



**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOUSING PRODUCTION TRUST FUND
A Governmental Fund of the District of Columbia**

**Financial Statements together with
Reports of Independent Public Accountants**

For the Year Ended September 30, 2019



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Independent Auditor's Report

The Mayor and Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

Report on the Financial Statements

We have audited the accompanying balance sheet and the statement of revenues, expenditures and change in fund balances of the Housing Production Trust Fund (HPTF), a component unit of Washington, District of Columbia, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the HPTF's basic 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 *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.

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants/ Management Consultants

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Opinion on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balance of the HPTF as of September 30, 2019, and the changes in its fund balance for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on RSI.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

In planning and performing our audit of the financial statements, we considered HPTF's internal control over financial reporting (internal control) as a basis for designing 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 HPTF's internal control. Accordingly, we do not express an opinion on the effectiveness of HPTF's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we

did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in Appendix I as item 19-01 that we consider to be a significant deficiency. An additional deficiency was reported to management in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HPTF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in Appendix I Continuing Prior Year Findings as item 19-01.

Management's Response to Findings

HPTF's management's response to the findings identified in our audit are described in Appendix III Management Comments. HPTF's management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Williams, Adley & Company-DC, LLP

Washington, DC
April 28, 2021

19-01: Noncompliance with Annual Audit Requirement

The Department of Housing and Community Development (DHCD) did not procure an independent entity to conduct an annual audit of the Housing Production Trust Fund (HPTF) for the fiscal years 2019 in a timely manner. Specifically, DHCD did not contract independent auditors to conduct the audit of HPTF's FY 2019 financial statements until June 2020.

As reported in the FY 2016, 2017, and 2018 audit reports, HPTF has not been timely about performing annual audits in the past; however, attempted to obtain assurance to try and be more current by having an independent audit firm conduct the audits for FY2017, 2018, and 2019 simultaneously. However, HPTF is still not in compliance with the Code of the District of Columbia requiring an annual audit of the fund.

The final Independent Auditor's report, for the fiscal year 2016 HPTF financial statement audit was not published until fiscal year 2019. The delay caused DHCD to become behind in scheduling procuring services for the fiscal year 2017, 2018 and 2019 financial statement audit.

Code of the District of Columbia §42–2801 Housing Production Trust Fund established. (d)(3) requires “The Department shall: Conduct annual audits, publish annual reports, hold public hearings, and make annual assessments of the continued housing needs of targeted populations.” Without timely audits, users of HPTF's financial statements do not have important information to help assess the effectiveness of controls and operations on an annual basis. Additionally, without having an annual audit HPTF could face legal consequences and a reduction of funding.

Williams Adley recommends that DHCD ensure that annual audits are procured and conducted in a timely manner. Specifically, DHCD should:

1. Ensure the FY2020 and FY2021 audits are performed by December 2021.
2. Formalize a plan to ensure the procurement process for the financial statement audit is finalized a year in advance, beginning with the FY2022 financial statement audit.

Management Response:

Management concurs with the finding regarding the lack of timely audits of the HPTF. The current audit brings the agency up to date, and the statement of work for an FY2020 audit is currently under review. It is hoped that in the future the audit of the HPTF can be included in the contract for the city-wide Consolidated Annual Financial Report, as the HPTF is a significant fund and should be included in the annual audit.

Appendix II – Status of Prior Year Findings and Recommendations

Our assessment of the current status of prior year findings is presented below.

Prior Year Finding	Current Year Status
Control Significant Deficiencies	
18-01: Inaccurate Presentation of Financial Statements and Related Footnotes	Reclassified to a Management Letter Comment for FY 2019
18-02: Noncompliance with Annual Audit Requirement	Open and repeated in FY 2019 Audit Report

GOVERNMENT OF THE DISTRICT OF COLUMBIA

HOUSING PRODUCTION TRUST FUND

Management's Discussion and Analysis

September 30, 2019

The following is a discussion and analysis of the Government of the District of Columbia's (the District) Housing Production Trust Fund (the Fund) financial performance for the fiscal year ended September 30, 2019. The financial statements and accompanying notes on pages 8 through 12 should be read in conjunction with this discussion.

Basic Financial Statements

The Fund's basic financial statements are comprised of two components: fund financial statements and notes to the financial statements.

- **Fund financial statements.** The governmental fund financial statements focus primarily on the sources, uses, and balances of current financial resources. The financial statements consist of a Statement of Financial Position and Statement of Revenues, Expenditures, and Changes in Fund balances.
- **Notes to the financial statements.** The notes provide additional information that is essential to fully understand the data provided in the fund financial statements.

2019 Financial Highlights

- Other long-term assets/net loans receivable decreased by \$3,777,207 or 4%.
- Allowance for doubtful accounts increased by \$131,762,688 or 21%.
- Cash and cash equivalents decreased by \$29,308,021 or 18%.
- Due from other funds increased by \$4,926,946 or 100%.
- Unearned revenue recorded for the fund decreased by \$3,777,207 or 4%
- 64 new loans were issued in 2019 amounting to \$154,787,255.
- 973 Affordable Housing units started
- 605 new Affordable Housing units completed

Table 1 - Condensed Statement of Financial Position as of September 30, 2019 and 2018:

	FY 2019	FY 2018	Variance	%
Total Assets	\$ 236,898,723	\$ 265,132,802	\$ (28,234,079)	-11%
Total Liabilities	93,958,729	97,735,936	(3,777,207)	-4%
Restricted Fund Balance	\$ 142,939,994	\$ 167,396,866	\$ (24,456,872)	-15%

Total Assets

Total assets decreased by \$28,234,079 or 11% due to a decrease in cash and investments.

Total Liabilities

The total liabilities decreased by \$3,777,207 or 4% due to loan payoffs.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOUSING PRODUCTION TRUST FUND**

**Management's Discussion and Analysis
September 30, 2019**

**Table 2 - Condensed Statements of Revenues, Expenditures and Change in Fund Balances
for the years ended September 30, 2019 and 2018:**

	2019	2018	Variance	%
Revenue				
Deed Recordation and Transfer Taxes	\$ 74,321,539	\$ 61,071,625	\$ 13,249,914	22%
Investment Income & Other	15,629,310	11,062,012	4,567,298	41%
Total Revenue	89,950,849	72,133,637	17,817,212	25%
Expenditures	150,558,561	154,240,683	(3,682,122)	-2%
Excess of Expenditures over Revenues	(60,607,712)	(82,107,046)	21,499,334	-26%
Transfers In	36,150,839	12,515,509	23,635,330	189%
Net Change in Fund Balances	\$ (24,456,873)	\$ (69,591,537)	\$ 45,134,664	-65%

Revenues

- Deed Recordation and Transfer Taxes increased by \$13,249,914 or 22% due to higher Deed Recordation and Transfers received in FY 2019. See Table 6 below.
- Investment and other income increased by \$4,567,298 or 41% in FY 2019 over FY 2018 due to a large one-time Inclusionary Zoning Fee, along with an increase in HPTF loan repayments, pay-offs and interest earned.

Expenditures

- Expenditures decreased by \$3,682,122 or 2% from FY 2018 to FY 2019, which is attributed to completion of a project sponsored by the Department for General Services (DGS) and a reduction in Single Family Rehabilitation expenditures.

Table 3 – Other Long-term Assets/Loans Receivable as of September 30, 2019 and 2018:

	2019	2018	Variance	%
Loans Receivable	\$ 850,280,532	\$ 722,295,051	\$ 127,985,481	18%
Allowance	(756,321,802)	(624,559,115)	(131,762,688)	-21%
Total	\$ 93,958,729	\$ 97,735,936	\$ (3,777,207)	-4%

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOUSING PRODUCTION TRUST FUND**

**Management's Discussion and Analysis
September 30, 2019**

Table 4 - Number of Active Loans as of September 30, 2019 and 2018:

	2019	2018	Variance	%
Amortized Loans	109	115	(6)	-5%
Deferred Loans	386	327	59	18%
Total	495	442	53	12%

Table 5 – Revenue from Loan and Interest Payments for the years ended September 30, 2019 and 2018:

	2019	2018	Variance	%
Amortized: Loan Repayments and Interest	\$ 2,422,777	\$ 3,899,218	\$ (1,476,441)	-38%
Deferred: Loan Repayments and Interest	3,846,670	2,106,552	1,740,118	83%
Total	\$ 6,269,447	\$ 6,005,770	\$ 263,677	4%

Table 6 – Government of the District of Columbia Deed Recordation and Transfer Taxes for the years ended September 30, 2019 and 2018:

	2019	2018	Variance	%
Deed Recordation Taxes	\$ 45,578,153	\$ 33,396,391	\$ 12,181,762	36%
Deed Transfer Taxes	28,743,386	27,675,234	1,068,152	4%
Total	\$ 74,321,539	\$ 61,071,625	\$ 13,249,914	22%

Table 7 – Number of Affordable Housing Units under Development, Completed and Started during FY 2019 and 2018.

	2019	2018	Variance	%
Affordable Housing Under Development	3700	1834	1,866	102%
Affordable Housing Completed	605	1183	(578)	-49%
Affordable Housing Initiated	973	1626	(653)	-40%
Total	5278	4643	635	14%

The increase in FY 2019 units under development over FY 2018 is attributed to the large number of units that began construction in FY18.

The decrease in completed housing units in FY 2019 over FY 2018 is due to fewer units under construction being completed in FY 2019.

GOVERNMENT OF THE DISTRICT OF COLUMBIA HOUSING PRODUCTION TRUST FUND

Management's Discussion and Analysis September 30, 2019

The decrease in initiated housing units is due to less funding available in FY 2019 for new Affordable Housing projects than in FY 2018 and fewer housing units initiated.

FY 2020 OUTLOOK

Total revenue collection for FY 2020 was originally estimated at approximately \$77 million based on anticipated increases in dedicated tax collections. Revenues from loan repayments and other miscellaneous revenues are expected to yield approximately another \$10 million. Through the end of January 2020, collections appear to be running ahead of the original estimates. In addition, the Mayor is expected to provide another \$38.6 million in local funding to fund the HPTF - at \$116 million.

The Agency projects that approximately 1,000 new affordable housing units will be under development in FY 2020, with 1,500 units projected to be completed. The Agency anticipates selecting as many as 32 new multi-family development projects in 2020. The Agency estimates spending more than 150 million in HPTF funds in FY 2020.

This report is designed to provide a general financial overview of the District of Columbia Government's Housing Production Trust Fund. If you have any questions regarding this report, please contact Beth Spooner, Agency Fiscal Officer of the Department of Housing and Community Development at (202) 442-7173.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOUSING PRODUCTION TRUST FUND**

**Statement of Financial Position
As of September 30, 2019**

ASSETS

Cash and cash equivalents (restricted)	\$ 130,667,173
Investments (restricted)	2,146,900
Accounts receivable, net	252,310
Due from other funds	9,873,611
Other long- term assets/ Loans receivable, net	93,958,729
Total Assets	<u><u>\$ 236,898,723</u></u>

LIABILITIES

Unearned revenue	<u>\$ 93,958,729</u>
Total Liabilities	<u>93,958,729</u>

FUND BALANCE

Restricted fund balance	<u>142,939,994</u>
Total Liabilities and Fund Balance	<u><u>\$ 236,898,723</u></u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOUSING PRODUCTION TRUST FUND**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended September 30, 2019**

REVENUE

Deed recordation and transfer taxes	\$ 74,321,539
Investment income	58,709
Loan repayments and interest	6,269,447
Other - Inclusionary zoning fees	9,301,154
Total Revenue	<u>89,950,849</u>

EXPENDITURES

Economic development and regulation	150,558,561
Loans	-
Total Expenditures	<u>150,558,561</u>

Excess of Expenditures Over Revenues (60,607,712)

OTHER FINANCING SOURCES

Transfers in	36,150,839
Total Other Financing Sources	<u>36,150,839</u>

NET CHANGE IN FUND BALANCE (24,456,873)

Restricted Fund Balance at the beginning of the year	<u>167,396,867</u>
Restricted Fund Balance at the end of the Year	<u>\$ 142,939,994</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA HOUSING PRODUCTION TRUST FUND

Notes to the Fund Financial Statements For the Year Ended September 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Housing Production Trust Fund (the Fund), was established under the District of Columbia (the District) Housing Production Trust Fund Act of 1988, D.C. Law 7-202, D.C. Code § 42-2802. Under the District of Columbia Housing Act of 2002, D.C. Law 14-114, beginning on October 1, 2003, fifteen (15) percent of the District revenues from real property transfer and deed recordation taxes are dedicated to the Fund each fiscal year, less debt service.

The purpose of the Fund is to provide loans and grants to for-profit and nonprofit developers who are seeking to build or preserve existing affordable housing in the District.

Reporting Entity

The financial statements present only the Housing Production Trust Fund and do not purport to, and do not present fairly the financial position of the District as of September 30, 2019 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting and Measurement Focus

The Fund's activities are accounted for in the District's special revenue fund, a governmental fund type, which is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, considered by the District to be 60 days. Expenditures are recorded when the related liabilities are incurred.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and investments with maturities of 90 days or less.

Fund Balance

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund type Definitions*, the Fund's fund balance is classified as restricted. At September 30, 2019, the cumulative revenue exceeded the cumulative expenditures incurred, resulting in positive fund balance.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOUSING PRODUCTION TRUST FUND**

**Notes to the Fund Financial Statements
For the Year Ended September 30, 2019**

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

The Fund's cash is deposited into an invested pooled account with the District. In accordance with District policies, substantially all of its deposits were insured or collateralized with securities held by the District or by its agent in the name of the District.

3. ACCOUNTS RECEIVABLE

The District has a loan service provider that receives and tracks the majority of the loan repayments and balances. At September 30, 2019, the service provider had not remitted the September loan and interest payments totaling \$252,310 to the District before year-end.

4. INVESTMENTS

The restricted investment is the invested portion of available funds. The funds are restricted because resources in the Fund are restricted by law through enabling legislation for the purpose of providing financial assistance to a variety of affordable housing programs and opportunities. As of September 30, 2019, the Fund had \$2,146,900 invested in guaranteed investment contracts (Level 3), which are valued at fair value by discounting the related cash flows based on current yields of comparable instruments considering the creditworthiness of the issuer.

5. OTHER LONG-TERM ASSETS/LOANS RECEIVABLE

The Fund's other long-term assets consist of loans receivable as of September 30, 2019 as follows:

	Loan Amount	Allowance	Receivable
Amortized Loans	\$ 78,417,195	\$ (23,525,158)	\$ 54,892,036
Deferred Loans	771,863,337	(732,796,644)	39,066,693
Total	\$ 850,280,532	\$ (756,321,802)	\$ 93,958,729

- Amortized loans are required to be completely paid-off over a specific period of time at a predetermined interest rate.
- Deferred loans allow the borrower of a low-income eligible property to defer repayment of principal during construction, major rehabilitation or modification, and lease period.

GOVERNMENT OF THE DISTRICT OF COLUMBIA HOUSING PRODUCTION TRUST FUND

Notes to the Fund Financial Statements For the Year Ended September 30, 2019

In 2019, allowance for amortized loans was assessed at 30% based on delinquency and actual historical collections. Allowance for deferred loans was assessed at 0% of outstanding loans with scheduled repayments and 100% of outstanding loans with no scheduled repayments.

No loans were written off in 2019.

6. DUE FROM OTHER FUNDS

The Treasury transfers monthly revenues (deed recordation taxes and deed transfer taxes) from the Office of the Chief Financial Officer to the Fund. As of year-end, the Treasury had not remitted the September collections totaling \$9,873,611 to the Fund.

7. TRANSFERS FROM GENERAL FUND

The Fund received a pledge from the Mayor totaling \$100 million in fiscal year 2019. In addition to the annual dedicated deed recordation and transfer taxes from the District's general revenues, \$36,150,839 was transfers-in from the general fund for the year ended September 30, 2019.

8. COMMITMENTS AND CONTINGENCIES

The Fund has entered into agreements with developers whereby loan funds have been partially disbursed or are not yet disbursed. As of September 30, 2019, the total amount of undisbursed loans under executed agreements was \$103,551,422.

9. COSTS ALLOCATED FROM THE DISTRICT TO THE FUND

The Fund does not have any direct employees. Instead, direct labor costs are allocated from the District based on actual hours worked at the rate for salary and fringe benefits. Indirect labor and other overhead costs are also allocated to the Fund.

10. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Certain employees of the District are covered under a defined contribution pension plan as well as a postemployment benefit plan, which are sponsored by the District. The District prepares a separate comprehensive annual report, which can be obtained from the Office of the Chief Financial Officer at 1350 Pennsylvania Avenue, N.W., Suite 209, Washington D.C. 20004.

11. SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through the date this report was available for issuance, which was April 28, 2021. There are no material events that would have an effect on the financial statements.