SACRED HEART VILLAGE, INC.

REPORT ON AUDITS
OF FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and 2012

CONTENTS

Master, Sidlow
Associates, P.A.
Certified Public Accountants & Consultants

2002 W. 14th St.
Wilmington, DE 19806
302.652.3480
Fax 302.656.8778
www.mastersidlow.com

BOARD OF DIRECTORS
SACRED HEART VILLAGE, INC.
WILMINGTON, DELAWARE

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of SACRED HEART VILLAGE, INC., which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SACRED HEART VILLAGE, INC. as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2014, on our consideration of SACRED HEART VILLAGE, INC.'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 SACRED HEART VILLAGE, INC.'s internal control over financial reporting and compliance.

Marta, Sidlow & Associates, P.A.

August 7, 2014

Master, Sidlow
Associates, P.A.
Certified Public Accountants & Consultants

2002 W. 14th St.
Wilmington, DE 19806
302.652.3480
Fax 302.656.8778
www.mastersidlow.com

BOARD OF DIRECTORS
SACRED HEART VILLAGE, INC.
WILMINGTON, DELAWARE

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*

We have audited, in accordance with the 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 SACRED HEART VILLAGE, INC., which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SACRED HEART VILLAGE, INC.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SACRED HEART VILLAGE, INC.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 SACRED HEART VILLAGE, INC.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Masters, Sidlow & Associates, P.A.

August 7, 2014

SACRED HEART VILLAGE, INC.

STATEMENTS OF FINANCIAL POSITION

	September 30, 2013	September 30, 2012
ASSETS		
Cash (including restricted cash of $22,862 and 21,777 in 2013 and 2012, respectively)	$ 38,498	$ 50,221
Tenant receivables	6,271	8,267
Accounts receivable - other		8,000
Prepaid expenses	17,164	7,176
Inventory	2,157	2,157
Replacement reserves	367,617	299,971
Property & equipment, net	8,276,225	8,568,861
TOTAL ASSETS	$ 8,707,932	$ 8,944,653
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 66,774	$ 52,398
Accrued expenses	12,143	21,830
Security deposits	22,862	21,777
Rent received in advance	4	1,413
Advance from affiliate	160,095	160,095
Accrued interest payable	942,843	860,142
Mortgage payable	2,760,500	2,760,500
TOTAL LIABILITIES	3,965,221	3,878,155
COMMITMENTS		
UNRESTRICTED NET ASSETS	4,742,711	5,066,498
	$ 8,707,932	$ 8,944,653

See notes to financial statements.

SACRED HEART VILLAGE, INC.

STATEMENTS OF ACTIVITIES

	Year ended September 30, 2013			Year ended September 30, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT						
RENTAL INCOME						
Tenant assistance payments	$ 671,689	$	$ 671,689	$ 685,572	$	$ 685,572
Tenant rent	264,833		264,833	256,716		256,716
Total rental income	936,522		936,522	942,288		942,288
CONTRIBUTIONS, GRANTS AND OTHER INCOME						
Contributions and gifts	40	150	190	200		200
Interest income	582		582	1,235		1,235
Laundry and vending	27,324		27,324	28,592		28,592
Parking	1,561		1,561	4,379		4,379
Tenant charges	1,161		1,161	470		470
Rent revenue - stores	20,700		20,700	13,599		13,599
Miscellaneous income	1,578		1,578	541		541
Net assets released from restrictions	150	(150)				
Total contributions, grants and other income	53,096		53,096	49,016		49,016
Total Revenue and Other Support	989,618		989,618	991,304		991,304
EXPENSES						
Program services	1,236,484		1,236,484	1,200,522		1,200,522
Supporting services	76,921		76,921	74,314		74,314
Total Expenses	1,313,405		1,313,405	1,274,836		1,274,836
CHANGE IN NET ASSETS	(323,787)		(323,787)	(283,532)		(283,532)
NET ASSETS						
Beginning of year	5,066,498		5,066,498	5,350,030		5,350,030
End of year	$ 4,742,711	$	$ 4,742,711	$ 5,066,498	$	$ 5,066,498

See notes to financial statements.

SACRED HEART VILLAGE, INC.

STATEMENTS OF CASH FLOWS

	Year ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tenants	$ 326,829	$ 295,139
Cash received from government grants	671,689	685,572
Cash received from contributors	190	200
Cash paid to suppliers and employees	(914,245)	(939,024)
Interest received	582	1,235
Net cash provided by operating activities	85,045	43,122
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(29,122)	(29,618)
Net (deposits to) withdrawals from replacement reserves	(67,646)	10,075
Net cash used by investing activities	(96,768)	(19,543)
NET INCREASE (DECREASE) IN CASH	(11,723)	23,579
CASH		
Beginning of year	50,221	26,642
End of year	$ 38,498	$ 50,221

See notes to financial statements.

SACRED HEART VILLAGE, INC.

STATEMENTS OF CASH FLOWS

(Continued)

	Year ended September 30, 2013	2012
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ (323,787)	$ (283,532)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	321,758	320,789
(Increase) decrease in tenant receivables	1,996	(2,730)
(Increase) decrease in accounts receivable - other	8,000	(6,700)
(Increase) decrease in prepaid expenses	(9,988)	5,482
Increase (decrease) in accounts payable	14,376	(75,120)
Increase (decrease) in accrued expenses	(9,687)	1,846
Increase (decrease) in security deposits	1,085	(584)
Increase (decrease) in rent received in advance	(1,409)	856
Increase in accrued interest payable	82,701	82,815
	408,832	326,654
	$ 85,045	$ 43,122

See notes to financial statements.

SACRED HEART VILLAGE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	Year ended September 30, 2013			Year ended September 30, 2012		
	Program Services	Supporting Services	Total	Program Services	Supporting Services	Total
Salaries	$ 287,585	$ 31,954	$ 319,539	$ 296,520	$ 32,947	$ 329,467
Employee benefits	116,245	12,916	129,161	93,605	10,400	104,005
Payroll taxes	21,658	2,406	24,064	20,781	2,309	23,090
	425,488	47,276	472,764	410,906	45,656	456,562
Automobile	11,238		11,238	9,587		9,587
Conferences	404	45	449	1,282	142	1,424
Insurance	25,684	2,854	28,538	31,686	3,521	35,207
Miscellaneous expense	5,216	580	5,796	3,301	367	3,668
Office supplies	15,792	1,755	17,547	15,313	1,701	17,014
Other supplies	5,171	575	5,746	5,603	623	6,226
Management fee	42,233	4,692	46,925	40,880	4,542	45,422
Bookkeeping fee	11,963	1,329	13,292	12,275	1,364	13,639
Printing and publications	225	25	250	225	25	250
Professional fees	10,094	1,122	11,216	10,395	1,155	11,550
Program supplies	22,369		22,369	25,252		25,252
Repairs and maintenance	89,232	1,821	91,053	85,341	1,742	87,083
Service contracts	35,139	3,904	39,043	25,167	2,796	27,963
Utilities	139,866	2,854	142,720	127,777	2,608	130,385
Interest	81,047	1,654	82,701	81,159	1,656	82,815
	921,161	70,486	991,647	886,149	67,898	954,047
Depreciation	315,323	6,435	321,758	314,373	6,416	320,789
	$ 1,236,484	$ 76,921	$ 1,313,405	$ 1,200,522	$ 74,314	$ 1,274,836

See notes to financial statements.

SACRED HEART VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and 2012

A. THE ORGANIZATION

Sacred Heart Village, Inc. (the Organization) is a not-for-profit organization incorporated to provide affordable, quality permanent housing for very low income elderly persons. The Organization operates a seventy-seven apartment building in Wilmington, Delaware.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting -- The financial statements are prepared on the accrual basis of accounting.

2. Financial Statement Presentation -- The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

3. Contributions -- Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to make contributions are recorded as support in the period the Organization receives the promise. Promises to make contributions which are expected to be paid over a period in excess of one year are discounted and recorded at their net present value. Conditional promises to make contributions are recorded as support in the period the condition is met.

4. Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

5. Accounts Receivable -- Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of

SACRED HEART VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and 2012

(Continued)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Accounts Receivable -- (Continued) individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Bad debts have not been material to the financial statements.

6. Inventory -- Inventory consists of food, beverages and other supplies and is recorded at cost determined by the first-in, first-out method.

7. Property and Equipment and Depreciation -- Property and equipment are carried at acquisition cost or, if donated, at fair market value on the date of receipt. Depreciation of property and equipment is provided by use of the straight-line method over the estimated useful lives of the assets. It is not the Organization's policy to imply time restrictions expiring over the useful life of donated assets. In the absence of donor imposed restrictions on the use of assets, gifts of long-term assets are reported as unrestricted support.

8. Recognition of Donor Restrictions -- All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

9. Functional Allocation of Expenses -- The cost of providing the various programs and other activities has been summarized on the functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

10. Income Taxes -- The Organization qualifies as a tax exempt organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore no provision for Federal income taxes has been made in the accompanying financial statements. The Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of section 509 (a) of the Internal Revenue Code because it is an organization described in Section 509 (a)(2).

SACRED HEART VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and 2012

(Continued)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Income Taxes -- (Continued)
The Organization follows professional standards which clarify the accounting for uncertainty in income taxes recognized in the Organization's financial statements and prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. The standards adopted also provide guidance on derecognition and measurement of a tax position taken or expected to be taken on a tax return.

The Organization files income tax returns in the U.S. federal jurisdiction. The Organization's federal income tax returns for tax years 2011 and beyond remain subject to examination by the Internal Revenue Service.

The Organization did not have any unrecognized tax benefits as of September 30, 2013 and does not expect this to change significantly over the next twelve months. The Organization will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of September 30, 2013, the Organization has not accrued interest or penalties related to uncertain tax provisions.

11. Donated Services -- Amounts have been reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation.

12. Advertising -- The Organization expenses advertising costs as they are incurred.

13. Fair Value of Financial Instruments -- The carrying amounts of tenant receivables, accounts receivable, accounts payable and accrued expense approximate fair value because of their short-term nature.

14. Subsequent Events -- The Organization has evaluated all subsequent events through August 7, 2014, the date the financial statements were available to be issued.

SACRED HEART VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and2012

(Continued)

C. RESTRICTED CASH

	2013	2012
Tenant security deposits	$ 22,862	$ 21,777

Under the regulatory agreement with the U.S. Department of Housing and Urban Development (HUD), amounts received from tenants as security deposits must be kept on deposit in a bank account separate from operating cash.

D. REPLACEMENT RESERVES

Replacement reserves consisted of cash and a certificate of deposit as of September 30, 2013 and 2012.

E. PROPERTY AND EQUIPMENT

	2013	2012
Land	$ 377,655	$ 377,655
Buildings and improvements	11,247,697	11,226,860
Furnishings	195,923	187,638
Artwork	83,286	83,286
Equipment	246,309	246,309
	12,150,870	12,121,748
Less accumulated depreciation	3,874,645	3,552,887
	$ 8,276,225	$ 8,568,861

F. MORTGAGE PAYABLE

	2013	2012
Mortgage Payable to Delaware State Housing Authority. Interest accrues at 3% annually, with principal and interest due on the later of May 2032, or full repayment of Section 202 capital advances received from HUD (Note G). Secured by a second mortgage lien on the housing facility, subordinate to HUD	$ 2,760,500	$ 2,760,500

SACRED HEART VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and 2012

(Continued)

G. COMMITMENTS AND CONTINGENCIES

In 2001, the Organization completed construction of the low-income housing facility. Funding for the project was partially provided by the U.S. Department of Housing and Urban Development (HUD) in the amount of $5,636,200. The funds were provided by HUD via a capital advance agreement under Section 202 of the Housing Act of 1959. Advances received under Section 202 bear no interest and are not required to be repaid as long as the Organization continues to make the project available for very low income, elderly tenants for at least forty years. In no event can the advances be repaid without the permission of HUD. HUD has secured their interest in the project with a first mortgage. Because the likelihood of repayment is remote, the advances were recorded as government grant revenue as capital draws were received.

Under the regulatory agreement with HUD, the Organization is required to make annual deposits to a reserve fund for replacements. Reserve fund expenditures must be approved by HUD. Replacement reserves amounted to $367,617 and $299,971as of September 30, 2013 and 2012, respectively.

Under the regulatory agreement with HUD, the Organization is subject to restrictions as to operating policies, rental charges, operating expenditures, and distributions.

Additional funding for the housing facility was provided in part by the following subordinated grants, which were recorded as grant revenue when the funds were received:

New Castle County Secured by the property. No repayment of grant required unless there is a change in property ownership or use within 20 years. Repayment of grant in full required if the Organization does not comply with the restrictions	$ 150,000

SACRED HEART VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and 2012

(Continued)

G. COMMITMENTS AND CONTINGENCIES (Continued)

Federal Home Loan Bank Secured by the property and rental receipts. No repayment of grant required unless there is a change in property use within 15 years. Repayment of grant in full required if the Organization does not comply with the restrictions	$ 390,000
	$ 540,000

Advances, loans and grants are secured by the housing facility in the following priority:

1. HUD Section 202 Capital Advances
2. Delaware State Housing Authority Second Mortgage
3. Federal Home Loan Bank Grant
4. New Castle County Grant

H. PENSION PLAN

The Organization has a defined contribution plan that covers substantially all full-time employees who qualify as to length of service. The Organization contributes 8% for all qualified employees. Pension expense amounted to $28,364 and $30,676 in 2013 and 2012, respectively.

I. CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at local institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000.

J. NON-INTEREST BEARING ADVANCE FROM AFFILIATE

Advance from affiliate is unsecured, non-interest bearing and is payable only with HUD's prior written approval. The amount of the advance was $160,095 at September 30, 2013 and 2012.

SACRED HEART VILLAGE, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2013 and 2012

(Continued)

K. RELATED PARTY

The Organization is charged management and bookkeeping fees by a related party. Total management and bookkeeping fees amounted to $46,925 and $13,292, and $45,422 and $13,639, in 2013 and 2012, respectively. Accounts payable includes $17,224 and $7,796 at September 30,2013 and 2012, respectively, due to the related party for these fees and reimbursable expenses.

The Organization operates a transportation service. A related party owns the vehicle. Automobile expenses amounted to $11,238 and $9,587 in 2013 and 2012, respectively. Accounts payable includes $2,057 and $543 at September 30, 2013 and 2012, respectively, due to the related party for transportation services.