

**HUMAN INVESTMENT
PROJECT, INC.**

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2017

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Human Investment Project, Inc.

Reporting on the Financial Statements

We have audited the accompanying financial statements of Human Investment Project, Inc. (a California nonprofit public benefit Corporation) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements of the *Audited Financial Statements Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development*. 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.

Basis for Qualified Opinion

As explained in Note 13 of the financial statements, Human Investment Project, Inc. has excluded from assets and temporarily restricted net assets in the accompanying statement of financial position the promises to give facilities use donated by Redwood City in prior years. In addition, the statement of activities does not include expenses related to the amortization of these unrecorded promises to give facilities use for the current year. In our opinion, these assets, net assets, and expenses should be included to conform with accounting principles generally accepted in the United States of America. The effects on the accompanying financial statements of the proceeding departures are not reasonably determinable due to the restrictions on use of the donated facilities.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Human Investment Project, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Human Investment Project, Inc.'s June 30, 2016 financial statements, and we expressed a qualified opinion on those audited financial statements in our report dated October 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 18 to 29, as required by the State of California Department of Housing and Community Development, 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development*, we have also issued a report dated January 19, 2018, on our consideration of Human Investment Project 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the requirements of the *Audited Financial Statement Handbook for Multifamily Rental Housing of the California Department of Housing and Community Development* in considering Human Investment Project Inc.'s internal control over financial reporting and compliance.

Vocke Kristofferson and Co.

January 19, 2018
San Mateo, California

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash	\$ 274,745	\$ 90,514
Receivables:		
Trade	29,952	81,309
Pledges	10,135	11,905
Related parties (Note 5)	1,321,064	134,584
Government grants and contributions	207,225	72,110
Prepaid expenses	<u>91,101</u>	<u>47,969</u>
Total current assets	<u>1,934,222</u>	<u>438,391</u>
Restricted deposits and investments:		
Replacement reserve cash (Note 2)	128,824	118,703
Replacement reserve investments (Notes 2 and 4)	75,044	74,820
Operating reserve cash (Note 2)	1,146,898	1,309,715
Operating reserve investments (Notes 2 and 4)	325,629	510,457
Tenant security deposits	<u>7,902</u>	<u>9,486</u>
Total restricted deposits and investments	<u>1,684,297</u>	<u>2,023,181</u>
Long-term assets:		
Notes receivable related party (Note 6)	200,000	200,000
Interest receivable related party (Note 6)	113,435	104,175
Property and equipment – net (Note 7)	<u>294,953</u>	<u>254,843</u>
Total long-term assets	<u>608,388</u>	<u>559,018</u>
Total assets	<u>\$ 4,226,907</u>	<u>\$ 3,020,590</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 199,317	\$ 137,492
Related party payables (Note 5)	<u>56,071</u>	<u>5,595</u>
Total current liabilities	<u>255,388</u>	<u>143,087</u>
Long-term liabilities:		
Tenant security deposits	6,696	9,332
Interest payable (Notes 5 and 8)	155,931	165,461
Notes payable (Notes 5 and 8)	<u>833,156</u>	<u>786,741</u>
Total long-term liabilities	<u>995,783</u>	<u>961,534</u>
Total liabilities	<u>1,251,171</u>	<u>1,104,621</u>
Net assets:		
Unrestricted:		
Undesignated	1,180,421	(213,476)
Set aside by board of directors (Note 2)	<u>1,676,395</u>	<u>2,013,695</u>
Total unrestricted net assets	2,856,816	1,800,219
Temporarily restricted (Note 9)	<u>118,920</u>	<u>115,750</u>
Total net assets	<u>2,975,736</u>	<u>1,915,969</u>
Total liabilities and net assets	<u>\$ 4,226,907</u>	<u>\$ 3,020,590</u>

The accompanying notes are an integral part of these financial statements

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue:				
Government grants	\$ 498,583	\$ -	\$ 498,583	\$ 663,523
Foundation and corporate grants	206,706	400,398	607,104	445,717
Contributions	182,904	-	182,904	262,236
Surplus cash contributions – related party (Note 5)	240,769	-	240,769	579,544
Contributions from related party	284,798	-	284,798	-
In-kind contributions	7,125	-	7,125	41,287
Donated services (Note 10)	14,220	-	14,220	13,395
Special events revenue	171,580	-	171,580	156,545
Special events expenses	(90,417)	-	(90,417)	(85,787)
Rental income	135,200	-	135,200	107,414
Developer and asset management fee (Note 5)	1,767,391	-	1,767,391	103,241
Management fees	-	-	-	105,652
Interest and investment income	6,065	-	6,065	14,851
Other income	35,497	-	35,497	38,801
Net assets released from restriction	397,228	(397,228)	-	-
Total support and revenue	3,857,649	3,170	3,860,819	2,446,419
Expenses:				
Program services:				
Programs	2,083,332	-	2,083,332	1,545,258
Properties	127,989	-	127,989	267,176
Supporting services:				
Management and general	229,813	-	229,813	164,081
Fundraising	359,918	-	359,918	309,196
Total expenses	2,801,052	-	2,801,052	2,285,711
Change in net assets	1,056,597	3,170	1,059,767	160,708
Net assets, beginning of year	1,800,219	115,750	1,915,969	1,755,261
Net assets, end of year	\$ 2,856,816	\$ 118,920	\$ 2,975,736	\$ 1,915,969

The accompanying notes are an integral part of these financial statements

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017				2016	
	Program Services		Supporting Services		Total	Total
	Programs	Properties	Management & General	Fundraising		
Payroll and related costs	\$ 890,351	\$ 14,473	\$ 215,105	\$ 287,456	\$ 1,407,385	\$ 1,371,796
Donated services	14,220	-	-	-	14,220	13,395
In Kind Donations	26,235	-	-	-	26,235	41,187
Rental assistance program	102,177	-	-	-	102,177	136,656
Rent	90,303	3,701	6,669	28,737	129,410	122,663
Administrative	306,061	13,838	7,801	42,712	370,412	216,532
Management fee	-	6,216	-	-	6,216	89,140
Operating and maintenance	8,544	16,436	19	136	25,135	36,463
Utilities	1,003	21,538	58	233	22,832	24,561
Insurance	2,779	4,274	161	644	7,858	7,708
Supportive services	10,799	-	-	-	10,799	8,518
Interest	-	11,918	-	-	11,918	11,918
Depreciation	27,860	35,595	-	-	63,455	55,433
Contributions to related party	603,000	-	-	-	603,000	149,741
Total expenses	<u>\$ 2,083,332</u>	<u>\$ 127,989</u>	<u>\$ 229,813</u>	<u>\$ 359,918</u>	<u>\$ 2,801,052</u>	<u>\$ 2,285,711</u>

The accompanying notes are an integral part of these financial statements

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,059,767	\$ 160,708
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	63,455	55,433
Realized and unrealized (gain) loss on investments	1,126	(2,148)
(Increase) decrease in assets:		
Accounts receivable	(81,988)	(84,813)
Due from related parties	(1,195,740)	57,819
Prepaid expenses	(43,132)	(6,738)
Tenant security deposits	1,584	(1,778)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	61,825	32,514
Tenant security deposits	(2,636)	1,777
Due to related parties (Note 4)	50,476	(14,896)
Interest payable	<u>(9,530)</u>	<u>(4,400)</u>
Net cash (used in) provided by operating activities	<u>(94,793)</u>	<u>193,478</u>
Cash flows from investing activities:		
Purchase of property and equipment	(57,150)	(17,512)
Net (increase) decrease in restricted deposits	152,696	(516,863)
Purchases of restricted investments	(326,579)	(284,346)
Proceeds from sales of restricted investments	<u>510,057</u>	<u>175,000</u>
Net cash provided by (used in) investing activities	<u>279,024</u>	<u>(643,721)</u>
Net increase (decrease) in cash	184,231	(450,243)
Cash, beginning of year	<u>90,514</u>	<u>540,757</u>
Cash, end of year	<u>\$ 274,745</u>	<u>\$ 90,514</u>
Supplemental Information:		
Cash paid for interest	<u>\$ 21,448</u>	<u>\$ 16,317</u>
Notes payable obligation issued for purchase of rehabilitation	<u>\$ 46,415</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Human Investment Project, Inc. (HIP) is a California nonprofit public benefit corporation organized in 1972 to improve housing conditions and life skills of people in need through programs, property development, redevelopment and management. HIP provides affordable housing opportunities for those who live, or wish to live, in San Mateo County. HIP receives contributions, including grants, and sponsors construction and management of low-and moderate-income housing projects.

HIP is especially vulnerable to the inherent risks associated with revenue that is substantially dependent on government funding, public support, and contributions. The continued growth and well-being of HIP is contingent upon successful achievement of its long-term revenue-raising goals.

NOTE 2 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

HIP uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

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.

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents: The carrying amount reported in the statement of financial position for cash and cash equivalents approximates its fair value.

Grants Receivable: The carrying amounts of grants receivable in the statement of financial position approximates fair value.

Notes Payable and Lease Obligation: The carrying amount of the Organization's debt approximates fair value based on the remaining maturities or lease payments.

Basis of Presentation

HIP reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted assets, and permanently restricted net assets.

As of June 30, 2017 and 2016, the board of directors of HIP has designated \$1,676,395 and \$2,013,695, respectively, in unrestricted net assets. The amounts designated for future replacement reserves are \$203,868 and \$193,523 for the years 2017 and 2016, respectively. The amounts designated for operating reserves are \$1,472,527 and \$1,820,172 for the years 2017 and 2016, respectively.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a 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. Contributions restricted for the purchase of long-lived assets are reported as unrestricted support when expended for that purpose.

Contributed services are stated at their estimated fair value if they are ordinarily purchased and are of a specialized nature. The income and expenses are included in the financial statements.

Rental income is shown net of vacancy loss. Rental units occupied by employees are included in rental income and as an expense of operation.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as security deposits, trust funds, residual receipts, replacement reserves and operating reserves. HIP typically maintains cash, restricted cash and short-term investment balances in several financial institutions. HIP typically maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance was approximately \$528,906 as of June 30, 2017. HIP has not experienced any losses in such accounts. Management believes that HIP is not exposed to any significant cash credit risk.

Accounts Receivable

Management elects to record bad debts using the direct write off method. Accounting principles generally accepted in the United States of America require that the allowance method to be used to reflect bad debts. However, the effect of the use of the direct write off method is not materially different from the result that would have been obtained had the allowance method been followed.

Investments

HIP follows generally accepted accounting principles (GAAP) in the United States and records investments at fair market value in the statement of financial position. The investments consist of certificates of deposit, exchange traded funds (ETFs), U.S. Treasury Bills, and corporate bonds. These investments are subject to market fluctuations. Unrealized gains and losses are included as an increase or decrease in net investment income each period. All investment income is recorded in unrestricted net assets.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- Level 1 inputs – quoted prices in active markets for identical assets
- Level 2 inputs – quoted prices in inactive markets for the same or similar assets
- Level 3 inputs – estimates using the best information available when there is little or no market

HIP is required to measure bonds and certificates of deposit at fair value. The techniques used to measure fair value for each element included in these financial statements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are stated at cost of acquisition or construction. All acquisition of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Buildings	25 years
Leasehold Improvements	25 years
Furniture and Equipment	5 years

Income Taxes

Because HIP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income tax under Section 23701(d) of the California Revenue and Taxation Code, no provision is made for current or deferred income taxes. HIP uses the same accounting methods for tax and financial reporting.

Generally accepted accounting principles (GAAP) provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by HIP in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. HIP's returns for years ended June 30, 2015, 2016, 2017 are subject to examination by federal taxing authorities for three years after they are filed, four years for state.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Assets

Donated marketable securities and other noncash donations except for in-kind donations for services are recorded as contributions at their estimated fair values at the date of donation.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset classes. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with HIP's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Functional Expenses Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among program services and supporting services based on estimates of employee's time incurred and on usage of resources. Total fundraising expenses for the year ended June 30, 2017 including special event expenses and fundraising expenses was \$450,335.

NOTE 3 – DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Program Services

Home sharing program, one of the largest in the nation, facilitates a living arrangement in which two or more unrelated people share a home or apartment.

Self-sufficiency program provides housing help and supportive services to low-income families transitioning to self-reliance.

Property programs provide affordable housing opportunities to San Mateo County's low and middle income residents.

Supporting Services

Management and general expenses include non-program related expenses essential for operating the administrative functions of HIP. These functions include human resource management, strategic planning, legal, and all fiscal responsibilities of HIP.

Fundraising provides the structure necessary to encourage and secure financial support from government and community agencies, individuals, foundations, and corporations.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 – INVESTMENTS

Cost and fair value of investments at June 30, 2017 are as follows:

	Cost	Fair Value	2017 Unrealized Gain (Loss)
Corporate bonds	\$ 27,190	\$ 26,890	\$ (300)
Fixed income treasury bills	49,884	49,903	19
Exchange traded funds	249,506	248,835	(671)
Total	\$ 326,580	\$ 325,628	\$ (952)

The following schedule summarizes the net investment income classified as unrestricted income in the statement of activities and changes in net assets for the year ended June 30, 2017:

Dividends and interest	\$ 7,191
Realized gain	226
Increase in unrealized loss	(1,352)
Total unrestricted net investment income	\$ 6,065

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2017:

	Level 1	Level 2	Total
Fixed Income and ETFs:			
Domestic:			
Short term corporate	\$ 26,890	\$ -	\$ 26,890
Short term bond	199,921	-	199,921
Blend:			
Large cap	98,817	-	98,817
Total	\$ 325,628	\$ -	\$ 325,628

NOTE 5 - RELATED-PARTY TRANSACTIONS

HIP, HIP Housing Development Corporation (HHDC), HIP Housing Affordable Ventures (HHAV) (formerly HIP Edgewater Isle, Inc.), EWI Associates, L.P. (EWIA), and Redwood Oaks Associates (ROA), are four separate entities that have related costs, loans, cash transactions, property and development managing duties, and shared accounts. Per the HHDC bylaws, three members of the HHDC board of directors must also be member of the HIP board. The HIP finance committee of the board of directors also acts as the finance committee for HHDC. HHDC is the general partner of ROA. HIP manages all the properties owned by HHDC, and receives a management fee. There is also a real estate loan and related interest payable to HHDC. HIP manages all cash accounts at the property level. The operating advance payable is operating cash accounts for the properties owned by HHDC. HHDC makes surplus cash contributions to HIP to help fund HIP's on-going operations. Members of the board of directors of HIP serve on the board of directors of HHAV (formerly HIP-Edgewater Isle, Inc.), which until April 2015 owned a 92 unit affordable housing project. This project was sold to Edgewater Isle Associates, L.P. as a low-income housing tax credit under Section 42 of the Internal Revenue Code as modified by the state of California. HHDC is the general partner of Edgewater Isle Associates, L.P.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - RELATED-PARTY TRANSACTIONS (Continued)

Related-party transactions include the following fees and charges:

<u>Receivable/Received from</u> <u>Description</u>	<u>Receivable at</u> <u>June 30, 2017</u>	<u>2017 Income</u> <u>(Receipt)/</u> <u>*Adjustment</u>	<u>Receivable at</u> <u>June 30, 2016</u>	<u>2016 Income</u> <u>(Receipt)</u>
<u>HIP Housing Development Corporation, Inc.</u>				
Operating advances	\$ 4,619	\$ - (570)	\$ 570	\$ -
Contribution from affiliates (Stafford)	64,381	64,381	-	-
Development/asset management fees Commercial project	12,157	12,157 (22,612) *(98,026)	120,648	165,916 (125,824)
Development fee Stafford project	40,000	40,000	-	-
Surplus cash distribution	-	240,769 (240,769)	-	170,311 (170,311)
Edgewater Isle Associates, L.P. developer fee	1,135,260	1,813,260 (678,000)	-	-
<u>HIP Housing Affordable Ventures (formerly HIP Edgewater Isle, Inc.)</u>				
Operating advances	58,711	- (13,366)	13,366	-
Surplus cash distribution	-	-	-	409,001 (409,001)
Contribution from affiliates	-	220,417	-	-
<u>Redwood Oaks Associates</u>				
Operating advances	592	-	-	-
<u>Edgewater Isle Associates, L.P.</u>				
Operating advances	5,344	-	-	-
Total	1,321,064		134,584	
Less Current Portion	1,321,064		134,584	
Long-Term Portion	<u>\$ -</u>		<u>\$ -</u>	

For the years ended June 30, 2017 a fee of \$1,813,260 was earned from Edgewater Isle Associates, L.P. for development fees. Additional \$40,000 of development fees were earned from HHDC related to the newly acquired Stafford Street project for the year ended June 30, 2017. Also for the year ended June 30, 2017 and 2016, an asset management fee of \$12,157 and \$11,726, related to Commercial Avenue project was earned, respectively, from HHDC. An *Adjustment of \$98,026 related to Commercial Avenue was made due to change in estimate in prior year.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - RELATED-PARTY TRANSACTIONS (Continued)

<u>Payable/Paid to</u> <u>Description</u>	<u>Payable at</u> <u>June 30, 2017</u>	<u>2017 Expense</u> <u>(Payment)</u>	<u>Payable at</u> <u>June 30, 2016</u>	<u>2016 Expense</u> <u>(Payment)</u>
<u>HIP Housing Development Corporation, Inc.</u>				
Contribution to affiliate	\$ 6,071	\$ 598,000 (597,524)	\$ 5,595	\$ 99,510 (114,406)
Accounts payable	50,000	-	-	-
<u>HIP Housing Affordable Ventures (formerly HIP Edgewater Isle, Inc.)</u>				
Contribution to affiliate	-	5,000	-	50,000 (50,000)
Total	<u>\$ 56,071</u>		<u>\$ 5,595</u>	

NOTE 6 – NOTES RECEIVABLE RELATED PARTY

Notes receivable relate to an unsecured promissory note from HHDC for 11 Delaware Apartments, a property owned by HHDC. The total principal amount is \$200,000 and bears simple interest of 4.63% with principal and interest receivable annually on October 1 from surplus cash after payment of development fees, if any, and other required debt service payments. Accrued interest receivable as of June 30, 2017 and 2016 was \$113,435 and \$104,175, respectively. The note is due in March 2035.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 –PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	<u>2017</u>	<u>2016</u>
General Operations:		
Leasehold improvements	\$ 20,842	\$ 20,842
Office equipment	276,696	260,434
Furniture	47,091	6,203
Rental Operations:		
Land	36,000	36,000
Buildings	467,680	467,680
Leasehold improvements	626,817	580,402
Furniture	<u>12,465</u>	<u>12,465</u>
	1,487,591	1,384,026
Less accumulated depreciation	<u>(1,192,638)</u>	<u>(1,129,183)</u>
Total property and equipment, net	<u>\$ 294,953</u>	<u>\$ 254,843</u>

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 – NOTES PAYABLE

Notes payable are secured by the property unless otherwise noted and consists of the following:

	<u>2017</u>		<u>2016</u>	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
HHDC, a related party, in the original amount of \$137,000 is for the house on Pine - Middlefield property in Redwood City. Interest accrues at a rate of 4.63%, due in full in February 2036. Annual payments are dependent on the amount of surplus cash available. Interest expense was \$2,892 and \$2,892 in 2017 and 2016, respectively.	\$ 5,784	\$ 62,472	\$ 2,892	\$ 62,472
California Department of Housing and Community Development in the original amount of \$300,856 to finance the construction of a house on Hilton Street in Redwood City. Bears simple interest of 3% per annum, due in full in July 2032. Interest expense was \$9,026 and \$9,026 for 2017 and 2016, respectively.	150,147	300,856	162,569	300,856
City of Redwood City in the amount of \$46,415 to finance rehabilitation of Hilton and Pine properties, in the amounts of \$17,885 and \$28,530, respectively. Loan is deferred of payments for the term of 30 years at zero (0%) interest.	-	46,415	-	-
County of San Mateo, 30.6% of the loan balance and the Redevelopment Agency of the City of San Carlos, 69.4% of the loan balance, respectively, for the construction of the Robbins House Project in San Carlos. The loan bears no interest. Annual principal payments are dependent on the amount of surplus cash available. As of June, 30, 2017 and 2016, the unpaid surplus cash was \$0 and \$0, respectively. The loan is due in full in April 2024	-	423,413	-	423,413
Total	155,931	833,156	165,461	786,741
Less current portion	-	-	-	-
Long-term portion	<u>\$ 155,931</u>	<u>\$ 833,156</u>	<u>\$ 165,461</u>	<u>\$ 786,741</u>

No principal payments are due for the years ended June 30, 2017 through June 30, 2020.

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted assets are for the following purposes:

	<i>Balance</i> <i>June 30,</i> <i>2016</i>	<i>Contributions</i>	<i>Releases</i> <i>from</i> <i>Restrictions</i>	<i>Balance</i> <i>June 30,</i> <i>2017</i>
<u>Purpose:</u>				
Housing Opportunity and Self-sufficiency program	\$ 20,000	\$ 265,000	\$ (245,736)	\$ 39,264
Other programs	1,250	7,398	(1,979)	6,669
<u>Timing:</u>				
Other programs	68,000	21,500	(68,000)	21,500
<u>Timing and Purpose:</u>				
Home sharing	26,500	106,500	(81,513)	51,487
Total	\$ 115,750	\$ 400,398	\$ (397,228)	\$ 118,920

NOTE 10 – CONTRIBUTED SERVICES

For the years ended June 30, 2017 and 2016, approximately 893 hours and 966 hours, respectively, were provided by twelve volunteers to HIP for clerical work which has an estimated value of approximately \$14,220 and \$13,395 during the respective years.

NOTE 11 – RETIREMENT PLAN

HIP has a defined contribution pension plan covering employees at least 21 years of age with either one year of service or previous employment in the nonprofit or health or social service field within a three-year period immediately preceding employment with HIP. The plan requires employer contributions equal to 3% of covered payroll, with an additional 2% if employee saves 4% towards the plan. Total contributions made to the plan for the years ended June 30, 2017 and 2016 were \$55,476 and \$48,542, respectively.

NOTE 12 – OPERATING LEASES

HIP leases office equipment under a non-cancellable lease through August, 2017. HIP also leases office space under various operating leases and the lease expense is allocated over HIP, HHDC and ROA. Rental expenses under these lease agreements for the years ended June 30, 2017 and 2016 were \$129,408 and \$122,663, respectively.

Future minimum lease payments under the operating leases are as follows:

Years Ending June 30:	Office	Equipment	Total
2018	\$ 149,517	\$ 536	\$ 150,053
2019	139,097	-	139,097
2020	143,461	-	143,461
2021	143,269	-	143,269
2022	39,228	-	39,228
Total	\$ 614,572	\$ 536	\$ 615,108

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13 – COMMITMENTS

HIP leases land from the City of Redwood City at the site of the Pine-Middlefield residential facility. The lease is for a term of 49 years at 10 dollars per year. The use of the land is restricted for the construction, operation, and maintenance of a home providing shared living which will be available for very low income persons, as more fully described in the lease agreement.

HIP leases land from the City of Redwood City at the site of the Hilton Street Project. The lease commenced on September 1991 for a term of 49 years at 10 dollars per year. The use of the land is restricted to operating and maintenance of a home providing shared living which will be affordable to low and very low income, and small families as defined in California Health and Safety Code Sections 50079.5 and/or 50105.

The fair value of these leases has not been recorded in either the statement of financial position or the statement of activities and changes in net assets because the amounts are not reasonably determinable due to the restrictions on the use of the land.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 19, 2018, the date which the financial statements were available to be issued, and determined no reportable events occurred.

**SUPPLEMENTAL INFORMATION REQUIRED BY THE CALIFORNIA
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

HUMAN INVESTMENT PROJECT, INC.
 (A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING COMMUNITY DEVELOPMENT
HILTON PROPERTY
BALANCE SHEET DATE
JUNE 30, 2017

<u>Account No. 91-FHDP-002</u>	<u>2017</u>
Current Assets	
1110-02 Cash - Operations	\$ 21,420
1130-01 Tenant Rents Receivable	-
1130-02 Housing Authority Receivable	4,539
1130-03 Misc. & Late Fees Receivable	32
1130-04 Tenants Rent-PBA Project	-
1140-00 Receivable from HAP	970
1100-00T Total Current Assets	<u>26,961</u>
Deposits Held in Trust - Funded	
1191-02 Tenant Deposits Held in Trust	1,069
Total Tenant Deposits Held in Trust	<u>1,069</u>
Other Current Assets	
1244-00 Prepaid Salaries to Westlake	726
1245-00 Other Prepays	86
1200-00 Total Prepay Payments	<u>812</u>
Restricted Deposits and Funded Reserves	
1320-01 Replacement Reserves	65,944
1322-00 Replacement Reserves-#2 Restricted	757
1320-00 Other Reserves	25,959
1300-00T Total Deposits	<u>92,660</u>
Rental Property	
1421-00 Building Improvements	380,201
1465-00 Office Furniture and Equipment	12,289
1495-00 Accumulated Depreciation	(356,209)
1400-00N Net Fixed Assets	<u>36,281</u>
1000-00T Total Assets	<u><u>\$ 157,783</u></u>

HUMAN INVESTMENT PROJECT, INC.
 (A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING COMMUNITY DEVELOPMENT
HILTON PROPERTY
BALANCE SHEET DATE - (CONTINUED)
JUNE 30, 2017

<u>Account No. 91-FHDP-002</u>	<u>2017</u>
Current Liabilities	
2110-00 Accounts Payable - Operations	\$ 145
2145-00 Accounts Payable to Affiliate	26,412
2100-00T Total Current Liabilities	<u>26,557</u>
Deposits Liability	
2191-00 Tenant Deposits Held in Trust (Contra)	1,057
Total Deposits Liability	<u>1,057</u>
Long-Term Liabilities	
2310-00 Notes Payable	300,856
2311-00 City of RC Loan	17,885
2147-11 Accrued Interest HIP-Hilton	150,147
2300-00T Total Long Term Liabilities	<u>468,888</u>
2000-00T Total Liabilities	<u>496,502</u>
3133-00 Total Net Assets	(338,719)
2033-00T Total Liabilities and Equity/Net Assets	<u>\$ 157,783</u>

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING COMMUNITY DEVELOPMENT
HILTON PROPERTY
STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2017 and 2016

<u>Account No. 91-FHDP-002</u>	<u>2017</u>	<u>2016</u>
RENT REVENUE		
5121-00 Rent Revenue - Gross Potential	\$ 46,800	\$ 36,360
5140-00 Tenant Assistance Payments	533	20
5100-00T Total Rent Revenue	<u>47,333</u>	<u>36,380</u>
VACANCIES		
5220-00 Apartments	(3,783)	(1,072)
5200-00T Total Vacancies	<u>(3,783)</u>	<u>(1,072)</u>
5152-00N Net Rental Revenue (Rent Revenue Less Vacancies)	<u>43,550</u>	<u>35,308</u>
FINANCIAL REVENUE		
5440-00 Revenue from Investments - Replacement Reserves	190	189
5400-00T Total Finance Revenue	<u>190</u>	<u>189</u>
OTHER REVENUE		
5910-00 Laundry and Vending Revenue	170	288
5920-00 Tenant Charges	740	685
5900-00 Miscellaneous Revenue (over 2,500 - detailed required)	-	-
5990-00 Miscellaneous Income	10,959	163
5900-00T Total Other Revenue	<u>11,869</u>	<u>1,136</u>
5000-00T TOTAL REVENUE	<u>\$ 55,609</u>	<u>\$ 36,633</u>

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING COMMUNITY DEVELOPMENT
HILTON PROPERTY
STATEMENTS OF OPERATIONS - (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017 and 2016

<u>Account No. 91-FHDP-002</u>	<u>2017</u>	<u>2016</u>
TAXES AND INSURANCE		
6710-00 Real Estate Taxes	3	3
6720-00 Property & Liability Insurance (Hazard)	1,853	1,849
6700-00T Total Taxes and Insurance	<u>1,856</u>	<u>1,852</u>
FINANCIAL EXPENSES		
6820-00 Interest on First Mortgage (or Bonds) Payable	9,026	9,026
6800-00T Total Financial Expenses	<u>9,026</u>	<u>9,026</u>
6000-00 Total Cost of Operations before Depreciation	<u>33,587</u>	<u>32,801</u>
5060-00 Profit (Loss) before Depreciation	<u>22,022</u>	<u>3,832</u>
DEPRECIATION & AMORTIZATION EXPENSES		
6600-10 Depreciation Expense	15,115	15,261
6600-20 Amortization Expense	-	-
5060-00N Operating profit (Loss)	<u>6,907</u>	<u>(11,429)</u>
Net Entity Expenses (not all expense accounts are		
7010-00 Surplus Cash Distribution	-	232
7100-00T Net Entity Expenses	<u>-</u>	<u>232</u>
3250-00 Change in Total Net Assets from Operations	<u>\$ 6,907</u>	<u>\$ (11,661)</u>

HUMAN INVESTMENT PROJECT, INC.
 (A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING COMMUNITY DEVELOPMENT
HILTON PROPERTY
STATEMENTS OF OPERATIONS - (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017 and 2016

<u>Account No. 91-FHDP-002</u>	<u>2017</u>	<u>2016</u>
S1000-10		
Total first mortgage (or bond) principal payments required during the audit period (usually 12 months). This applies to all direct loans and CalHFA-held and fully insured mortgages. Any CalHFA approved second mortgages should be included in the figures.	\$ -	\$ -
S1000-20		
The total of all monthly reserve for replacement deposits (usually 12) required during the audit period even if deposits have been temporarily waived or suspended.	\$ 1,512	\$ 1,512
S1000-30		
Replacement Reserves, or Residual Receipts and Releases which are included as expense items on this Profit and Loss Statement.	\$ -	\$ -
S1000-40		
Project Improvement Reserve releases under the Flexible Subsidy Program that is included as expense items on this Income Statement.	\$ -	\$ -

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROPERTY
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2017

<u>Account No. 91-FHDP-002</u>	<u>2017</u>
Cash Flow from Operating Activities:	
5120-00 Rental Receipts	\$ 47,399
5400-00 Interest Receipts	190
5900-00 Other Operating Receipts	11,869
6300-00 Administrative Expenses Paid	(6,478)
6400-00 Utilities Paid	(4,966)
6310-00 Salaries and Wages	(4,824)
6500-00 Operating and Maintenance	(2,249)
6700-00 Real Estate Taxes Paid	(1,853)
7012-00 Contribution paid to related party	-
6820-00 Mortgage Interest Paid	(21,448)
Net Cash Provided by Operating Activities	<u>\$ 17,640</u>
Cash Flow from Investing Activities:	
1320-00 Net Deposits to the Reserve for Replacement account	\$ (3,220)
Net Cash Used by Investing Activities	<u>\$ (3,220)</u>
1100-00 Net Increase in Cash & Cash Equivalents	\$ 14,419
Beginning of Period Cash	7,001
End of Period Cash	<u>\$ 21,420</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
6600-10 Depreciation Expense	15,115
1145-00 Decrease (Increase) in Accounts Receivable - Other	3,849
1200-00 Decrease(Increase) in Prepaid Expense	(812)
2145-00 Increase (decrease) in Accounts Payable	5,003
2147-11 Increase (decrease) in Accrued Interest Payable	(12,422)
Net Income (Loss)	<u>\$ 6,907</u>

HUMAN INVESTMENT PROJECT, INC.
 (A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROPERTY
CHANGES IN FIXED ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

Assets

	Balance July 1, 2016	Additions	Removals	Balance June 30, 2017
Land	\$ -	\$ -	\$ -	\$ -
Land Improvement	-	-	-	-
Buildings	-	-	-	-
Building Equipment - Fixed	361,346	17,885	-	379,231
Furniture & Equipment	970	-	-	970
Maintenance Equipment	12,289	-	-	12,289
Site Improvements	-	-	-	-
Total	374,605	17,885	-	392,490
Accumulated Depreciation	(341,094)	(15,115)	-	(356,209)
Net Book Value	\$ 33,511	\$ 2,770	\$ -	\$ 36,281

HUMAN INVESTMENT PROJECT, INC.
 (A California Nonprofit Public Benefit Corporation)
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROPERTY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2017

Program	Federal CFDA Number	Amount
Housing Authority County of San Mateo Section 8 Housing assistance payments	14.195	\$ 46,800
TOTAL FEDERAL AWARDS		\$ 46,800

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
ACCOUNT No. 91-FHDP-002
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROPERTY
YEAR ENDED JUNE 30, 2017

<u>Surplus Cash Computations</u>	For Year End
Add Cash and Cash Equivalent	
Cash on hand and in banks -operating	\$ 21,420
Reserve Funds for Operations (Per Annual Statement)	92,660
Other Receivables	5,541
Tenant security deposits	1,069
Total Cash and Equivalents	\$ 120,690
Less Current Obligations	
Accounts Payable and Accrued Expenses (Due Within 30 days)	\$ 26,557
Operating Reserve funding	2,367
Tenant security deposits	1,057
Total Current Obligations	\$ 29,981
Equals Available Surplus Cash	\$ 90,709
 Accumulated Limited Distributions Calculation	
Add Allowable Accumulated Limited Distribution At Beginning Of The Year	\$ 232
Less Distributions Paid During The Year	232
Add Owner Distributions Allowed Under the Regulatory Agreement	232
Equals Accumulated Limited Distributions	\$ 232
 Disposition of Surplus Cash	
Allowable Limited Distributions* (Payment Subject To CalHFA Approval)	\$ 232
*Lesser Of Surplus Cash Or Accumulated Limited Distributions	
Residual Receipts	\$ 90,477
 Reserve Fund For Operations (RFO) Calculation	
Reserve Funds For Operations (Per Annual Statement)	\$ 92,660
Less Required RFO This Year (5% of Year End Gross Potential Rent)	91,807
Equals RFO Shortage	(853)
Less RFO Payment - Amount needed to fund to the OR for 2015/2016	\$ (853)
 Earned Surplus Calculation	
Less Reserve Funds for Operations (Per Annual Statement)	25,959 \$ 92,660
Earned Surplus Amount	\$ (1,330)

HUMAN INVESTMENT PROJECT, INC.
(A California Nonprofit Public Benefit Corporation)
ACCOUNT No. 91-FHDP-002
SUPPLEMENTARY INFORMATION REQUIRED BY THE
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROPERTY
FOR THE YEAR ENDED JUNE 30, 2017

Cash

Unrestricted Cash Operating Accounts

Citibank (general checking)	\$ 21,420
Total unrestricted cash	<u>\$ 21,420</u>

Restricted Cash Accounts

Citibank(tenant deposits)	\$ 1,069
Boston Bank (Operating Reserve)	25,959
Boston Bank (Replacement Reserve)	66,701
Total restricted cash	<u>\$ 93,729</u>

Accounts Payable

Accounts Payable consists of amounts payable to suppliers, which are due within 30 days of year-end.

Gross Potential Rents

Gross potential rent includes:

Tenants	\$ 533
Housing assistance payments	46,800
Employee unit	-
Vacancy loss	3,783
Total gross potential rent	<u>\$ 51,116</u>

Management Fee

The term of the most recent management agreement expired on June 30, 2017. However, the agreement states that upon expiration of the term of the contract, if not otherwise renewed, it shall be deemed to continue on a month-to-month basis.

The management fee authorized by HCD for 2017 is as follows:

12 X \$172.68 monthly fee	<u>\$ 2,072</u>
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Certified Public Accountants

**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 of
Human Investment Project, Inc.

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 Human Investment Project, Inc. (HIP) a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, 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 January 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HIP's internal control over financial reporting 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 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 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 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 the 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.

This report is intended solely for the information and the use of the audit committee, management, board of directors, other within HIP, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vocken Kristofferson and Co.

January 19, 2018
San Mateo, California