

HOUSING INITIATIVE PARTNERSHIP, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017 AND 2016

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Independent Auditor's Report

To the Board of Directors
Housing Initiative Partnership, Inc.
Hyattsville, MD

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Initiative Partnership, Inc., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows 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.

Auditor's 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 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 Housing Initiative Partnership, Inc. as of June 30, 2017 and 2016, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Independent Auditor's Report
Housing Initiative Partnership, Inc.
Page Three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of Housing Initiative Partnership, 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 Housing Initiative Partnership, Inc.'s internal control over financial reporting and compliance.

James Maurice & McQuade PA

September 26, 2017
Columbia, MD

HOUSING INITIATIVE PARTNERSHIP, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,686,984	\$ 1,043,231
Accounts receivable	6,274	62,924
Grants receivable	675,856	510,894
Due from related party	1,905	954
Total Current Assets	2,371,019	1,618,003
PROPERTY AND EQUIPMENT, NET	1,230,853	1,393,970
OTHER ASSETS		
Cash - restricted	29,662	190,249
Security deposits	5,173	5,173
Notes receivable, net	284,988	284,988
Total Other Assets	319,823	480,410
TOTAL ASSETS	\$ 3,921,695	\$ 3,492,383
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 152,385	\$ 57,479
Accrued expenses	87,030	79,414
Total Current Liabilities	239,415	136,893
LONG TERM LIABILITIES		
Partner's deficit in Mt. Rainier L.L.P. (Note J)	1,280,979	1,191,552
Notes payable, net of short term portion	280,003	280,003
Total Long Term Liabilities	1,560,982	1,471,555
TOTAL LIABILITIES	1,800,397	1,608,448
NET ASSETS		
Unrestricted	2,121,298	1,883,935
Total Net Assets	2,121,298	1,883,935
TOTAL LIABILITIES AND NET ASSETS	\$ 3,921,695	\$ 3,492,383

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

HOUSING INITIATIVE PARTNERSHIP, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

UNRESTRICTED REVENUE AND SUPPORT

Federal grants	\$ 958,209
State and local government revenue	1,149,424
Grants and contributions	455,243
Sale of homes	1,617,075
Development fees	216,839
Management fees	40,000
Program income	36,826
Interest income	40
Total Revenue and Support	4,473,656

EXPENSES

Program Services:	
Single-family development	2,468,130
Multi-family development	54,369
Resident services	111,798
Housing counseling	793,613
Façade improvement	335,446
Total Program Services	3,763,356
Supporting Services:	
Fundraising	101,241
Management and general	282,269
Total Supporting Services	383,510
Total Expenses	4,146,866

**CHANGE IN NET ASSETS
FROM OPERATIONS** 326,790

**LOSS FROM INVESTMENT IN
MT. RAINIER L.L.P.** (89,427)

CHANGE IN NET ASSETS 237,363

NET ASSETS, beginning of year 1,883,935

NET ASSETS, end of year \$ 2,121,298

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

HOUSING INITIATIVE PARTNERSHIP, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Federal grants	\$ 1,164,876	\$ -	\$ 1,164,876
State and local government revenue	1,271,879	-	1,271,879
Grants and contributions	509,100	-	509,100
Sale of homes	1,109,327	-	1,109,327
Development fees	178,334	-	178,334
Management fees	29,200	-	29,200
Program income	31,090	-	31,090
Interest income	37	-	37
Net assets released from restrictions	20,000	(20,000)	-
Total Revenue and Support	4,313,843	(20,000)	4,293,843
EXPENSES			
Program Services:			
Single-family development	1,868,738	-	1,868,738
Multi-family development	183,247	-	183,247
Resident services	83,043	-	83,043
Housing counseling	828,937	-	828,937
Façade improvement	629,101	-	629,101
Total Program Services	3,593,066	-	3,593,066
Supporting Services:			
Fundraising	91,811	-	91,811
Management and general	202,129	-	202,129
Total Supporting Services	293,940	-	293,940
Total Expenses	3,887,006	-	3,887,006
CHANGE IN NET ASSETS FROM OPERATIONS	426,837	(20,000)	406,837
LOSS FROM INVESTMENT IN MT. RAINIER L.L.P.	(45,487)	-	(45,487)
CHANGE IN NET ASSETS	381,350	(20,000)	361,350
NET ASSETS, beginning of year	1,502,585	20,000	1,522,585
NET ASSETS, end of year	\$ 1,883,935	\$ -	\$ 1,883,935

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

HOUSING INITIATIVE PARTNERSHIP, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services					Supporting Services			Total Expenses	
	Single-Family Development	Multi-Family Development	Resident Services	Housing Counseling	Façade Improvement	Total Programs	Fundraising	Management and General		Total Support Services
Salaries	\$ 97,032	\$ 31,869	\$ 81,360	\$ 520,141	\$ 48,512	\$ 778,914	\$ 74,564	\$ 151,098	\$ 225,662	\$ 1,004,576
Payroll taxes	8,097	2,429	6,478	43,725	4,049	64,778	7,053	9,142	16,195	80,973
Employee benefits	8,816	2,645	7,053	47,607	4,408	70,529	7,053	10,579	17,632	88,161
Total Personnel Expenses	113,945	36,943	94,891	611,473	56,969	914,221	88,670	170,819	259,489	1,173,710
Accounting	-	-	-	-	-	-	-	75,400	75,400	75,400
Advertising and marketing	-	-	-	-	-	-	-	5,430	5,430	5,430
Bank and credit card fees	372	112	298	2,009	186	2,977	-	744	744	3,721
Board meetings	-	-	-	-	-	-	-	593	593	593
Community and resident services	-	11,086	-	-	-	11,086	325	-	325	11,411
Computer support	3,547	1,064	2,838	19,154	1,774	28,377	-	7,093	7,093	35,470
Construction costs	-	-	-	-	267,911	267,911	-	-	-	267,911
Consultants	843	253	674	4,552	421	6,743	-	1,686	1,686	8,429
Cost of real estate development	2,332,628	-	-	-	-	2,332,628	-	-	-	2,332,628
Depreciation	558	167	446	3,014	279	4,464	446	671	1,117	5,581
Dues and memberships	680	204	544	3,674	340	5,442	-	1,362	1,362	6,804
Fees and licenses	384	115	307	2,075	192	3,073	-	770	770	3,843
Grants	400	-	-	48,539	-	48,939	-	-	-	48,939
Insurance	2,142	643	1,714	11,569	1,071	17,139	1,714	2,571	4,285	21,424
Interest	23	-	-	-	-	23	-	-	-	23
Office supplies	1,446	434	1,157	7,809	723	11,569	1,157	1,736	2,893	14,462
Printing and postage	1,810	543	1,448	9,775	905	14,481	1,448	2,172	3,620	18,101
Rent	7,445	2,233	5,956	40,201	3,722	59,557	5,956	8,934	14,890	74,447
Repairs and maintenance	119	36	95	640	59	949	95	141	236	1,185
Telephone and website	1,788	536	1,430	9,655	894	14,303	1,430	2,147	3,577	17,880
Training	-	-	-	19,474	-	19,474	-	-	-	19,474
Total	<u>\$ 2,468,130</u>	<u>\$ 54,369</u>	<u>\$ 111,798</u>	<u>\$ 793,613</u>	<u>\$ 335,446</u>	<u>\$ 3,763,356</u>	<u>\$ 101,241</u>	<u>\$ 282,269</u>	<u>\$ 383,510</u>	<u>\$ 4,146,866</u>

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

HOUSING INITIATIVE PARTNERSHIP, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Services					Support Services			Total Expenses	
	Single-Family Development	Multi-Family Development	Resident Services	Housing Counseling	Façade Improvement	Total Programs	Fundraising	Management and General		Total Support Services
Salaries	\$ 63,788	\$ 34,075	\$ 60,308	\$ 574,361	\$ 74,876	\$ 807,408	\$ 67,633	\$ 83,869	\$ 151,502	\$ 958,910
Payroll taxes	5,249	3,000	4,499	45,743	5,999	64,490	6,555	3,945	10,500	74,990
Employee benefits	6,553	3,745	5,617	57,106	7,489	80,510	6,553	6,554	13,107	93,617
Total Personnel Expenses	75,590	40,820	70,424	677,210	88,364	952,408	80,741	94,368	175,109	1,127,517
Accounting	-	-	-	-	-	-	-	76,400	76,400	76,400
Advertising and marketing	-	-	-	-	-	-	-	1,746	1,746	1,746
Bad debt	-	127,933	-	-	-	127,933	-	-	-	127,933
Bank and credit card fees	392	224	336	3,413	448	4,813	-	782	782	5,595
Board meetings	-	-	-	-	-	-	-	793	793	793
Community and resident services	-	6,081	-	-	-	6,081	383	-	383	6,464
Computer support	1,667	953	1,429	14,531	1,906	20,486	-	3,335	3,335	23,821
Construction costs	-	-	-	-	523,910	523,910	-	-	-	523,910
Consultants	1,042	596	893	9,082	1,191	12,804	-	2,084	2,084	14,888
Cost of real estate development	1,769,447	-	-	-	-	1,769,447	-	-	-	1,769,447
Depreciation	461	264	395	4,019	527	5,666	461	461	922	6,588
Dues and memberships	462	264	396	4,023	528	5,673	-	922	922	6,595
Fees and licenses	471	269	404	4,106	538	5,788	-	943	943	6,731
Grants	25	-	-	9,000	-	9,025	-	-	-	9,025
Insurance	1,656	946	1,420	14,434	1,893	20,349	1,656	1,657	3,313	23,662
Interest	8,955	-	-	-	-	8,955	-	-	-	8,955
Legal	-	-	-	-	-	-	-	10,068	10,068	10,068
Office supplies	914	522	783	7,961	1,044	11,224	914	912	1,826	13,050
Postage and printing	1,205	689	1,033	10,504	1,378	14,809	1,205	1,205	2,410	17,219
Rent	5,063	2,893	4,340	44,123	5,787	62,206	5,063	5,063	10,126	72,332
Repairs and maintenance	154	88	132	1,344	176	1,894	154	156	310	2,204
Telephone and website	1,234	705	1,058	10,756	1,411	15,164	1,234	1,234	2,468	17,632
Training	-	-	-	14,431	-	14,431	-	-	-	14,431
Total	<u>\$ 1,868,738</u>	<u>\$ 183,247</u>	<u>\$ 83,043</u>	<u>\$ 828,937</u>	<u>\$ 629,101</u>	<u>\$ 3,593,066</u>	<u>\$ 91,811</u>	<u>\$ 202,129</u>	<u>\$ 293,940</u>	<u>\$ 3,887,006</u>

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

HOUSING INITIATIVE PARTNERSHIP, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets from operations	\$ 326,790	\$ 406,837
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,581	6,588
(Increase) decrease in assets:		
Accounts receivable	56,650	(49,067)
Grants receivable	(164,962)	(44,530)
Due from related parties	(951)	67,580
Restricted cash	160,587	205,589
Increase (decrease) in liabilities:		
Accounts payable	94,906	42,207
Accrued expenses	7,616	(19,533)
Net Cash Provided by Operating Activities	486,217	615,671
 CASH FLOW FROM INVESTING ACTIVITIES		
Cost of purchase and development of real estate	(513,714)	(1,485,637)
Proceeds from sale of developed real estate	687,645	1,159,327
Purchase of property and equipment	(16,395)	-
Net Cash Provided by (Used for) Investing Activities	157,536	(326,310)
 CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	220,684
Principal repayments on line of credit	-	(226,189)
Principal repayments on note payable	-	(113,416)
Net Cash Used for Financing Activities	-	(118,921)
 NET CHANGE IN CASH	643,753	170,440
 CASH, beginning of year	1,043,231	872,791
 CASH, end of year	\$ 1,686,984	\$ 1,043,231

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

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE A – ORGANIZATION AND PURPOSE

Housing Initiative Partnership, Inc. (“HIP”) was organized in October of 1988 as a not-for-profit organization dedicated to creating affordable housing in Prince George’s County, Maryland. HIP’s goal is to provide housing to low and middle-income families. HIP is state and locally certified as a Community Housing Development Organization (“CHDO”) and, therefore, is eligible to apply for Home Program Set-Aside Funds.

HIP has the following program services:

Single-Family Home Development - HIP purchases and renovates vacant homes for the purpose of selling them to qualified low and moderate-income buyers. In some circumstances, houses are torn down and replaced with new homes. For the fiscal year ended June 30, 2017, five properties were purchased and seven were sold and for the fiscal year ended June 30, 2016, six properties were purchased and five were sold.

Multi-family Development - HIP develops multi-family rental property for low and moderate-income tenants. In some cases, HIP enters into a partnership with other for-profit or non-profit developers to develop rental housing in Maryland. For the years ended June 30, 2017 and 2016, HIP was involved in the development and lease-up of approximately 100 family rental units.

Resident Services – A Resident Services Coordinator provides recreational activities and information and referral services to residents of Mount Rainier Artists Apartments, Newton Green Senior Apartments in Bladensburg, and the Renaissance Square Artists Apartments in Hyattsville. Services include linkages to social services, budget counseling, parenting skills training, and education. The Coordinator recently expanded her services to include Bladensburg Commons, a new construction 100-unit family building. Two Resident Services Coordinators also provides on-site recreational activities, food pantries, and other social activities to residents of Elkton Senior Apartments, New East Crossing Apartments, and Parklands at Cecilton in Cecil County, Maryland.

Façade Improvement Program – HIP worked with Prince George’s County’s Transforming Neighborhoods Initiative team in Kentland and Palmer Park to target three streets for intensive façade improvements, including new siding, windows, fixtures, landscaping, fencing and walkways. Twenty-five low-income home owners were assisted in the first phase of this program completed in Spring, 2016 and 25 additional home owners were helped in Spring, 2017.

Housing Counseling – Under this program HIP provides homebuyer education and counseling, foreclosure prevention education and counseling, and financial capability counseling. Homebuyer education and counseling services include eight-hour educational

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE A – ORGANIZATION AND PURPOSE – continued

Housing Counseling (continued) – workshops and individual counseling for first-time homebuyers. The foreclosure prevention program works with families, who are in danger of losing their homes, to develop a budget, evaluate their options, and negotiate with their mortgage servicers for the best possible outcome. The financial capability counseling services initially targeted homeowners who have recovered from default, and have now been expanded to assist low-income renters and families at risk of homelessness. The goal of the program is to strengthen participants’ finances so that they can acquire and maintain stable and affordable housing options. Counseling services are provided in the Hyattsville, Germantown and Gaithersburg offices. In fiscal year 2017, HIP provided housing counseling services to 1,549 Maryland residents, and held 26 homeowner education workshops with 527 attendees. Another 102 participated in HIP’s online workshop. The average reduction a homeowner saw in their monthly mortgage payment as a result of HIP intervention was \$352. In fiscal year 2016, HIP provided housing counseling services to 1,749 Maryland residents, and held 25 homeowner education workshops with 569 attendees. The average reduction a homeowner saw in their monthly mortgage payment as a result of HIP was \$395.

Rapid Rehousing Program – In 2016, HIP contracted with Prince George’s County Department of Social Services to launch the county’s Rapid Rehousing Program to help individuals and families quickly exit homelessness and secure and sustain permanent housing. In fiscal year 2017, HIP helped 42 homeless individuals and families exit the shelter or street and secure a rental apartment. The program provided rental assistance and a short term rental subsidy. HIP works closely with participants for up to one year, identifying needs and linking participants with resources needed to maintain housing stability.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting. Therefore revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Basis of Presentation

HIP is the general partner and owns a 99% interest in Mount Rainier Artist Apartments Limited Liability Partnership (“Mt. Rainier LLP”). These financial statements should be read in conjunction with HIP’s consolidated financial statements.

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit-Entities*. In accordance with the

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Presentation (continued)

topic, HIP is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of HIP and changes therein are classified and reported as followed:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of HIP and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by HIP. There were no permanently or temporarily restricted net assets as of June 30, 2017 and 2016.

Cash

HIP maintains its cash balances in banks that are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, the account balances may exceed the limits of the FDIC. Management believes it is not exposed to any significant credit risk on cash.

Restricted Cash

Restricted cash represents funds that are restricted by Prince George's County to be used for home construction.

Accounts Receivable

Accounts receivable are stated as the amount management expects to collect from balances outstanding at year-end. Annually, management determines if an allowance for doubtful accounts is necessary based upon a review of outstanding receivables, historical collection of information, and existing economic conditions. Accounts deemed uncollectible are charged off based on specific circumstances of the parties involved. As of June 30, 2017 and 2016, management has determined that all significant receivables are collectible within one year or less; therefore, an allowance for doubtful accounts has not been established.

Grants Receivable

Grants receivable are stated as the amount management expects to collect from balances outstanding at year-end. Grants receivable include amounts carried at the original invoice amount billed to the government for services performed in accordance with the terms of the grant and are

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Grants Receivable (continued)

all due within one year. As of June 30, 2017 and 2016, management has determined that all significant receivables are collectible within one year or less; therefore, an allowance for doubtful accounts has not been established.

Notes Receivable

Notes receivable are stated as the amount management expects to collect from outstanding balances. HIP uses the allowance method to account for uncollectible loans. The allowance is based on management's analysis and prior experience of unpaid loans.

Property and Equipment

Property and equipment are stated at cost. Property and equipment with a minimum cost basis of \$500 are capitalized. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets of three to five years. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense when incurred.

Construction in Progress

Construction in progress consists of homes under construction that are carried at the lower-of-cost or net realizable value. Net realizable value is determined based on individual projects and is the estimated selling price plus other estimated revenue such as specific project contributions, grants, and incentive fees. Reacquisition, land acquisition and improvement, development and construction, taxes, insurance, and interest costs are a part of the cost of a home under construction. Once a project is completed, the homes are listed for sale.

Revenue Recognition

Grants and contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gross revenue from the sale of homes under the home construction program is recognized at the closing date of the sale.

Development fees are earned by HIP on the construction and development of the single or multiple family homes held in the construction-in-progress account.

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue Recognition (continued)

Management fees are monies received from multifamily properties in which an affiliate of HIP is part of the ownership structure and for which HIP provides on-site recreational and social services for low-income tenants.

Program income is the fee collected from clients and home owners who attend home ownership counseling classes.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities, the 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 these estimates.

NOTE C – NOTES RECEIVABLE

In connection with the Maryland Community Legacy Program, which is under the Department of Housing and Community Development, HIP borrowed funds (see Note D) and then entered into separate notes receivable agreements with eleven qualifying homeowners. The program is intended to preserve existing communities as desirable places to live and provide financial assistance to sponsors for the development of community legacy projects. The notes receivable were made between 2005 and 2010, and HIP has given such notes, ranging from \$20,000 - \$50,000, at zero interest and no monthly payments. Per the promissory notes, the principal on each shall be payable upon the sale of each property secured by a deed. At June 30, 2017 and 2016, the balance of the notes receivable totaled \$284,988 for both years.

The Community Legacy High Risk Rehabilitation Loans were made in 2002 to ten qualifying applicants for repairs and improvements to their homes. These loans were made at a zero percent rate of interest for a period of ten years, in amounts that ranged from \$2,500 to \$6,300. The repayment of monthly principal ranged from \$25 to \$44. If timely payments are made for the first

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE C – NOTES RECEIVABLE - continued

eighty months, the last 40 months of the loan will be forgiven. As of June 30, 2017 and 2016, none of the borrowers were paying the principal regularly. An allowance for doubtful accounts was established based on management's analysis and prior experience of unpaid loans. At June 30, 2017 and 2016, the balance of loans receivable, net of the allowance of doubtful accounts of \$19,286, was zero for both years.

On May 15, 2007, HIP entered into a loan agreement with Renaissance Square Artists' Housing, LLP (the "Square") in the amount of \$722,500. Interest and principal shall be due and payable in consecutive annual installments in the amount equal to the lesser of surplus cash, as defined, or the scheduled payment, as defined. The outstanding principal balance together with accrued interest shall be paid on August 1, 2048. Interest on the loan accrues at 4.9%. The loan is secured by a lien on the land, building, and building improvements of the Square. Since it is not likely that the Square will have surplus cash to pay off this loan, an allowance for doubtful accounts has been set up for the full amount of the loan.

NOTE D – NOTES PAYABLE

During May 2015, HIP secured a note payable with Sandy Spring Bank that matured in May 2016. Interest accrued at a rate of prime plus 1% per annum over the prime rate published in the Wall Street Journal. For the year ended June 30, 2016 this rate was 4.25%. Interest expense on this note totaled \$5,818 for the year ended June 30, 2017. Monthly interest and principal payments are due each month on this unsecured note. The entire amount borrowed during the year was paid in full as of May 2016.

The Bank of America note payable dated February 2010 was due in full by March 2016 at an interest rate of prime plus 6.75% per annum. This note was paid in full by March 2016.

In connection with the Maryland Community Legacy Program, which is under the Department of Housing and Community Development, HIP borrowed funds and then entered into note receivable agreements with eleven qualifying homeowners (see Note C). The program is intended to preserve existing communities as desirable places to live and provide financial assistance to sponsors for the development of community legacy projects. The principal and the interest on all these borrowings have been deferred until May 31, 2030. The total amount outstanding on this loan was \$280,003 as of June 30, 2017 and 2016, respectively.

NOTE E – PENSION PLAN

HIP established a pension plan under Section 403(b) of the Internal Revenue Code for all eligible employees. Under the provisions of the plan, employees can elect to contribute up to a certain amount of their wages as determined by IRS regulations each year. There were no employer contributions to the plan for the years ended June 30, 2017 and 2016.

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE F – OPERATING LEASE

On April 2014, HIP signed a ten-year lease agreement for office space commencing September 1, 2014, and ending April 30, 2024. HIP will pay the agreed upon base rent which shall increase by 2.5% each year, beginning the second anniversary of the agreement. HIP will also be responsible for its share of the operating and common area expenses. The future minimum rent payments as of June 30:

2018	\$	70,631
2019		72,397
2020		74,207
2021		76,062
2022		77,964
Thereafter		147,889
	\$	<u>519,150</u>

Rent expense for the years ended June 30, 2017 and 2016, totaled \$74,447 and \$72,332 respectively.

NOTE G – INCOME TAXES

HIP is recognized as exempt from federal income tax, except on unrelated business activities, under the provisions of Section 501(c)(3) of the Internal Revenue Code.

HIP believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

HIP's information tax returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. HIP's Form 990 information returns for the years ending June 30, 2014 through June 30, 2016 are open for a tax examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

NOTE H – RELATED PARTY TRANSACTIONS

HIP is the general partner and owns a 99% interest in the Mt. Rainier LLP. Mt Rainier reimburses HIP for the actual expenses related to employee salaries. For the years ended June 30, 2017 and 2016, the balance of the receivable from Mt. Rainier LLP totaled \$1,905 and \$954, respectively. During 2016, HIP forgave \$68,535 of receivables due from Mt. Rainier LLP due to the low possibility of collection and recorded this as bad debt under the statement of activities.

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE I – INVESTMENT IN LIMITED LIABILITY PARTNERSHIP

HIP is the general partner and owns a 99% interest in the Mt. Rainier LLP. The purpose of Mt. Rainier LLP is to provide affordable rental housing for artists whose income is below fifty percent of the median income for the state. The "due from related party" account represents the allocated salary of the maintenance staff of the Mt. Rainier LLP, which is to be reimbursed to HIP. The increase in the partners' deficit each year is caused by the increase in the accrued interest payable on the two outstanding loans. One loan is the HOME loan with Prince George's County and the second is with the Maryland Department of Housing and Community Development. Both loan principles are to be paid from available cash flows, if any, and will otherwise accrue until the loan's maturity. The equity method was used to state the financial position of Mt. Rainier LLP as follows:

	2017	2016
BALANCE SHEET		
ASSETS		
Cash	\$ 16,350	\$ 19,509
Accounts receivable	4,931	-
Property and equipment, net	898,995	956,415
Other assets	151,817	144,685
Total Assets	\$ 1,072,093	\$ 1,120,609
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable	\$ -	\$ 2,325
Prepaid rent	-	611
Due to related party	1,905	954
Tenants security deposits held in trust	7,010	7,048
Accrued interest payable	767,130	723,294
Mortgage payable	1,020,000	1,020,000
HOME loan payable	569,966	569,965
Total Liabilities	2,366,011	2,324,197
Partners' Deficit	(1,293,918)	(1,203,588)
Total Liabilities and Partners' Deficit	\$ 1,072,093	\$ 1,120,609

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE I – INVESTMENT IN LIMITED LIABILITY PARTNERSHIP – continued

INCOME STATEMENT	2017	2016
REVENUE		
Rental income	\$ 99,140	\$ 95,003
Other income		
In-kind	-	68,535
Total Revenue	99,140	163,538
EXPENSES		
Rental operations	189,470	209,484
Depreciation	82,056	88,928
Debt service	63,578	62,908
Total Expenses	43,836	57,648
	189,470	209,484
NET LOSS	\$ (90,330)	\$ (45,946)
PARTNERS' DEFICIT , beginning of year	(1,203,588)	(1,157,642)
Net loss	(90,330)	(45,946)
PARTNERS' DEFICIT , end of year	\$ (1,293,918)	\$ (1,203,588)
HIP's share - 99% of net loss	\$ (89,427)	\$ (45,487)
Partner's share - 1% of net loss	(903)	(459)
Total Loss	\$ (90,330)	\$ (45,946)
HIP's share - 99% of Partner's deficit	\$ (1,280,979)	\$ (1,191,552)
Partner's share - 1% of Partner's deficit	(12,939)	(12,036)
Total Deficit	\$ (1,293,918)	\$ (1,203,588)

NOTE J – RISKS AND UNCERTAINTIES

HIP invests in various real estate properties. Real estate properties are exposed to various risks such as interest rate, market, and credit risks. Because of the level of risk associated with the real estate market, it is at least reasonably possible that changes in the values of real estate will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE K – SUBSEQUENT EVENTS

In preparing these financial statements, HIP's management has evaluated events and transactions for potential recognition or disclosure through September 26, 2017, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required additional disclosure or recognition.



JONES, MARESCA & McQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed In Accordance
With *Government Auditing Standards***

To the Board of Directors
Housing Initiative Partnership, Inc.
Hyattsville, MD

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 Housing Initiative Partnership, Inc. ("HIP"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HIP'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 for expressing an opinion on the effectiveness of HIP's internal control. Accordingly, we do not express an opinion on the effectiveness of HIP'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 the 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 controls that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Board of Directors
Housing Initiative Partnership, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HIP'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 the entity'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.

Jane Maruca & McDunde PA

Columbia, MD
September 26, 2017



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**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance
Required by the Uniform Guidance**

To the Board of Directors
Housing Initiative Partnership, Inc.
Hyattsville, MD

Report on Compliance for Each Major Federal Program

We have audited Housing Initiative Partnership, Inc.'s ("HIP") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on each of HIP's major federal programs for the year ended June 30, 2017. HIP's major federal program is 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of HIP'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 HIP's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 HIP's compliance.

To the Board of Directors
Housing Initiative Partnership, Inc.

Opinion on Each Major Federal program

In our opinion, HIP 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, 2017.

Report on Internal Control Over Compliance

Management of HIP is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HIP'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 the Uniform Guidance, 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 HIP'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 Board of Directors
Housing Initiative Partnership, Inc.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jane Marice & M^oQuade PA

Columbia, MD
September 26, 2017

HOUSING INITIATIVE PARTNERSHIP, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Identifying Number	Federal Expenditures
U. S. Department of Housing and Urban Development			
Housing Counseling Assistance Program	14.169		\$ 48,657
Pass Through from Prince George's County and Redevelopment Authority of Prince George's County, Maryland/Community Development Block Grant			
Community Development Block Grant ARRA Entitlement Grants	14.253		180,995
Community Development Block Grant Entitlement Grants	14.218	800198	196,584
			<u>377,579</u>
Pass Through from Department of Housing and Community Development of Prince George's County			
HOME Investment Partnership Program	14.239	13757	408,059
HOME Investment Partnership Program	14.239		71,730
			<u>479,789</u>
Pass Through from Department of Housing and Community Development of Prince George's County Department of Social Services			
Continuum of Care Program	14.267		15,000
Pass Through from Enterprise Community Partners, Inc.			
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	14SG5005	28,284
Total U.S. Department of Housing and Urban Development			<u>949,309</u>
U. S. Department of Treasury			
Pass Through from NeighborWorks America			
National Foreclosure Mitigation Counseling	21.000	PL113-235X1350	8,900
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 958,209</u></u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

HOUSING INITIATIVE PARTNERSHIP, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017 AND 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of HIP under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (“Uniform Guidance”). Therefore some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein, certain types of expenses are not allowable or are limited as to reimbursement. HIP elected not to use the 10 percent de minimus indirect cost rate. Pass through amounts, programs, agencies, and entity identifying numbers are presented where available.

**HOUSING INITIATIVE PARTNERSHIP, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017 AND 2016**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weakness?	None Reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	None Reported

Major program

Name of Federal Program or Cluster:	HOME Investment Partnership Program
CFDA Number	14.239
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

HOUSING INITIATIVE PARTNERSHIP, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017 AND 2016
(continued)

SECTION II – FINDING RELATED TO FINANCIAL STATEMENTS

None

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

SECTION IV – SCHEDULE OF PRIOR YEAR FINDING # 2016-001

FINDING # 2016-001

In the prior year the Schedule of Expenditures of Federal Awards (“SEFA”) improperly understated a federal program’s expenditure in the amount of \$291,941 and overstated another federal program’s expenditures in the amount of \$76,656. An incomplete SEFA could lead to other omissions or other compliance requirements.

CURRENT STATUS: RESOLVED

Management corrected all errors and discrepancies that have occurred during the preparation of the SEFA as it pertained to Finding #2016-001. Management acted on the recommendations of the Auditors and performed a thorough review of the SEFA to ensure that it included all federal expenditures incurred during the fiscal year.