

HUMAN INVESTMENT PROJECT, INC.
A California Nonprofit Public Benefit Corporation

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
June 30, 2018**

HUMAN INVESTMENT PROJECT, INC.
FINANCIAL STATEMENTS
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Human Investment Project, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Human Investment Project, Inc., a California non-profit public benefit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statement of activities 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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Human Investment Project, Inc., as of June 30, 2018, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Correction of Error

As described in Note K to the financial statements, our audit identified transactions previously not recorded in accordance with accounting principles generally accepted in the United States of America that have been corrected. Our opinion is not modified with respect to that matter.

Other Matters

Emphasis of Matter

The financial statements of Human Investment Project, Inc. have been prepared without combining the financial statements of related entities under common control. Combined financial statements will also be issued and those statements are the general-purpose financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as required by the *California Department of Housing and Community Development and the California Housing Finance Agency*, 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*, we have also issued a report dated October 18, 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* in considering Human Investment Project, Inc.'s internal control over financial reporting and compliance.

Spiteri, Narasky & Daly, LLP

Moraga, California
October 18, 2018

HUMAN INVESTMENT PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 1,516,561
Designated cash and deposits, current portion (Note B)	50,544
Investments (Note C)	963,205
Tenant rents and other receivables	64,582
Grants and contracts receivable	96,682
Receivable from affiliates	692,396
Developer fee receivable	528,315
Prepaid expenses	58,289
Total current assets	3,970,574

Long-term assets

Designated cash and deposits, net of current portion (Note B)	586,751
Property and equipment, net (Note D)	1,260,522
Notes receivable, including interest (Note E)	322,695
Total long-term assets	2,169,968
Total assets	\$ 6,140,542

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$ 166,598
Payable to affiliates	2,356
Tenant security deposits	14,255
Total current liabilities	183,209

Long-term liabilities

Notes payable (Note F)	833,156
Accrued interest - deferred notes	167,849
Total long-term liabilities	1,001,005
Total liabilities	1,184,214

Net assets

Temporarily restricted net assets	394,846
Unrestricted net assets	4,561,482
Total net assets	4,956,328
Total liabilities and net assets	\$ 6,140,542

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

HUMAN INVESTMENT PROJECT, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Unrestricted Net Assets

Support and revenue

Support

Government grants and contracts	\$ 411,756
Contributions from affiliates	1,073,192
Grants, contributions and fundraising	1,850,429
Net assets released from donor restrictions	320,224
Total support	<u>3,655,601</u>

Revenue

Rental property revenue	129,550
Supportive services fees	23,709
Asset management fees	14,318
Interest and investment income	46,994
Miscellaneous income	13,099
Total revenue	<u>227,670</u>

Total support and revenue	<u>3,883,271</u>
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Expenses

Program services	
Rental property operations	167,099
Supportive services programs	1,697,900
Fundraising	475,394
Management and general	244,855
Unallocated payments to affiliates	185,000
Total expenses	<u>2,770,248</u>

Change in unrestricted net assets	<u>1,113,023</u>
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Temporarily restricted net assets

Government grants and contracts	13,500
Grants, contributions and fundraising	582,650
Net assets released from donor restrictions	(320,224)
Change in temporarily restricted net assets	<u>275,926</u>

Net assets - beginning of year

As previously reported	2,975,736
Prior period adjustments	591,643
Net assets - beginning of year, as restated	<u>3,567,379</u>

Net assets - end of year	<u><u>\$ 4,956,328</u></u>
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The accompanying notes are an integral part of these financial statements.

HUMAN INVESTMENT PROJECT, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,388,949
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	81,280
In-kind donation of property and equipment	(1,002,113)
Unrealized gain on investments	(26,654)
(Increase) decrease in assets:	
Tenant rents and other receivables	(20,489)
Grants and contracts receivable	110,543
Receivable from affiliates	677,151
Prepaid expenses	32,811
Notes receivable interest	(9,260)
(Increase) decrease in liabilities:	
Accounts payable and accrued expenses	(4,330)
Payable to affiliates	(105,549)
Tenant security deposits	7,558
Accrued interest - deferred	11,918
Net cash provided by operating activities	1,141,815

CASH FLOWS FROM INVESTING ACTIVITIES

(Deposits to) releases from restricted cash and deposits	825,482
Purchases of investments, net	(610,922)
Purchase of property and equipment	(44,736)
Net cash used by investing activities	169,824
Net increase in cash and cash equivalents	1,311,639
Cash and cash equivalents - beginning of year	204,922
Cash and cash equivalents - end of year	\$ 1,516,561

SUPPLEMENTARY CASH FLOW INFORMATION:

Schedule of noncash investing and financing transactions:	
Acquisition of property and equipment	\$ 1,002,113

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

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES

Human Investment Project, Inc. (HIP Housing), was formed as a California nonprofit public benefit corporation in 1992, with a mission to improve housing conditions and life skills of people in need through programs, property development, redevelopment and management. HIP Housing provides affordable housing opportunities for those who live, or wish to live, in San Mateo County. HIP Housing receives contributions, including grants, and sponsors construction and management of low-and moderate-income housing projects.

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

1. Basis of Presentation and Accounting

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP). Support and revenues are recorded in the period when earned and expenses when incurred, regardless of the timing of payments. In addition, the financial position and activities are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets depending on the nature of any donor-imposed restrictions.

The board of directors of HIP Housing shares common directors with HIP Housing Development Corporation (HHDC), a California nonprofit public benefit corporation, which sponsors construction and management of low- and moderate-income housing projects in San Mateo County. The board of directors of HIP also shares common directors with HIP Housing Affordable Ventures, Inc., a California nonprofit public benefit corporation, whose purpose is to provide funds and/or other contributions in support of affordable housing in San Mateo County.

HIP Housing's financial statements do not include the assets, liabilities, revenue or expenses of the related organizations. The financial statements of HIP Housing have been prepared without combining the financial statements of related entities under common control. Combined financial statements will also be issued and those statements are the general-purpose financial statements of the primary reporting entity.

2. Cash and Cash Equivalents and Concentrations of Credit Risk

Cash is defined as cash in demand deposits and cash on hand. Not included as cash for purposes of the statement of cash flows are funds restricted as to their use, regardless of liquidity, such as property operating accounts, tenant security deposits, replacement reserves, and operating reserves.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, money market accounts and investments with original maturities of three months or less qualify as cash equivalents.

As of June 30, 2018, HIP Housing has deposits in excess of federally insured limits. HIP Housing has not experienced losses in such accounts and believes it is not exposed to any significant risk of loss.

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES (Continued)

3. Designated Cash and Deposits

Designated cash and deposits includes replacement reserves, operating reserves, tenant security deposits, and other reserves required to be segregated by a regulatory agency or the board of directors.

4. Investments – Fair Value

Generally accepted accounting principles establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of HIP Housing. Unobservable inputs, if any, reflects HIP Housing's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that HIP Housing has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgement.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement.

Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

5. Allowances for Uncollectible Accounts Receivable

HIP Housing records an allowance for doubtful collections based on a review of outstanding receivables, existing economic conditions or specific situations. HIP elects to record bad debt for tenant rents receivables using the direct write-off method. GAAP requires that the allowance method 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 be obtained had the allowance method been followed.

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES (Continued)

6. Property and Equipment

Property and equipment is stated at cost as of the date of acquisition or construction. The cost of maintenance and repairs are charged to operations when incurred. All major replacements and betterments are capitalized.

Depreciation is provided in amounts sufficient to relate the cost or fair market value of depreciable assets to operations over their estimated useful lives using the straight-line method, 15 - 27.5 years for buildings and improvements and five to seven years for office furniture and equipment.

In accordance with GAAP, HIP Housing reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment loss recognized in the year ended June 30, 2018.

7. 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.

8. Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash and cash equivalents, other advances and receivables, accounts payable and accrued expenses, and tenant security deposits approximate fair value due to the relatively short-term maturity of these instruments. It is not practicable for management to estimate the fair value of accounts and notes receivable, notes payable, equity investments and financial guarantees because of the nature of such instruments and lack of readily available market information for financial instruments with similar terms.

9. Advertising Costs

Advertising costs are charged to operations when incurred.

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES (Continued)

10. Revenue Recognition

Contributions Revenue

Contributions are recognized as revenue when they are unconditionally promised. Noncash contributions are recorded at their estimated fair value when received. Contributions to be received after one year are discounted at an appropriate discount rate when material. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. 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 statements of activities as net assets released from restrictions. Contributions restricted for the purpose of long-lived assets are reported as unrestricted support when expended for that purpose in the individual financial statements of each affiliated entity, but may be reported as temporarily restricted net assets in the financial statements.

Rental Housing Revenue

Revenue from resident fees, rents and services is recognized in the period rendered. Rental income is shown at its maximum gross potential. Vacancy loss and concessions are shown as a reduction of rental income. Rental units occupied by employees are included in rental income and as an expense of operations. Most of the rental income is received under short-term residential leases.

11. Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Program services include all expenses relating to development, management of properties, and resident services. Supporting services consist of management and general expenses and unallocated payments to affiliates.

12. Income Taxes

HIP Housing has received tax-exempt status under IRC Section 501(c)(3) and the California Franchise Tax Board under the Revenue and Taxation Code 23701(d).

HIP Housing believes that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. HIP Housing's federal and state information and income tax returns for the years 2014 through 2017 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for the federal and state returns, respectively.

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF ACCOUNTING POLICIES (Continued)

13. Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures. Accordingly, actual results could differ from those estimates.

14. Risks and Uncertainties

HIP Housing is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where the corporation is located or by changes in federal, state and/or local low-income housing subsidies or the demand for such housing.

HIP Housing is 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 Housing is contingent upon successful achievement of its long-term revenue-raising goals.

15. Subsequent Events

Subsequent events were evaluated through October 18, 2018, which is the date the financial statements were available to be issued.

NOTE B – DESIGNATED CASH AND DEPOSITS

As of June 30, 2018, restricted cash and deposits consist of the following:

Rental property operating funds	\$ 50,544
Tenant security deposits and reserves	<u>586,751</u>
Total restricted cash and deposits	637,295
Less: current portion	<u>(50,544)</u>
Non-current portion	<u><u>\$ 586,751</u></u>

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE C – INVESTMENTS

HIP Housing’s investments measured at fair value on a recurring basis as of June 30, 2018, and the fair value hierarchy of the valuation techniques utilized by HIP to determine fair values are as follows:

	<i>Cost as of</i> <u>June 30, 2018</u>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i> <u>June 30, 2018</u>
Fixed income	\$ 475,641	\$ 467,885
Domestic equity securities	105,966	119,027
Exchange traded funds (ETFs)	355,885	376,293
Total investments	<u>\$ 937,492</u>	<u>\$ 963,205</u>

The following presents investments by category at fair value as of June 30, 2018:

Fixed income:	
US treasury notes	\$ 99,516
Bond funds	295,332
Corporate bonds	73,037
Total fixed income	<u>\$ 467,885</u>
Domestic Equity Securities:	
Consumer staples	\$ 9,367
Energy	26,446
Financials	12,504
Health care	10,626
Industrials	12,791
Information technology	47,293
Total equity securities	<u>\$ 119,027</u>

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE D – PROPERTY AND EQUIPMENT

As of June 30, 2018, property, equipment, and accumulated depreciation consist of the following:

Land	\$	836,000
Buildings and improvements		1,326,469
Furnishings and equipment		371,970
		2,534,439
Total property and equipment		2,534,439
Less accumulated depreciation expense		(1,273,917)
		1,260,522
Property and equipment, net	\$	1,260,522

NOTE E – NOTES RECEIVABLE

Notes receivable in the amount of \$200,000 due from HHDC bears interest at a simple rate of 4.63% per annum, requires annual payments to the extent of annual surplus cash generated by the real property located at 11 Delaware Street owned by HHDC, and matures March 15, 2035. As of June 30, 2018, accrued interest receivable totals \$122,695.

NOTE F - NOTES PAYABLE

Deferred loans payable to various government agencies and lenders, see detail below, are non-interest bearing, bear simple interest at rates ranging from 3% to 4.63%, and have varying maturity dates through 2072. Payments are either payable from available residual receipts or surplus cash or are deferred until maturity with the option to renew. For the year ended June 30, 2018, interest expense totaled \$11,918. As of June 30, 2018, accrued deferred interest totaled \$167,849.

County of San Mateo		\$ 129,451
City of San Carlos		293,962
California Department of Housing & Community Development		300,856
Related parties (unsecured)		108,887
Total notes payable		\$ 833,156

Principal payments for the next five years are subject to changes in net cash flow, which is a contingency that cannot reasonably be estimated.

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted assets carry the following restrictions:

	Balance July 01, 2017	Contributions	Released from Restrictions	Balance June 30, 2018
Purpose restricted:				
Housing Opportunity	\$ 39,264	\$ 190,000	\$ (79,645)	\$ 149,619
Self-Sufficiency	-	114,000	(99,000)	15,000
Home Sharing	51,487	88,150	(87,800)	51,837
Other programs	6,669	81,250	(32,279)	55,640
Time restricted	21,500	122,750	(21,500)	122,750
Total	<u>\$ 118,920</u>	<u>\$ 596,150</u>	<u>\$ (320,224)</u>	<u>\$ 394,846</u>

NOTE H - RELATED PARTY TRANSACTIONS

Advances Receivable from Affiliates

During the year ended June 30, 2018, HIP Housing advanced HHAV \$70,000 for payroll costs related to the management of rental properties.

Payable to Affiliates

During the year ended June 30, 2018, HIP Housing received excess reimbursements of costs from Edgewater Isle Associates, L.P., a California limited partnership, related to HIP Housing by common members on the Board of Directors of the General Partner, totaling \$2,356.

Contributions from Affiliates

During the year ended June 30, 2018, HHAV promised to give HIP Housing \$608,078 to support HIP Housing's mission and remains receivable as of June 30, 2018.

During the year ended June 30, 2018, HHDC promised to give HIP Housing \$465,114 to support HIP Housing's mission. As of June 30, 2018, this contribution has been received in full.

Donation to Affiliates

During the year ended June 30, 2018, HIP Housing donated \$185,000 to HHDC to add to the reserves of properties owned by HHDC.

Asset Management Fee

HIP Housing is entitled to an annual asset management fee of 5% of gross rent potential from Commercial Street, a rental property owned by HHDC. For the year ended June 30, 2018, the annual asset management fee earned totaled \$14,318 of which \$14,318 is receivable as of June 30, 2018.

Property Management Fees

The properties owned by HIP Housing are managed by HHAV. For the year ending June 30, 2018, management fees paid to HHAV totaled \$7,578.

HUMAN INVESTMENT PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE I – RETIREMENT PLAN

HIP Housing has a defined contribution pension plan that covers 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 Housing. 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, 2018 totaled \$60,462.

NOTE J – COMMITMENTS

HIP Housing 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 ten 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 Housing 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 that 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.

Management has determined the fair value of these leases to be nominal due to the restrictions on the use of the land. Management also has determined the fair value of these leases to be nominal as similar agencies enter into similar leasing arrangements with similar public benefit corporations and nonprofit organizations in an effort to proliferate affordable housing within those agency's jurisdictions.

NOTE K – CORRECTION OF ERROR

Pursuant to a Development Fee Agreement between HIP Housing and Edgewater Isle Associates, L.P., a California limited partnership (Edgewater) whose general partner is HHDC, HIP Housing is entitled to development fees connection with the rehabilitation of property owned by Edgewater. Prior to July 1, 2017, Management was recording fees earned from Edgewater on the cash basis. Management has determined that these fees should be accounted for on the accrual basis in accordance with GAAP. The correction of error resulted in an addition to net assets as of July 1, 2017 of \$528,315 and developer fee receivable of \$528,315.

HIP Housing has a cash reserve with Unemployment Services Trust. Prior to July 1, 2017, Management had not accounted for this cash account in its books and records. The correction of error resulted in an addition to net assets as of July 1, 2017 of \$34,288 and cash and cash equivalents of \$34,288.

HIP Housing receives rents from tenants that it designates for the Self Sufficiency Program. Prior to July 1, 2017, Management was recording receipts from tenants as liabilities and payments to Self Sufficiency Program participants as reductions of the liability. However, these receipts should considered service fee income and payments made as program expenses as paid. The correction of error resulted in an addition to net assets as of July 1, 2017 of \$29,040 and reduction of accounts payable of \$29,040.

SUPPLEMENTARY INFORMATION

HUMAN INVESTMENT PROJECT, INC.
DETAILED SCHEDULE OF FUNCTIONAL EXPENSES
June 30, 2018

	<u>Program Services</u>		<u>Fundraising</u>	<u>Management and General</u>	<u>Unallocated Payments to Affiliates</u>	<u>Total Expenses</u>
	<u>Supportive Services</u>	<u>Rental Properties</u>				
Salaries, payroll taxes, and benefits	\$ 1,123,533	\$ 19,193	\$ 300,958	\$ 220,689	\$ -	\$ 1,664,373
Rent expense	121,444	7,047	26,444	6,611	-	161,546
Administrative expenses	301,885	22,783	45,139	17,295	-	387,102
Utilities	-	23,961	-	-	-	23,961
Operating and maintenance	-	23,251	-	-	-	23,251
Taxes and insurance	4,223	10,384	-	260	-	14,867
Depreciation	32,828	48,452	-	-	-	81,280
Interest and other financial expenses	-	11,918	-	-	-	11,918
Resident service expenses	113,987	110	-	-	-	114,097
Fundraising expenses	-	-	102,853	-	-	102,853
Donation to affiliate	-	-	-	-	185,000	185,000
Total expenses	<u>\$ 1,697,900</u>	<u>\$ 167,099</u>	<u>\$ 475,394</u>	<u>\$ 244,855</u>	<u>\$ 185,000</u>	<u>\$ 2,770,248</u>

HUMAN INVESTMENT PROJECT, INC.
DETAILED SCHEDULE OF FINANCIAL POSITION
June 30, 2018

ASSETS

	HIP	Rental Properties	Eliminating Entries	Total
Current assets				
Cash and cash equivalents	\$ 1,516,561	\$ -	\$ -	\$ 1,516,561
Designated cash and deposits, current portion	-	50,544	-	50,544
Investments	963,205	-	-	963,205
Tenant rents and other receivables	41,090	23,492	-	64,582
Grants and contracts receivable	96,682	-	-	96,682
Receivable from affiliates	692,396	239	(239)	692,396
Developer fee receivable	528,315	-	-	528,315
Prepaid expenses	58,289	-	-	58,289
Total current assets	<u>3,896,538</u>	<u>74,275</u>	<u>(239)</u>	<u>3,970,574</u>
Long-term assets				
Designated cash and deposits, net of current portion	368,848	217,903	-	586,751
Property and equipment, net	99,070	1,161,452	-	1,260,522
Notes receivable, including interest	322,695	-	-	322,695
Total long-term assets	<u>790,613</u>	<u>1,379,355</u>	<u>-</u>	<u>2,169,968</u>
Total assets	<u>\$ 4,687,151</u>	<u>\$ 1,453,630</u>	<u>\$ (239)</u>	<u>\$ 6,140,542</u>

HUMAN INVESTMENT PROJECT, INC.
DETAILED SCHEDULE OF FINANCIAL POSITION (Continued)
June 30, 2018

LIABILITIES AND NET ASSETS

	HIP	Rental Properties	Eliminations	Total
Current liabilities				
Accounts payable and accrued expenses	\$ 157,389	\$ 9,209	\$ -	\$ 166,598
Payable to affiliates	2,595	-	(239)	2,356
Tenant security deposits	-	14,255	-	14,255
Total current liabilities	<u>159,984</u>	<u>23,464</u>	<u>(239)</u>	<u>183,209</u>
Long-term liabilities				
Notes payable	-	833,156	-	833,156
Accrued interest - deferred notes	-	167,849	-	167,849
Total long-term liabilities	<u>-</u>	<u>1,001,005</u>	<u>-</u>	<u>1,001,005</u>
Total liabilities	<u>159,984</u>	<u>1,024,469</u>	<u>(239)</u>	<u>1,184,214</u>
Net assets				
Temporarily restricted net assets	394,846	-	-	394,846
Unrestricted net assets	4,132,321	429,161	-	4,561,482
Total net assets	<u>4,527,167</u>	<u>429,161</u>	<u>-</u>	<u>4,956,328</u>
Total liabilities and net assets	<u>\$ 4,687,151</u>	<u>\$ 1,453,630</u>	<u>\$ (239)</u>	<u>\$ 6,140,542</u>

HUMAN INVESTMENT PROJECT, INC.
DETAILED SCHEDULE OF ACTIVITIES
Year Ended June 30, 2018

	HIP	Rental Properties	Eliminations	Total
Unrestricted net assets				
Support and Revenue				
Support				
Government grants and contracts	\$ 411,756	\$ -	\$ -	\$ 411,756
Contributions from affiliates	1,073,192	-	-	1,073,192
Grants, contributions and fundraising	845,743	1,004,686	-	1,850,429
Net assets released from donor restrictions	320,224	-	-	320,224
Total support	<u>2,650,915</u>	<u>1,004,686</u>	<u>-</u>	<u>3,655,601</u>
Revenue				
Rental property revenue	-	149,100	(19,550)	129,550
Supportive services fees	41,206	-	(17,497)	23,709
Asset management fees	14,318	-	-	14,318
Interest and investment income	46,473	521	-	46,994
Miscellaneous income	9,472	3,627	-	13,099
Total revenue	<u>111,469</u>	<u>153,248</u>	<u>(37,047)</u>	<u>227,670</u>
Total support and revenue	<u>2,762,384</u>	<u>1,157,934</u>	<u>(37,047)</u>	<u>3,883,271</u>
Expenses				
Program services				
Rental property operations	-	184,596	(17,497)	167,099
Supportive services programs	1,717,450	-	(19,550)	1,697,900
Fundraising and advocacy	475,394	-	-	475,394
Management and general	244,855	-	-	244,855
Unallocated payments to affiliates	185,000	-	-	185,000
Total expenses	<u>2,622,699</u>	<u>184,596</u>	<u>(37,047)</u>	<u>2,770,248</u>
Change in unrestricted net assets	<u>139,685</u>	<u>973,338</u>	<u>-</u>	<u>1,113,023</u>
Temporarily restricted net assets				
Government grants and contracts	13,500	-	-	13,500
Grants, contributions and fundraising	582,650	-	-	582,650
Net assets released from donor restrictions	(320,224)	-	-	(320,224)
Change in temporarily restricted net assets	<u>275,926</u>	<u>-</u>	<u>-</u>	<u>275,926</u>
Net assets - beginning of year				
As previously reported	3,519,913	(544,177)	-	2,975,736
Prior period adjustments	591,643	-	-	591,643
Net assets - beginning of year, as restated	<u>4,111,556</u>	<u>(544,177)</u>	<u>-</u>	<u>3,567,379</u>
Net assets - end of year	<u>\$ 4,527,167</u>	<u>\$ 429,161</u>	<u>\$ -</u>	<u>\$ 4,956,328</u>

HUMAN INVESTMENT PROJECT, INC.
SUPPLEMENTARY NET CASH FLOW CALCULATION FOR OWNED PROPERTIES
Year Ended June 30, 2018

	Chilco	Cedar	Hilton	Pine
Operating Revenue				
Rental property revenue	\$ 12,600	\$ 49,960	\$ 38,660	\$ 47,880
Grants and contributions	1,004,686	-	-	-
Interest income	565	1,374	1,287	922
Less restricted interest	-	(40)	(363)	(117)
Total operating revenue	<u>1,017,851</u>	<u>51,294</u>	<u>39,584</u>	<u>48,685</u>
Operating Expenses				
Salaries	-	6,361	6,471	6,361
Administrative	2,072	6,898	6,905	6,906
Utilities	1,120	10,672	6,659	5,510
Operating and maintenance	1,247	7,091	7,265	7,648
Taxes and insurance	5,850	1,546	1,640	1,350
Supportive services	-	6,307	5,000	6,300
Rent	558	2,163	2,163	2,163
Total operating expenses	<u>10,847</u>	<u>41,038</u>	<u>36,103</u>	<u>36,238</u>
Other Items				
Capital expenditures	1,002,113	4,706	4,540	1,885
Deposits to replacement reserve	-	3,030	2,191	4,000
Releases from replacement reserve	-	(2,755)	(4,540)	-
Deposits to operating reserve	-	-	839	-
Total other items	<u>1,002,113</u>	<u>4,981</u>	<u>3,030</u>	<u>5,885</u>
Net cash flow	<u>\$ 4,891</u>	<u>\$ 5,275</u>	<u>\$ 451</u>	<u>\$ 6,562</u>

HUMAN INVESTMENT PROJECT, INC.
SUPPLEMENTARY INFORMATION REQUIRED BY
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROJECT No. 91-FHDP-002
Year Ended June 30, 2018

SCHEDULES OF OPERATING REVENUES

Rent Revenue		
5120	Tenant rents	\$ 7,200
5121	Tenant assistance payments	46,820
5100T	Gross rent potential	<u>54,020</u>
Vacancies		
5220	Apartments	(15,360)
5250	Concessions	-
5200T	Total vacancies	<u>(15,360)</u>
5152N	Net rental revenue	<u>38,660</u>
Financial revenue		
5440	Financial revenue - replacement reserve	363
5400T	Total financial revenue	<u>363</u>
Other revenue		
5910	Laundry income	412
5920	Tenant charges	512
5900T	Total other revenue	<u>924</u>
5000T	Total revenue	<u>39,947</u>

SCHEDULES OF OPERATING EXPENSES

Administrative expenses		
6311	Office supplies	327
6312	Office rent	2,163
6320	Property management fees	2,134
6330	Manager's salary	3,525
6340	Legal fees	27
6350	Audit fees	3,167
6351	Accounting services	576
6311	Telephone and answering service	106
6390	Bank service charges	14
6390	Seminars and training	178
6390	Supportive service expenses	5,000
6390	Miscellaneous administrative	376
	Total administrative expenses	<u>17,593</u>

HUMAN INVESTMENT PROJECT, INC.
SUPPLEMENTARY INFORMATION REQUIRED BY
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROJECT No. 91-FHDP-002
Year Ended June 30, 2018

SCHEDULES OF OPERATING EXPENSES (Continued)

	Utilities		
6450	Electricity	\$	734
6451	Water		3,312
6452	Gas		1,584
6453	Sewer		1,029
	Total utilities		<u>6,659</u>
	Operating and maintenance		
6510	Repairs payroll		1,500
6515	Repairs materials		259
6520	Exterminating		1,380
6520	Ground contracts		2,275
6520	Repairs contract		2,217
6525	Trash removal		1,100
6570	Vehicle maintenance and repair		25
6590	Miscellaneous operating and maintenance		9
	Total operating and maintenance		<u>8,765</u>
	Taxes and insurance		
6711	Payroll taxes		327
6722	Workers' compensation		312
6723	Health insurance and other employee benefits		616
6720	Property and liability insurance		1,640
6720	Earthquake insurance		191
	Total taxes and insurance		<u>3,086</u>
	Financial expenses		
6820	Interest expense - note payable		9,026
6800T	Total financial expenses		<u>9,026</u>
6000	Total cost of operations before depreciation	\$	<u>45,129</u>
5060T	Operating profit before depreciation		(5,182)
6600	Depreciation expense		<u>16,497</u>
5060N	Operating loss	\$	<u><u>(21,679)</u></u>

HUMAN INVESTMENT PROJECT, INC.
SUPPLEMENTARY INFORMATION REQUIRED BY
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROJECT No. 91-FHDP-002
Year Ended June 30, 2018

CASH ON HAND AND IN BANK

Unrestricted accounts		
Operating and savings accounts	\$	2,497
Restricted accounts		
Tenant security deposits		3,057
Operating reserve		26,798
Replacement reserve		60,175
Total cash	\$	<u><u>92,527</u></u>

Tenant security deposits are held in a separate non-interest bearing bank account in the name of the Property.

RESERVE FOR REPLACEMENTS

In accordance with the HCD Regulatory Agreement, a replacement reserve account has been established to be used for the replacement of property. Releases from the replacement reserve must be approved by the HCD. Accordingly, restricted cash is held as follows:

Balance, July 1, 2017	\$	66,701
Monthly deposits		2,191
Interest earned		363
Releases (unauthorized)		(4,540)
Releases (capital expenditures)		(4,540)
Balance, June 30, 2018	\$	<u><u>60,175</u></u>

RESERVE FOR OPERATIONS

In accordance with the HCD Regulatory Agreement, an operating reserve account has been established to be used for the operating deficits of property. Releases from the operating reserve must be approved by the HCD. Accordingly, restricted cash is held as follows:

Balance, July 1, 2017	\$	25,959
Deposits		839
Balance, June 30, 2018	\$	<u><u>26,798</u></u>

HUMAN INVESTMENT PROJECT, INC.
SUPPLEMENTARY INFORMATION REQUIRED BY
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROJECT No. 91-FHDP-002
Year Ended June 30, 2018

CHANGES IN PROPERTY

	Cost			Balance June 30, 2018
	Balance July 1, 2017	Additions	Removals	
Buildings and improvements	\$ 380,201	\$ 4,540	\$ -	\$ 384,741
Furnishings and equipment	12,289	-	-	12,289
Total property	\$ 392,490	\$ 4,540	\$ -	\$ 397,030
Accumulated depreciation	\$ 356,209	16,497	-	372,706

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable are payable to vendors which are due within 30 days of year end.

GROSS POTENTIAL RENTS

Tenant rental payments	\$ 5,000
Housing assistance payments	33,660
Vacancy loss and concessions	15,360
Total gross potential rents	\$ 54,020

MANAGEMENT FEE

Property management fee of \$2,134 was incurred during the year ending June 30, 2018 for services provided by HIP Housing Affordable Ventures, Inc.

HUMAN INVESTMENT PROJECT, INC.
SUPPLEMENTARY INFORMATION REQUIRED BY
CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
HILTON PROJECT No. 91-FHDP-002
Year Ended June 30, 2018

SURPLUS CASH/ NET CASH FLOW

In accordance with the HCD Regulatory Agreement, net cash flow and distributions is calculated as follows:

Operating income		
Total income	\$	39,947
Less interest on reserves		<u>(363)</u>
Adjusted operating income		\$ 39,584
Operating expenses		
Adjusted net income		<u>(36,103)</u>
		3,481
Other activity		
Deposits to replacement reserve	\$	(2,191)
Deposits to operating reserve		<u>(839)</u>
Total other activity		<u>(3,030)</u>
Net operating cash flow		<u>\$ 451</u>
Net cash flow available for distribution		
HCD maximum distribution	\$	232
HCD deferred loan payment		<u>219</u>
		<u>\$ 451</u>

SPITERI, NARASKY & DALEY, LLP
Certified Public Accountants
1024 Country Club Drive, Moraga, California 94556 (925) 376-2195

**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
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., a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statement, and have issued our report thereon dated October 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Human Investment Project, Inc.’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Associates’ internal control. Accordingly, we do not express an opinion on the effectiveness of Human Investment Project, Inc.’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 Human Investment Project, Inc.’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 Human Investment Project, Inc.’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*.

**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**
(Continued)

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 Human Investment Project, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Human Investment Project, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Spiteri, Narasky & Daley, LLP

Moraga, California
October 18, 2018

**HUMAN INVESTMENT PROJECT, INC.
CERTIFICATION OF OFFICERS
Year Ended June 30, 2018**

CERTIFICATION OF OFFICERS

We, as officers of Human Investment Project, Inc., a California nonprofit public benefit corporation, hereby certify that we have examined the accompanying financial statements and supplementary data of Human Investment Project, Inc. as of and for the year ended June 30, 2018, and, to the best of our knowledge and belief, these financial statements and supplementary data are complete and accurate.

Donald W. McVey

Don McVey Board Treasurer

October 18, 2018

Date

Gina Quiney

Gina Quiney Board Member

October 18, 2018

Date

HUMAN INVESTMENT PROJECT, INC.
Employer ID No. 94-2154614

CERTIFICATION OF MANAGEMENT AGENT

We hereby certify that we have examined the accompanying financial statements and supplementary data of Human Investment Project, Inc. as they pertain to the Hilton Project, as of and for the year ended June 30, 2018, and, to the best of our knowledge and belief, these financial statements and supplementary data are complete and accurate.

Steven McDonald

Steven McDonald Vice President

October 18, 2018

Date

HIP HOUSING AFFORDABLE VENTURES, INC.
Employer ID No. 91-1868360