ 605,921 | \$ 16,470 |
| Business-type activities: | | | | | |
| Compensated absences, relating to the Federal Programs Fund | \$ 386,444 | \$ 197,486 | \$ 151,354 | \$ 432,576 | \$ 7,291 |
| Notes Payable, Single Family Programs Fund | 378,130 | 47,390,000 | 47,768,130 | - | - |
| Revenue bonds payable, Single Family Programs Fund | 639,186,914 | 547,625 | 156,009,202 | 483,725,337 | 11,121,863 |
| Business-type activity long-term liabilities | \$ 639,951,488 | \$ 48,135,111 | \$ 203,928,686 | \$ 484,157,913 | \$ 11,129,154 |

Descriptions of the Authority’s short-term and long-term debt:

Compensated Absences

Compensated absences represent the amounts the Authority is obligated to pay for annual leave and sick leave. The General Fund is used to liquidate the liability within the governmental funds.

Notes Payable

Notes payable in the Business-type Activities, relating to the DSHA Mortgage Backed Securities Purchase Program (a Single Family program) represent an obligation to the Federal Home Loan Bank (FHLB) Pittsburgh. The Authority borrows based on an existing agreement with FHLB Pittsburgh dated May 29, 2002 to provide funds for the purchase mortgage backed securities prior to the sale of the same securities in the TBA market, at which time the FHLB note is paid back.

Revenue Bonds Payable

The revenue bonds outstanding have been issued to provide financing for mortgage loans. The bonds are secured by the mortgage loans made or purchased under the applicable resolutions, the revenues, prepayments and foreclosures proceeds received related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 0.95% to 7.75% with maturities of such bonds up through January 1, 2049.

On December 31, 2013, the Authority called all remaining bonds of the Single Family Mortgage Revenue Bonds 2004 Series A issue and sold all remaining mortgage backed securities associated with the bond issue.

Interest Expense on Long-Term Debt

Interest expense of \$23,087,065 on long-term debt has been included in the direct expenses of individual functions on the entity-wide statement of activities. Authorization for general long-term debt is essential for the creation and continuing existence of the Single Family mortgage programs;

thus an objective connection can be made to these programs. All interest on long-term debt is reported as a direct expense of the program for which borrowing is related. The interest expense of \$23,087,065 was charged to the home ownership function in the business-type activities.

Annual principal and interest debt service requirements for business-type activity long-term debt are as follows:

Mortgage Revenue Bonds Payable Annual Debt Service Requirement (based on scheduled maturities)

| | Principal | Interest | Total |
|-----------|-----------------------|-----------------------|-----------------------|
| 2015 | \$ 11,121,863 | \$ 18,447,649 | \$ 29,569,512 |
| 2016 | 10,495,000 | 18,069,433 | 28,564,433 |
| 2017 | 10,830,000 | 17,671,243 | 28,501,243 |
| 2018 | 11,000,000 | 17,233,359 | 28,233,359 |
| 2019 | 11,295,000 | 16,750,120 | 28,045,120 |
| 2020-2024 | 63,747,769 | 75,884,558 | 139,632,327 |
| 2025-2029 | 79,009,391 | 61,960,513 | 140,969,904 |
| 2030-2034 | 65,548,117 | 44,646,291 | 110,194,408 |
| 2035-2039 | 75,459,896 | 28,550,444 | 104,010,340 |
| 2040-2044 | 127,247,309 | 25,789,146 | 153,036,455 |
| 2045-2049 | 17,970,992 | 1,438,969 | 19,409,961 |
| Totals | <u>\$ 483,725,337</u> | <u>\$ 326,441,725</u> | <u>\$ 810,167,062</u> |

G. Segment information

The Authority maintains two major Enterprise Funds, each with a group of subfunds. Indentures for bonds reported in the Single Family Program Funds require that these programs be accounted for separately based on the General Resolutions for each grouping of bond issuances. The Single Family Programs Fund accounts for the Authority's single family mortgage program, which includes the Single Family Mortgage Revenue Bonds 2003 Series B, 2004 Series A, 2005 Series A, and 2006 Series A, B, C, and D, 2007 Series A, B, C, and D, 2008 Series A and B, 2009 Series A, 2011 Series A/B, 2013 Series A; and 2010-1, 2011-2, and 2013-1 of the New Issue Bond Program (NIBP). The fund also accounts for the DSHA Mortgage Backed Securities Purchase Program and for the Authority's second mortgage program, which includes the Senior SMAL Revenue bonds, 1997 Series A, 1998 Series A and B, and 2001 Series A.

CONDENSED STATEMENT OF NET POSITION - SINGLE FAMILY PROGRAMS FUND SEGMENTS
JUNE 30, 2014

| | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2003B-2013A | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2009-2013-1 NIBP | DSHA MORTGAGE BACKED SECURITIES PURCHASE PROGRAM | SECOND MORTGAGE ASSISTANCE LOAN REVENUE BOND SERIES 1997A-2001A | TOTAL SINGLE FAMILY PROGRAMS |
|---|---|--|---|--|------------------------------------|
| Assets | | | | | |
| Current assets other than interfund receivables | \$ 14,035,221 | \$ 778,025 | \$ 10,195,998 | \$ 1,036,046 | \$ 26,045,290 |
| Current interfund receivables | - | - | - | 1,183 | 1,183 |
| Non-current assets | 302,673,228 | 208,599,585 | 2,760,880 | 1,003,532 | 515,037,225 |
| Total assets | 316,708,449 | 209,377,610 | 12,956,878 | 2,040,761 | 541,083,698 |
| Deferred outflow of resources | | | | | |
| Deferred amount on bond refunding | 271,455 | - | - | - | 271,455 |
| Total deferred outflow of resources | 271,455 | - | - | - | 271,455 |
| Liabilities | | | | | |
| Current liabilities other than interfund payables | 6,649,998 | 4,474,756 | 97 | - | 11,124,851 |
| Current interfund payables | 101,569 | 88,938 | 5,320,124 | 160 | 5,510,791 |
| Non-current liabilities | 269,397,801 | 201,379,643 | - | 1,826,030 | 472,603,474 |
| Total liabilities | 276,149,368 | 205,943,337 | 5,320,221 | 1,826,190 | 489,239,116 |
| Deferred inflow of resources | | | | | |
| Deferred amount on bond refunding | - | 391,452 | - | - | 391,452 |
| Total deferred inflow of resources | - | 391,452 | - | - | 391,452 |
| Net position, restricted | \$ 40,830,536 | \$ 3,042,821 | \$ 7,636,657 | \$ 214,571 | \$ 51,724,585 |

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - SINGLE FAMILY PROGRAMS
FUND SEGMENTS
FOR THE YEAR ENDED JUNE 30, 2014

| | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2003B-2013A | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2009-2013-1 NIBP | DSHA MORTGAGE BACKED SECURITIES PURCHASE PROGRAM | SECOND MORTGAGE ASSISTANCE LOAN REVENUE BOND SERIES 1997A-2001A | TOTAL SINGLE FAMILY PROGRAMS |
|--|---|--|---|--|------------------------------------|
| Operating revenues* | \$ 21,355,144 | \$ 8,268,704 | \$ 10,430 | \$ 191,405 | \$ 29,825,683 |
| Operating expenses | | | | | |
| Interest expense on bonds | 16,076,469 | 6,910,434 | - | 100,162 | 23,087,065 |
| Other | 522,515 | 22,514 | 191,806 | 103,739 | 840,574 |
| Operating income/(loss) | 4,756,160 | 1,335,756 | (181,376) | (12,496) | 5,898,044 |
| Non-operating revenue/(expenses): | | | | | |
| Interest income on investments | 158,148 | 10,961 | 54,074 | 7,429 | 230,612 |
| Other non-operating revenue/(expenses) | (2,287,335) | 2,262,067 | 2,439,182 | 940 | 2,414,854 |
| Transfers in/(out) | (975,765) | (656,003) | (1,087,834) | (806,352) | (3,525,954) |
| Change in net position | 1,651,208 | 2,952,781 | 1,224,046 | (810,479) | 5,017,556 |
| Beginning net position, restated | 39,179,328 | 90,040 | 6,412,611 | 1,025,050 | 46,707,029 |
| Ending net position | \$ 40,830,536 | \$ 3,042,821 | \$ 7,636,657 | \$ 214,571 | \$ 51,724,585 |

*Operating revenues consist primarily of interest income on loans.

CONDENSED STATEMENT OF CASH FLOWS - SINGLE FAMILY PROGRAMS FUND SEGMENTS
FOR THE YEAR ENDED JUNE 30, 2014

| | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2003B-2013A | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2009-2013-1 NIBP | DSHA MORTGAGE BACKED SECURITIES PURCHASE PROGRAM | SECOND MORTGAGE ASSISTANCE LOAN REVENUE BOND SERIES 1997A-2001A | TOTAL SINGLE FAMILY PROGRAMS |
|---|---|--|---|--|------------------------------------|
| Net cash provided (used) by: | | | | | |
| Operating activities | \$ 123,565,307 | \$ 43,048,686 | \$ (155,609) | \$ 116,046 | \$ 166,574,430 |
| Noncapital financing activities | (130,444,931) | (45,102,498) | (1,473,699) | (133,459) | (177,154,587) |
| Investing activities | 6,793,502 | 2,142,747 | (1,359,887) | 14,749 | 7,591,111 |
| Net increase/(decrease) | (86,122) | 88,935 | (2,989,195) | (2,664) | (2,989,046) |
| Beginning cash and cash equivalents | 141,284 | 7 | 6,430,648 | 11,314 | 6,583,253 |
| Ending cash and cash equivalents | \$ 55,162 | \$ 88,942 | \$ 3,441,453 | \$ 8,650 | \$ 3,594,207 |

V. OTHER INFORMATION

A. Risk management

The Authority is exposed to various risks of loss related to workers' compensation, non-state employee health care and accident, automobile, and property and casualty claims. The latter discussion of post-retirement health care benefits defines state and non-state employees. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Authority, as a public corporation, is responsible for all risk liabilities associated with its operations, with the exception that employees in state-owned vehicles and its offices in the Carvel State Office Building are covered by the State of Delaware. Over the past five years, the Authority insurance premiums have ranged between \$160,000, and \$175,000. The top four policies by premium amount were: commercial property, workers compensation, director and officer liability, and auto. The Authority's retained risk, meaning insurance deductible outlays through self-insurance, has ranged from \$25,000 to \$50,000 per year. The primary insurance coverage was \$41 million (with \$25,000 deductible) for property insurance; up to \$4.0 million (with \$10,000 deductible) for general liability insurance; up to \$3.0 million (with \$1,000 deductible) for auto insurance; and \$1.0 million (with \$50,000 deductible) for director and officer liability insurance.

B. Related organizations and related party transactions

Organizations for which the Authority appoints all or some of the governing boards, but for which it is not financially accountable, are considered to be related organizations. Delaware Housing Partnership Corporation (DHP), Huling Cove Housing Corporation (HCHC), and Wexford Village Housing Corporation (WVHC) are related organizations of the Authority. Accordingly, financial information for these three entities is excluded from the Authority's financial statements.

During the Year Ended June 30, 2014, HCHC was under agreement with the Authority for the management of its operations. For the Year Ended June 30, 2014, HCHC paid management fees to the Authority totaling \$34,068 and labor charges totaling \$97,932.

As of June 30, 2014, HCHC and WVHC were indebted to the Authority for Housing Development Fund loans in the amounts of \$3,156,035 and \$2,041,637, respectively.

For the Year Ended June 30, 2014, Section 8 Contract Administration housing assistance payments totaling \$319,526 from the HUD passed through the Authority to HCHC.

C. Economic dependency

During the Year Ended June 30, 2014, the Authority's business-type activities received 61.9 percent of its revenue from the U.S. Department of Housing and Urban Development (HUD).

D. Post-retirement health care benefits

State Employees

Authority state employees are hired by the Authority through the State of Delaware Office of Personnel and are eligible for State of Delaware employee benefits. The State provides post-retirement health care benefits, in accordance with the State statutes, to all State employees of the Authority who retire from the State after meeting the eligibility requirements. Please refer to the State Comprehensive Annual Financial Report (CAFR) for post-retirement health care benefits. A copy of the CAFR may be obtained by writing to: State of Delaware, Dept. of Finance, Div. of Accounting, 820 Silver Lake Boulevard, Dover, DE 19904; calling 1-302-672-5505; or visiting: <http://accounting.delaware.gov>.

The Authority's contribution to the State of Delaware Employees' Pension Plan, a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"), for post-retirement health care benefits for the Year Ended June 30, 2014 was \$71,158, equal to the required contribution for the year. The Authority's contributions to the State PERS for post-retirement health care benefits for the Years Ended June 30, 2013 and June 30, 2012 were \$75,230 and \$84,587, respectively, equal to the required contribution for each year.

Non-State Employees

Authority non-state employees are hired by the Authority directly and are eligible for Delaware State Housing Authority employee benefits.

1. Plan Description - The Delaware State Housing Authority (DSHA) retiree medical program is a single-employer defined benefit healthcare plan administered by the Authority. The DSHA retiree medical program provides health care insurance benefits to its non-state retirees, their spouses and dependents participating in the State of Delaware Group Health Insurance Program. The amount the Authority pays for the medical insurance premiums for retirees varies by the individual's service and retirement date. All regular active employees who retire directly from the Authority and meet the eligibility criteria may participate. The Authority issues this publicly available financial report that includes financial statements and required supplementary information for the plan.

2. Funding Policy - Contributions to the plan are made by the Authority to the DSHA Retiree Medical Trust as established by the Authority on March 1, 2008. The Authority contributes to the Trust periodically the amounts it determines necessary or appropriate. The Authority contributed \$665,919 for the Year Ended June 30, 2014.

3. Annual OPEB Cost and Net OPEB Obligation - The Authority recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Authority's future cash flows. Because the Authority adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years is being phased in over 30 years, commencing with the 2008 liability. The Authority's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the net OPEB obligation:

| | |
|---|------------|
| Annual Required Contribution (ARC) | \$ 666,973 |
| Adjustment to Annual Required Contribution: | |
| Interest on net OPEB Obligation (NOO) | (113) |
| Amortization of Net OPEB Obligation (NOO) | 147 |
| Annual OPEB Cost (expense) (AOC) | 667,007 |
| Contributions made | (665,919) |
| Increase (decrease) in net OPEB obligation | 1,088 |
| Net OPEB obligation, beginning of year | (2,595) |
| Net OPEB obligation, end of year | \$ (1,507) |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributions to the plan, and the net OPEB obligation for Fiscal Year 2014 and the preceding two years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| 6/30/2012 | \$ 632,563 | 99.96% | \$ (2,264) |
| 6/30/2013 | \$ 666,973 | 100.01% | \$ (2,595) |
| 6/30/2014 | \$ 666,973 | 99.84% | \$ (1,507) |

4. **Funded Status and Funding Progress** - As of July 1, 2013, the plan was 52% funded. The actuarial accrued liability (AAL) for benefits was \$7,124,930 and the actuarial value of assets was \$3,738,331, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,386,599. The covered payroll (annual payroll of active non-state employees covered by the plan) was \$4,600,000, and the ratio of the UAAL to the covered payroll was 73.6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

5. **Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following table shows the actuarial methods and assumptions of the Authority's most recent actuarial valuation:

| | |
|------------------------------------|-----------------------------------|
| Valuation date | July 1, 2012 |
| Actuarial Cost Method | Projected Unit Credit Cost Method |
| Amortization Method | Level Dollar Open |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return | 5.00% |
| Inflation Rate | 3.00% |
| Ultimate Rate of Medical Inflation | 5.00% |

E. Pension plans

State Employees

Authority state employees are hired by the Authority through the State of Delaware Office of Personnel and are eligible for State of Delaware employee benefits.

1. **Plan Description** - All State employees of the Authority are covered by the State of Delaware Employees' Pension Plan which is a cost-sharing, single employer, defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible State employees are required to contribute to the pension plan

according to Chapter 55, Title 29 of the Delaware Code.

All full-time or regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability, and death benefits. In general, employees are eligible for pension benefits if they retire at age 62 with at least five years of credited service, at age 60 with at least 15 years of credited service, or at any age after 30 years of credited service. Monthly benefits equal final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997 plus final average monthly compensation multiplied by 1.85% and multiplied by credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Pension provisions include survivor's benefits, whereby the employee must have been receiving a pension or have been an active employee with five years of credited services. Eligible survivors receive 50% of the pension the employee would have received at age 62. Additionally, the plan provides for monthly disability provisions which are the same as the pension benefit. The employee must have five years of credited service subject to limitations. The plan's death benefit is \$7,000 per member. The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904, or by calling 1-800-722-7300.

2. Funding Policy - Employees of the Authority are required to contribute 3% of earnings in excess of \$6,000. Additionally, for the Year Ended June 30, 2014, the Authority was required to contribute 10.52% of covered payroll to the plan. The Authority's contribution to the State PERS for the Year Ended June 30, 2014 was \$92,413, equal to the required contribution for the year. The Authority's contributions to the State PERS for the Years Ended June 30, 2013 and June 30, 2012 were \$91,068 and \$96,951, respectively, equal to the required contribution for each year.

Non-State Employees

Authority non-state employees are hired by the Authority directly and are eligible for Delaware State Housing Authority employee benefits.

1. Plan Description - Full-time non-state employees are covered by the Housing-Renewal and Local Agency Retirement Plan. The Administrator of the plan is William M. Mercer, Incorporated. The Authority establishes and amends contributions through a General Order which is approved by the Authority's Director. The Plan shall be construed, regulated, and administered according to the laws of the State of Tennessee, where the plan is incorporated, except those areas preempted by the laws of the United States of America. The Housing-Renewal and Local Agency Retirement Plan provides pension, disability, and death benefits. In general, employees are eligible for pension benefits if they retire at age 65 with at least five years of credited service, or the date on which the employee completes ten (10) years of combined participation in this Plan and their prior plan, if any. The employee is entitled to the full value of their account as of the date of retirement.

2. Funding Policy - This defined contribution plan is funded by contributions from both the covered employees and the Authority. Non-state employees of the Authority are required to contribute 3.5% of their basic salary. The Authority's contribution rate was 9.59% of covered payroll for the Year Ended June 30, 2014. The Authority's contribution to the Housing Renewal and Local Agency Retirement Plan for the Year Ended June 30, 2014 was \$444,976 equal to the required contribution for the year. The Authority's contributions to the plan for the Years Ended June 30, 2013 and June 30, 2012 were \$428,806 and \$426,299, respectively, equal to the required contributions for each year.

F. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already

collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, the Authority expects such amounts, if any, to be immaterial.

G. Subsequent events

The Authority has evaluated all subsequent events through September 30, 2014, the date the financial statements were available to be issued.

H. Restatement of prior years’ net position and net assets

For the Year Ended June 30, 2014, the Authority has implemented GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities.” This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Beginning net position for the Authority’s Single Family Programs Enterprise Fund, Business-type Activities, and Total Entity-wide Statement of Net Position have been restated to reflect this implementation.

The beginning net position as of July 1, 2012, has been restated as follows:

| | Single Family Programs Enterprise Fund | Business- Type Activities | Total Entity- Wide Statement of Net Position |
|---|---|---------------------------------|---|
| Beginning net position, July 1, 2012 | \$ 80,662,893 | \$ 157,736,597 | \$ 424,921,196 |
| Single Family Programs adjustment to record deferred bond issuance costs as period revenue/expense | (8,197,846) | (8,197,846) | (8,197,846) |
| Beginning net position, July 1, 2012, restated | \$ 72,465,047 | \$ 149,538,751 | \$ 416,723,350 |

The beginning net position as of July 1, 2013, has been restated as follows:

| | Single Family Programs Enterprise Fund | Business- Type Activities | Total Entity- Wide Statement of Net Position |
|---|---|---------------------------------|---|
| Beginning net position, July 1, 2013 | \$ 53,787,817 | \$ 132,642,781 | \$ 418,669,516 |
| Single Family Programs adjustment to record deferred bond issuance costs as period revenue/expense | (7,080,788) | (7,080,788) | (7,080,788) |
| Beginning net position, July 1, 2013, restated | \$ 46,707,029 | \$ 125,561,993 | \$ 411,588,728 |

For the year ended, June 30, 2013, the prior period adjustment decreases the expenses for homeownership in the amount of \$1,117,058, which is reflected in the business-type activities in the statement of activities and the amortization of deferred bond issuance costs for the single family programs enterprise fund of the statement of revenues, expenses, and changes in net position – proprietary funds.

I. Prior period reclassifications

Certain amounts in the Entity-wide Financial Statements of net position and activities and Statements of Cash Flows – Proprietary Funds, as of and for the year ended June 30, 2013, were reclassified for consistency with the June 30, 2014 presentation.



DELAWARE STATE HOUSING AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION



DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF FUNDING PROGRESS FOR DELAWARE STATE HOUSING AUTHORITY
RETIREE MEDICAL PLAN
AS OF JUNE 30, 2014

| Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (Estimated) (c) | UAAL as a Percentage of Covered Payroll (b-a)/(c) |
|----------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------------------|---|
| 07/01/2011 | \$ 2,495,334 | \$ 5,599,680 | \$ 3,104,346 | 45% | \$ 4,470,000 | 69.4% |
| 07/01/2012 | 3,093,447 | 6,354,167 | 3,260,720 | 49% | 4,600,000 | 70.9% |
| 07/01/2013 | 3,738,331 | 7,124,930 | 3,386,599 | 52% | 4,600,000 | 73.6% |



DELAWARE STATE HOUSING AUTHORITY
OTHER SUPPLEMENTARY INFORMATION



DELAWARE STATE HOUSING AUTHORITY
 SCHEDULE OF ACTIVITIES - ENTITY-WIDE
 FOR THE YEAR ENDED JUNE, 30, 2014

| | | |
|------------------------------------|----|---------------------------|
| EXPENSES | \$ | 92,739,340 |
| PROGRAM REVENUE | | |
| Charges for services | | 40,052,634 |
| Operating grants and contributions | | 70,404,932 |
| Capital grants and contributions | | <u>493,015</u> |
| NET OPERATING REVENUE | | 18,211,241 |
| GENERAL REVENUE | | |
| Investment earnings | | <u>2,880,132</u> |
| TOTAL GENERAL REVENUE | | <u>2,880,132</u> |
| CHANGE IN NET POSITION | | 21,091,373 |
| NET POSITION, BEGINNING, RESTATED | | <u>411,588,728</u> |
| NET POSITION, ENDING | \$ | <u><u>432,680,101</u></u> |

DELAWARE STATE HOUSING AUTHORITY
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

| | DELAWARE EMERGENCY MORTGAGE ASSISTANCE PROGRAM | DELAWARE HOUSING INSURANCE FUND | DELAWARE MORTGAGE MEDIATION PROGRAM | DELAWARE DEPARTMENT OF JUSTICE MORTGAGE SETTLEMENT FUND |
|--|--|--|--|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,560,898 | \$ - | \$ - | \$ 1,647,345 |
| Investments | 3,002,854 | 182,141 | 48,632 | 1,501,427 |
| Interfund receivables | 6,266 | - | - | - |
| Loans receivable: | | | | |
| Mortgages receivable, net | 4,448,600 | - | - | - |
| Accrued interest & other receivables | 353,896 | - | - | - |
| TOTAL ASSETS | \$ 9,372,514 | \$ 182,141 | \$ 48,632 | \$ 3,148,772 |
| LIABILITIES & FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 1,105 |
| Interfund payables | 50,142 | 1,183 | - | - |
| TOTAL LIABILITIES | 50,142 | 1,183 | - | 1,105 |
| FUND BALANCES | | | | |
| Nonspendable | 4,758,620 | - | - | - |
| Restricted | 4,563,752 | 180,958 | 48,632 | 3,147,667 |
| Assigned | - | - | - | - |
| TOTAL FUND BALANCES | 9,322,372 | 180,958 | 48,632 | 3,147,667 |
| TOTAL LIABILITIES & FUND BALANCES | \$ 9,372,514 | \$ 182,141 | \$ 48,632 | \$ 3,148,772 |

| FORECLOSURE PREVENTION PROGRAM | HOUSING REHABILITATION LOAN PROGRAM | STATE RENTAL ASSISTANCE PROGRAM | WEXFORD VILLAGE REHAB PROGRAM | WILMINGTON SENIOR TAX ASSISTANCE PROGRAM | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|--------------------------------------|--|--|--|--|--|
| \$ - | \$ 161,407 | \$ 1,489,466 | \$ 1,291,946 | \$ 29,048 | \$ 6,180,110 |
| - | 1,837,201 | 3,564,198 | - | - | 10,136,453 |
| - | - | - | - | - | 6,266 |
| - | 1,933,942 | - | - | - | 6,382,542 |
| - | 71,709 | - | - | - | 425,605 |
| <u>\$ -</u> | <u>\$ 4,004,259</u> | <u>\$ 5,053,664</u> | <u>\$ 1,291,946</u> | <u>\$ 29,048</u> | <u>\$ 23,130,976</u> |
| \$ - | \$ 422 | \$ - | \$ - | \$ - | \$ 1,527 |
| - | 165 | - | 502,430 | - | 553,920 |
| - | 587 | - | 502,430 | - | 555,447 |
| - | 2,005,651 | - | - | - | 6,764,271 |
| - | - | 5,053,664 | - | - | 12,994,673 |
| - | 1,998,021 | - | 789,516 | 29,048 | 2,816,585 |
| - | 4,003,672 | 5,053,664 | 789,516 | 29,048 | 22,575,529 |
| <u>\$ -</u> | <u>\$ 4,004,259</u> | <u>\$ 5,053,664</u> | <u>\$ 1,291,946</u> | <u>\$ 29,048</u> | <u>\$ 23,130,976</u> |

DELAWARE STATE HOUSING AUTHORITY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

| | DELAWARE EMERGENCY MORTGAGE ASSISTANCE PROGRAM | DELAWARE HOUSING INSURANCE FUND | DELAWARE MORTGAGE MEDIATION PROGRAM | DELAWARE DEPARTMENT OF JUSTICE MORTGAGE SETTLEMENT FUND |
|---|--|--|--|--|
| REVENUES | | | | |
| Interest income: | | | | |
| Investments | \$ 2,854 | \$ - | \$ 134 | \$ 1,427 |
| Loans | 86,138 | - | - | - |
| Total interest income | 88,992 | - | 134 | 1,427 |
| Payments from primary government | - | - | - | - |
| Gains/(losses) on investments | - | - | - | - |
| Fees | - | - | 193,500 | - |
| Other revenue | 933,851 | - | - | - |
| TOTAL REVENUES | 1,022,843 | - | 193,634 | 1,427 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Home ownership | 95,230 | - | 182,525 | 885,186 |
| Affordable rental housing | - | - | - | - |
| Housing rehabilitation | - | - | - | - |
| TOTAL EXPEDITURES | 95,230 | - | 182,525 | 885,186 |
| EXCESS/(DEFICIT) REVENUE OVER EXPENDITURES | 927,613 | - | 11,109 | (883,759) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | 31,394 | - | - |
| Transfers out | - | (18,208) | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | - | 13,186 | - | - |
| NET CHANGE IN FUND BALANCES | 927,613 | 13,186 | 11,109 | (883,759) |
| FUND BALANCES, BEGINNING | 8,394,759 | 167,772 | 37,523 | 4,031,426 |
| FUND BALANCES, ENDING | \$ 9,322,372 | \$ 180,958 | \$ 48,632 | \$ 3,147,667 |

* The transfers in and out have been reduced by \$644 for transfers between non-major governmental funds.

| FORECLOSURE PREVENTION PROGRAM | HOUSING REHABILITATION LOAN PROGRAM | STATE RENTAL ASSISTANCE PROGRAM | WEXFORD VILLAGE REHAB PROGRAM | WILMINGTON SENIOR TAX ASSISTANCE PROGRAM | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|--------------------------------------|--|--|--|--|--|
| \$ - | \$ 16,313 | \$ 4,317 | \$ - | \$ - | \$ 25,045 |
| - | 59,279 | - | - | - | 145,417 |
| - | 75,592 | 4,317 | - | - | 170,462 |
| - | - | 4,100,000 | - | - | 4,100,000 |
| - | 17,995 | - | - | - | 17,995 |
| - | - | - | - | - | 193,500 |
| - | 14,595 | - | - | - | 948,446 |
| - | 108,182 | 4,104,317 | - | - | 5,430,403 |
| 287,466 | - | - | - | 50,797 | 1,501,204 |
| - | - | 2,991,073 | 271,533 | - | 3,262,606 |
| - | 49,259 | - | - | - | 49,259 |
| 287,466 | 49,259 | 2,991,073 | 271,533 | 50,797 | 4,813,069 |
| (287,466) | 58,923 | 1,113,244 | (271,533) | (50,797) | 617,334 |
| - | - | - | - | - | 30,730 * |
| - | (450,000) | - | - | - | (467,544) * |
| - | (450,000) | - | - | - | (436,814) |
| (287,466) | (391,077) | 1,113,244 | (271,533) | (50,797) | 180,520 |
| 287,466 | 4,394,749 | 3,940,420 | 1,061,049 | 79,845 | 22,395,009 |
| \$ - | \$ 4,003,672 | \$ 5,053,664 | \$ 789,516 | \$ 29,048 | \$ 22,575,529 |

DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF NET POSITION - PROPRIETARY FUND - SUBFUNDS OF THE FEDERAL PROGRAMS ENTERPRISE FUND
JUNE 30, 2014

| | COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS | COMPREHENSIVE HOUSING COUNSELING GRANT PROGRAM | DEMAP 2011/ EMERGENCY HOMEOWNERS LOAN PROGRAM | FAMILY UNIFICATION PROGRAM |
|--|---|--|---|----------------------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 200 | \$ 50 | \$ - | \$ 17,892 |
| Investments | - | - | - | - |
| Accrued interest and other receivables | - | - | - | - |
| Grants receivable-U.S. Dept of HUD | - | - | - | - |
| Interfund receivables | - | - | - | - |
| Prepaid expenses | - | - | - | 27,231 |
| Total current assets | 200 | 50 | - | 45,123 |
| Non-Current Assets: | | | | |
| Cash, restricted for payment of escrows | - | - | - | 51,788 |
| Investments | - | - | - | - |
| Mortgages receivable, net | - | - | - | - |
| Accrued interest and other receivables, net | - | - | - | - |
| Interfund receivables | 24,524 | - | - | - |
| Capital assets not being depreciated | - | - | - | - |
| Capital assets net of accumulated depreciation | - | - | - | - |
| Total non-current assets | 24,524 | - | - | 51,788 |
| TOTAL ASSETS | 24,724 | 50 | - | 96,911 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 2,356 | - | - | - |
| Due St of Delaware-pension costs | 436 | - | - | - |
| Interfund payables | 200 | 50 | - | - |
| Compensated absences payable | 1,504 | - | - | - |
| Total current liabilities | 4,496 | 50 | - | - |
| Non-Current Liabilities: | | | | |
| Compensated absences payable | 20,228 | - | - | - |
| Interfund payables | - | - | - | 30,000 |
| Escrow deposits | - | - | - | 51,788 |
| Total non-current liabilities | 20,228 | - | - | 81,788 |
| TOTAL LIABILITIES | 24,724 | 50 | - | 81,788 |
| NET POSITION | | | | |
| Invested in capital assets | - | - | - | - |
| Restricted by federal regulations | - | - | - | 15,123 |
| TOTAL NET POSITION | \$ - | \$ - | \$ - | \$ 15,123 |

| | | | | SECTION 811 | | |
|-------------------------------------|--------------------------------------|-------------------------------------|---|---|------------------------|--|
| HOME INVESTMENT PARTNERSHIP PROGRAM | MOVING TO WORK DEMONSTRATION PROGRAM | NEIGHBORWORKS AMERICA GRANT PROGRAM | SECTION 8 CONTRACT ADMINISTRATION PROGRAM | PROJECT RENTAL ASSISTANCE DEMONSTRATION PROGRAM | TOTAL FEDERAL PROGRAMS | |
| \$ 50 | \$ 1,397,912 | \$ 69,782 | \$ 1,207,263 | \$ 100 | \$ 2,693,249 | |
| 2,362,036 | 984,536 | - | - | - | 3,346,572 | |
| 1,911 | 108,267 | - | 337 | - | 110,515 | |
| - | 186,348 | - | 287,523 | - | 473,871 | |
| - | 12,453 | - | - | - | 12,453 | |
| - | 440,966 | - | 3,058,119 | - | 3,526,316 | |
| 2,363,997 | 3,130,482 | 69,782 | 4,553,242 | 100 | 10,162,976 | |
| - | 781,456 | - | - | - | 833,244 | |
| 2,688,858 | - | - | - | - | 2,688,858 | |
| 52,089,016 | - | - | - | - | 52,089,016 | |
| 10,760,516 | - | - | - | - | 10,760,516 | |
| - | - | - | - | - | 24,524 | |
| - | 2,888,341 | - | - | - | 2,888,341 | |
| - | 12,409,521 | - | - | - | 12,409,521 | |
| 65,538,390 | 16,079,318 | - | - | - | 81,694,020 | |
| 67,902,387 | 19,209,800 | 69,782 | 4,553,242 | 100 | 91,856,996 | |
| 7,376 | 748,210 | - | 27,278 | - | 785,220 | |
| 567 | 2,707 | - | 564 | - | 4,274 | |
| 731 | 590 | - | 95 | 100 | 1,766 | |
| - | 3,514 | - | 2,273 | - | 7,291 | |
| 8,674 | 755,021 | - | 30,210 | 100 | 798,551 | |
| 25,678 | 321,293 | - | 58,086 | - | 425,285 | |
| - | - | - | 3,200,000 | - | 3,230,000 | |
| 5,045,991 | 781,456 | - | - | - | 5,879,235 | |
| 5,071,669 | 1,102,749 | - | 3,258,086 | - | 9,534,520 | |
| 5,080,343 | 1,857,770 | - | 3,288,296 | 100 | 10,333,071 | |
| - | 15,297,862 | - | - | - | 15,297,862 | |
| 62,822,044 | 2,054,168 | 69,782 | 1,264,946 | - | 66,226,063 | |
| \$ 62,822,044 | \$ 17,352,030 | \$ 69,782 | \$ 1,264,946 | \$ - | \$ 81,523,925 | |

DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND -
SUBFUNDS OF THE FEDERAL PROGRAMS ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014

| | COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS | COMPREHENSIVE HOUSING COUNSELING GRANT PROGRAM | DEMAP 2011/ EMERGENCY HOMEOWNERS LOAN PROGRAM | FAMILY UNIFICATION PROGRAM |
|--|---|--|---|----------------------------------|
| OPERATING REVENUES | | | | |
| Interest income on loans | \$ - | \$ - | \$ - | \$ - |
| Federal housing program grants | 4,611,321 | 91,722 | 90,530 | 335,451 |
| Rental income | - | - | - | - |
| Miscellaneous | - | - | - | 4,555 |
| TOTAL OPERATING REVENUES | 4,611,321 | 91,722 | 90,530 | 340,006 |
| OPERATING EXPENSES | | | | |
| Administrative | 335,077 | 91,722 | 25,974 | - |
| Grants and housing assistance payments | 4,276,244 | - | 64,556 | 324,885 |
| Public housing maintenance & utilities | - | - | - | - |
| Depreciation | - | - | - | - |
| TOTAL OPERATING EXPENSES | 4,611,321 | 91,722 | 90,530 | 324,885 |
| OPERATING INCOME/(LOSS) | - | - | - | 15,121 |
| NON-OPERATING INCOME/(EXPENSES) | | | | |
| Interest income on investments | - | - | - | 2 |
| TOTAL NON-OPERATING INCOME/EXPENSES) | - | - | - | 2 |
| INCOME/(LOSS) BEFORE CAPITAL GRANTS AND OPERATING TRANSFERS | | | | |
| Capital grants and contributions | - | - | - | 15,123 |
| Transfers out | - | - | - | - |
| CHANGE IN NET POSITION | - | - | - | 15,123 |
| NET POSITION, BEGINNING | - | - | - | - |
| NET POSITION, ENDING | \$ - | \$ - | \$ - | \$ 15,123 |

| HOME INVESTMENT PARTNERSHIP PROGRAM | MOVING TO WORK DEMONSTRATION PROGRAM | NEIGHBORWORKS AMERICA GRANT PROGRAM | SECTION 8 CONTRACT ADMINISTRATION | SECTION 811 PROJECT RENTAL ASSISTANCE DEMONSTRATION PROGRAM | TOTAL FEDERAL PROGRAMS |
|--|---|--|---|---|------------------------------|
| \$ 1,275,913 | \$ - | \$ - | \$ - | \$ - | \$ 1,275,913 |
| 2,962,144 | 9,775,567 | 228,942 | 38,113,255 | - | 56,208,932 |
| - | 675,145 | - | - | - | 675,145 |
| - | 533,532 | - | - | - | 538,087 |
| 4,238,057 | 10,984,244 | 228,942 | 38,113,255 | - | 58,698,077 |
| 349,440 | 3,457,934 | 186,034 | 1,061,683 | - | 5,507,864 |
| 610,967 | 5,513,883 | - | 36,737,867 | - | 47,528,402 |
| - | 1,790,038 | - | - | - | 1,790,038 |
| - | 1,677,151 | - | - | - | 1,677,151 |
| 960,407 | 12,439,006 | 186,034 | 37,799,550 | - | 56,503,455 |
| 3,277,650 | (1,454,762) | 42,908 | 313,705 | - | 2,194,622 |
| 76 | 2,057 | - | - | - | 2,135 |
| 76 | 2,057 | - | - | - | 2,135 |
| 3,277,726 | (1,452,705) | 42,908 | 313,705 | - | 2,196,757 |
| - | 493,015 | - | - | - | 493,015 |
| - | (20,811) | - | - | - | (20,811) |
| 3,277,726 | (980,501) | 42,908 | 313,705 | - | 2,668,961 |
| 59,544,318 | 18,332,531 | 26,874 | 951,241 | - | 78,854,964 |
| \$ 62,822,044 | \$ 17,352,030 | \$ 69,782 | \$ 1,264,946 | \$ - | \$ 81,523,925 |

DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF NET POSITION - PROPRIETARY FUND - SUBFUNDS OF THE SINGLE FAMILY PROGRAMS
ENTERPRISE FUND
JUNE 30, 2014

| | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2003B-2013A | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2009-2013-1 NIBP | DSHA MORTGAGE BACKED SECURITIES PURCHASE PROGRAM |
|--|---|--|---|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 55,162 | \$ 88,942 | \$ 3,441,453 |
| Investments | 6,591,280 | 76,225 | 6,741,817 |
| Mortgage loan receivable, net | 1,864,837 | - | - |
| Accrued interest and other receivables | 5,523,942 | 612,858 | 12,728 |
| Interfund receivables | - | - | - |
| Total current assets | 14,035,221 | 778,025 | 10,195,998 |
| Non-Current Assets: | | | |
| Investments | 733,295 | - | 2,760,880 |
| Securitized mortgage loans, net | 260,725,091 | 208,599,585 | - |
| Mortgage loan receivable, net | 41,214,842 | - | - |
| Total non-current assets | 302,673,228 | 208,599,585 | 2,760,880 |
| TOTAL ASSETS | 316,708,449 | 209,377,610 | 12,956,878 |
| DEFERRED OUTFLOW OF RESOURCES | | | |
| Deferred amount on bond refunding | 271,455 | - | - |
| TOTAL DEFERRED OUTFLOW OF RESOURCES | 271,455 | - | - |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 2,891 | - | 97 |
| Interfund payables | 101,569 | 88,938 | 5,320,124 |
| Revenue bonds payable | 6,647,107 | 4,474,756 | - |
| Total current liabilities | 6,751,567 | 4,563,694 | 5,320,221 |
| Non-Current Liabilities: | | | |
| Revenue bonds payable | 269,397,801 | 201,379,643 | - |
| Total non-current liabilities | 269,397,801 | 201,379,643 | - |
| TOTAL LIABILITIES | 276,149,368 | 205,943,337 | 5,320,221 |
| DEFERRED INFLOW OF RESOURCES | | | |
| Deferred amount on bond refunding | - | 391,452 | - |
| TOTAL DEFERRED INFLOW OF RESOURCES | - | 391,452 | - |
| NET POSITION | | | |
| Restricted by bond covenants | 40,830,536 | 3,042,821 | 7,636,657 |
| TOTAL NET POSITION | \$ 40,830,536 | \$ 3,042,821 | \$ 7,636,657 |

| SECOND MORTGAGE ASSISTANCE LOAN REVENUE | | TOTAL SINGLE |
|--|-----------|--------------------|
| BOND SERIES 1997A-2001A | | FAMILY PROGRAMS |
| \$ 8,650 | \$ | 3,594,207 |
| 12,206 | | 13,421,528 |
| - | | 1,864,837 |
| 1,015,190 | | 7,164,718 |
| 1,183 | | 1,183 |
| <u>1,037,229</u> | | <u>26,046,473</u> |
| 178,122 | | 3,672,297 |
| - | | 469,324,676 |
| 825,410 | | 42,040,252 |
| <u>1,003,532</u> | | <u>515,037,225</u> |
| <u>2,040,761</u> | | <u>541,083,698</u> |
| - | | 271,455 |
| - | | <u>271,455</u> |
| - | | 2,988 |
| 160 | | 5,510,791 |
| - | | 11,121,863 |
| <u>160</u> | | <u>16,635,642</u> |
| 1,826,030 | | 472,603,474 |
| <u>1,826,030</u> | | <u>472,603,474</u> |
| <u>1,826,190</u> | | <u>489,239,116</u> |
| - | | 391,452 |
| - | | <u>391,452</u> |
| 214,571 | | 51,724,585 |
| <u>\$ 214,571</u> | <u>\$</u> | <u>51,724,585</u> |

DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND -
SUBFUNDS OF THE SINGLE FAMILY PROGRAMS ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014

| | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2003B-2013A | SINGLE FAMILY MORTGAGE REVENUE BOND SERIES 2009-2013-1 NIBP | DSHA MORTGAGE BACKED SECURITIES PURCHASE PROGRAM |
|---|---|--|---|
| OPERATING REVENUES | | | |
| Interest income on loans | \$ 17,155,222 | \$ 8,018,738 | \$ - |
| Amortization of deferred revenues | 4,198,614 | 249,966 | - |
| Miscellaneous | 1,308 | - | 10,430 |
| TOTAL OPERATING REVENUES | 21,355,144 | 8,268,704 | 10,430 |
| OPERATING EXPENSES | | | |
| Interest expense on bonds | 16,076,469 | 6,910,434 | - |
| Administrative | 50,000 | - | 37,003 |
| Grants | - | - | 154,803 |
| Loan servicing fees | 66,947 | - | - |
| Amortization of deferred expenses | 46,737 | - | - |
| Other expenses | 358,831 | 22,514 | - |
| TOTAL OPERATING EXPENSES | 16,598,984 | 6,932,948 | 191,806 |
| OPERATING INCOME/(LOSS) | 4,756,160 | 1,335,756 | (181,376) |
| NON-OPERATING INCOME/(EXPENSES) | | | |
| Interest income on investments | 158,148 | 10,961 | 54,074 |
| Change in fair value of investments | (2,287,335) | 2,262,067 | 2,439,182 |
| TOTAL NON-OPERATING INCOME/(EXPENSES) | (2,129,187) | 2,273,028 | 2,493,256 |
| INCOME/(LOSS) BEFORE OPERATING TRANSFERS | 2,626,973 | 3,608,784 | 2,311,880 |
| Transfers in | 5,162,296 | 2,802,727 | 6,804 |
| Transfers out | (6,138,061) | (3,458,730) | (1,094,638) |
| CHANGE IN NET POSITION | 1,651,208 | 2,952,781 | 1,224,046 |
| NET POSITION, BEGINNING, RESTATED | 39,179,328 | 90,040 | 6,412,611 |
| NET POSITION, ENDING | \$ 40,830,536 | \$ 3,042,821 | \$ 7,636,657 |

*Transfers in and out have been reduced by \$7,953,298 for transfers between subfunds in the Single Family Program Fund.

| SECOND MORTGAGE ASSISTANCE | | TOTAL SINGLE FAMILY PROGRAMS | |
|--|-----------|------------------------------------|--|
| LOAN REVENUE BOND SERIES 1997A-2001A | | | |
| \$ 106,333 | \$ | 25,280,293 | |
| - | | 4,448,580 | |
| 85,072 | | 96,810 | |
| <u>191,405</u> | | <u>29,825,683</u> | |
| 100,162 | | 23,087,065 | |
| - | | 87,003 | |
| - | | 154,803 | |
| - | | 66,947 | |
| - | | 46,737 | |
| 103,739 | | 485,084 | |
| <u>203,901</u> | | <u>23,927,639</u> | |
| <u>(12,496)</u> | | <u>5,898,044</u> | |
| 7,429 | | 230,612 | |
| 940 | | 2,414,854 | |
| <u>8,369</u> | | <u>2,645,466</u> | |
| (4,127) | | 8,543,510 | |
| 14,683 | | 33,212 * | |
| <u>(821,035)</u> | | <u>(3,559,166) *</u> | |
| (810,479) | | 5,017,556 | |
| 1,025,050 | | 46,707,029 | |
| <u>\$ 214,571</u> | <u>\$</u> | <u>51,724,585</u> | |

DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF REVENUE BONDS PAYABLE
FOR THE YEAR ENDED JUNE 30, 2014

The details of and changes in the Authority's mortgage revenue bonds during the Year Ended June 30, 2014 are as follows:

| Bond Issue | Interest Rate | Final Maturity Date | Bonds Outstanding June 30, 2013* | Matured | Called | Other | Bonds Outstanding June 30, 2014 |
|--|---------------|---------------------|----------------------------------|-----------|------------|-----------|---------------------------------|
| Single Family Mortgage Revenue Bonds 2003 Series B | 4.00% - 5.20% | 2025 | 3,135,518 | - | 1,505,000 | (64,100) | 1,566,418 |
| Single Family Mortgage Revenue Bonds 2004 Series A | | | 13,882,143 | - | 13,312,797 | (569,346) | - |
| Single Family Mortgage Revenue Bonds 2005 Series A | 4.50% - 5.80% | 2036 | 16,036,720 | 290,000 | 4,515,000 | (186,124) | 11,045,596 |
| Single Family Mortgage Revenue Bonds 2006 Series A | 4.25% - 5.75% | 2037 | 17,924,124 | 175,000 | 6,995,000 | (381,981) | 10,372,143 |
| Single Family Mortgage Revenue Bonds 2006 Series B | 4.60% - 6.20% | 2037 | 17,602,394 | 190,000 | 5,345,000 | (389,274) | 11,678,120 |
| Single Family Mortgage Revenue Bonds 2006 Series C | 4.65% - 6.25% | 2037 | 11,838,500 | - | 3,595,000 | (231,460) | 8,012,040 |
| Single Family Mortgage Revenue Bonds 2006 Series D | 4.30% - 5.88% | 2048 | 24,620,815 | - | 7,240,000 | (350,531) | 17,030,284 |
| Single Family Mortgage Revenue Bonds 2007 Series A | 4.35% - 5.90% | 2048 | 28,888,468 | 150,000 | 9,590,000 | (505,499) | 18,642,969 |
| Single Family Mortgage Revenue Bonds 2007 Series B | 4.05% - 5.60% | 2048 | 30,539,891 | - | 9,095,000 | (399,508) | 21,045,383 |
| Single Family Mortgage Revenue Bonds 2007 Series C | 5.30% - 5.55% | 2049 | 26,167,429 | - | 10,880,000 | (339,600) | 14,947,829 |
| Single Family Mortgage Revenue Bonds 2007 Series D | 4.63% - 5.80% | 2049 | 30,908,994 | 20,000 | 11,455,000 | (413,343) | 19,020,651 |
| Single Family Mortgage Revenue Bonds 2008 Series A | 4.27% - 6.65% | 2039 | 20,941,878 | - | 6,075,000 | (191,697) | 14,675,181 |
| Single Family Mortgage Revenue Bonds 2008 Series B | 3.80% - 6.50% | 2040 | 43,502,357 | 1,245,000 | 10,109,533 | 78,288 | 32,226,112 |
| Single Family Mortgage Revenue Bonds 2009 Series A | 3.05% - 7.75% | 2040 | 28,183,493 | 685,000 | 4,807,669 | 74,426 | 22,765,250 |

Continued on next page.

DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF REVENUE BONDS PAYABLE
FOR THE YEAR ENDED JUNE 30, 2014

The details of and changes in the Authority's mortgage revenue bonds during the Year Ended June 30, 2014 are as follows:

| Bond Issue | Interest Rate | Final Maturity Date | Bonds Outstanding June 30, 2013* | Matured | Called | Other | Bonds Outstanding June 30, 2014 |
|--|---------------|---------------------|----------------------------------|--------------|----------------|----------------|---------------------------------|
| Single Family Mortgage Revenue Bonds 2011 Series A/B | 4.25% - 5.10% | 2031 | 29,422,178 | - | 3,444,820 | 118,598 | 26,095,956 |
| Single Family Mortgage Revenue Bonds 2013 Series A | 2.60% | 2043 | 49,930,000 | - | 3,009,024 | - | 46,920,976 |
| Single Family Mortgage Revenue Bonds 2010-1 (NIBP) | 3.01% - 4.55% | 2041 | 77,519,039 | - | 12,225,000 | (167,197) | 65,126,842 |
| Single Family Mortgage Revenue Bonds 2011-2 (NIBP) | 1.50% - 4.38% | 2041 | 74,173,755 | 690,000 | 10,795,000 | (61,198) | 62,627,557 |
| Single Family Mortgage Revenue Bonds 2013-1 (NIBP) | 1.26% - 4.40% | 2041 | 92,015,000 | - | 13,915,000 | - | 78,100,000 |
| SMAL Mortgage Revenue Bonds 1997 Series A | 5.3% | 2029 | 474,861 | - | 13,652 | (9,566) | 451,643 |
| SMAL Mortgage Revenue Bonds 1998 Series A | 5.3% | 2030 | 311,730 | - | 8,643 | 16,405 | 319,492 |
| SMAL Mortgage Revenue Bonds 1998 Series B | 5.25% | 2030 | 946,940 | - | 53,915 | 19,845 | 912,870 |
| SMAL Mortgage Revenue Bonds 2001 Series A | 5.67% | 2033 | 220,687 | - | 70,572 | (8,090) | 142,025 |
| TOTAL | | | \$ 639,186,914 | \$ 3,445,000 | \$ 148,055,625 | \$ (3,960,952) | \$ 483,725,337 |

* Restated due to fiscal year 2014 implementation of GASB65 - "Items Previously Reported as Assets and Liabilities"

The "Other" category totaling \$(3,960,952) represents accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Tax exemption - interest on bonds is not includable in gross income for purposes of federal income taxation with the following exceptions:

- Single Family Mortgage Revenue Bonds 2003 Series B, Subseries B-2 (original issue amount of \$5,650,000).
- Single Family Mortgage Revenue Bonds 2007 Series D, Subseries D-2 (original issue amount of \$18,000,000).
- Single Family Mortgage Revenue Bonds 2013-1 NIBP (original issue amount of \$58,150,000).
- All SMAL Mortgage Revenue Bonds.



DELAWARE STATE HOUSING AUTHORITY
SINGLE AUDIT SUPPLEMENT





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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 Delaware State Housing Authority
Dover, Delaware

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 governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Delaware State Housing Authority (DSHA), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise DSHA's basic financial statements and have issued our report thereon dated October 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DSHA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DSHA's internal control. Accordingly, we do not express an opinion on the effectiveness of DSHA's internal control.

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

Our consideration of internal control 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

To the Delaware State Housing Authority
Dover, Delaware

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.

Compliance and Other Matters

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

Purpose of this Report

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

Belfint, Lyons & Shuman, P.A.

October 28, 2014
Wilmington, Delaware



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*Independent Auditors' Report on Compliance with Requirements that
Could have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with OMB Circular A-133*

To the Delaware State Housing Authority
Dover, Delaware

Report on Compliance for Each Major Federal Program

We have audited Delaware State Housing Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Delaware State Housing Authority's major federal programs for the year ended June 30, 2014. Delaware State Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Delaware State Housing Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Delaware State Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Delaware State Housing Authority
Dover, Delaware

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Delaware State Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Delaware State Housing Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Delaware State Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Delaware State Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Delaware State Housing Authority's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Delaware State Housing Authority
Dover, Delaware

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

October 28, 2014

Wilmington, Delaware



DELAWARE STATE HOUSING AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PART A - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued (unqualified, adverse, or disclaimer):

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Type of auditor's report issued on compliance for major programs (unqualified, adverse, or disclaimer):

Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

 Yes X No

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------------------|---|
| <u> </u> 14.239 | <u> </u> HOME Investment Partnership Program |
| <u> </u> 14.327 | <u> </u> Performance Based Contract Administration Program |
| <u> </u> 14.881 | <u> </u> Moving To Work Demonstration Program |
| <u> </u> | <u> </u> |
| <u> </u> | <u> </u> |
| <u> </u> | <u> </u> |

Dollar threshold used to distinguish between Type A and Type B programs: \$1,698,724

Auditee qualified as low-risk auditee? X Yes No

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

PART C - FINDINGS RELATED TO FEDERAL AWARDS

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

DELAWARE STATE HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| FEDERAL GRANTOR/PROGRAM TITLE | CFDA NUMBER | CONTRACT NUMBER | EXPENDITURES |
|---|-------------|--|---|
| DIRECT GRANTS: | | | |
| U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| Mortgage Insurance_Homes | 14.117 | N/A | \$ 204,763 |
| Comprehensive Housing Counseling Grant | 14.169 | HC130341004 | 91,722 |
| Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii | 14.228 | B-12-DC-10-0001 B-13-DC-10-0001 B-08-DN-10-0001 B-11-DN-14-0001 | \$ 778,643 1,259,892 967,218 1,200,048 |
| Total CDBG/State's Program and Non-Entitlement Grants in Hawaii | | | 4,205,801 |
| Emergency Solutions Grant Program | 14.231 | E11-DC-10-0001 E12-DC-10-0001 E13-DC-10-0001 | 6,000 65,477 77,907 |
| Total Emergency Solutions Grant Program | | | 149,384 |
| HOME Investment Partnerships Program | 14.239 * | M-10-SG-10-0100 M-11-SG-10-0100 M-12-SG-10-0100 M-13-SG-10-0100 | 1,058,248 569,181 1,165,960 168,755 |
| Total HOME Investment Partnerships Program | | | 2,962,144 |
| Housing Opportunities for Persons with AIDS | 14.241 | DEH12F999 DEH13F999 | 43,445 142,426 |
| Total Housing Opportunities for Persons with AIDS | | | 185,871 |
| Emergency Homeowners' Loan Program | 14.323 | EHLP11002 | 128,168 |
| Performance Based Contract Administrator Program | 14.327 * | Various | 37,974,945 |
| Family Unification Program (FUP) | 14.880 | 2009-FUP-DE901-8010 | 339,901 |
| Moving to Work Demonstration Program: Public and Indian Housing Program | 14.881 * | DE004-0000313D DE004-0000314D Various | 1,392,311 1,482,607 306,667 |
| Public Housing Capital Fund | | | |
| Lower Income Housing Assistance Program (Section 8): | | | |
| Moving To Work Vouchers | | DE901VOW 065-072 | 6,386,762 |
| Housing Conversion Vouchers | | DE901AFHP01-02 | 480,929 |
| Special Administrative Fees | | DE901VO0079-0093 | 7,441 |
| Special Administrative Fees | | DE901AFR113-213 | 614 |
| Special Administrative Fees | | DE901AF0058-0066 | 24,903 |
| Total Moving to Work Demonstration Program | | | 10,082,234 |
| Total U. S. Department of Housing and Urban Development | | | 56,324,933 |
| TOTAL DIRECT GRANTS | | | 56,324,933 |
| INDIRECT GRANTS: | | | |
| United States Congress | | | |
| Appropriations allocated to HUD and passed through to Neighborhood Reinvestment Corporations (d.b.a. NeighborWorks® America) via Public Law | | | |
| National Foreclosure Mitigation Counseling Program | 14.xxx | PL110-161:95X1350 | 206,477 |
| Preserving Affordable Housing | 14.xxx | | 22,465 |
| TOTAL INDIRECT GRANTS | | | 228,942 |

Continued on next page

DELAWARE STATE HOUSING AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| FEDERAL GRANTOR/PROGRAM TITLE | CFDA NUMBER | CONTRACT NUMBER | EXPENDITURES |
|---|----------------|--------------------|----------------------|
| AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) GRANTS | | | |
| ARRA DIRECT GRANTS: | | | |
| U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| Neighborhood Stabilization Program - ARRA | 14.256 | B-09-DN-DE-0012 | 70,265 |
| Total U. S. Department of Housing and Urban Development | | | <u>70,265</u> |
| TOTAL ARRA DIRECT GRANTS | | | <u>70,265</u> |
| TOTAL FEDERAL AWARDS | | | <u>\$ 56,624,140</u> |

N/A - Not Available.

* Denotes a major federal program.

(1) As of June 30, 2014, the amount of outstanding single family mortgages purchased by the Authority and covered by either FHA insurance, or a VA guarantee was \$13,628,690 and \$2,673,421, respectively.

See notes to supplemental schedule of expenditures of federal awards.

DELAWARE STATE HOUSING AUTHORITY
 SUPPLEMENTAL STATEMENT OF PUBLIC HOUSING ACTUAL MODERNIZATION CAPITAL FUND
 GRANT COSTS
 AS OF JUNE 30, 2014

ANNUAL CONTRIBUTIONS CONTRACT P-4520

| | PROJECT NUMBER | | |
|---------------------------------------|---------------------|---------------------|------------|
| | DE26-P004- 50112 | DE26-P004- 50113 | TOTAL |
| Funds advanced | \$ 600,687 | \$ 274,698 | \$ 875,385 |
| Management improvements | 94,127 | 14,591 | 108,718 |
| Site improvements | 445,440 | 194,321 | 639,761 |
| Administration | 61,120 | 65,786 | 126,906 |
| Funds expensed | 600,687 | 274,698 | 875,385 |
| Excess (deficiency) of funds advanced | \$ - | \$ - | \$ - |

DELAWARE STATE HOUSING AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND SUPPLEMENTAL STATEMENT OF PUBLIC HOUSING ACTUAL MODERNIZATION CAPITAL FUND GRANT COSTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HUD regulations prescribe the accounting principles and financial reporting requirements to be followed by the Authority in the preparation of supplemental schedules prepared under the annual contributions contracts. The following is a summary of the significant accounting and reporting policies followed by the Authority.

Basis of Accounting - The schedule of expenditures of federal awards is prepared on the accrual basis of accounting with the exception of advance payments, which are considered to be expenditures when passed through to the subrecipient.

2. SUBRECIPIENTS

It is not practical based on current systems to provide subrecipient expenditures by federal program.

