

**HOME PURCHASE ASSISTANCE
PROGRAM FUND**

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
(WITH REPORT OF INDEPENDENT PUBLIC
ACCOUNTANTS)**



OIG

**FISCAL YEARS ENDED
SEPTEMBER 30, 2015 AND 2014**

**DANIEL W. LUCAS
INSPECTOR GENERAL**

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The mission of the Office of the Inspector General (OIG) is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District administration and operations; and
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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General



Inspector General

March 31, 2016

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report issued by SB & Company, LLC (SBC) on the Home Purchase Assistance Program Fund financial statement for the years ended September 30, 2015, and 2014 (OIG No. 16-1-06DB). SBC submitted this component report as part of our overall contract for the audit of the District of Columbia's general purpose financial statements for fiscal year 2015.

SBC opined that the Fund's financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SBC identified no weaknesses in internal control.

If you have any questions or need additional information, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Lucas", is written over a light blue circular stamp.

Daniel W. Lucas
Inspector General

DWL/lw

Enclosure

cc: See Distribution List

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Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management (via email)
Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC



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SEPTEMBER 30, 2015 AND 2014

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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 financial statements of the Government of the District of Columbia Home Purchase Assistance Program Fund (the Fund), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government of the District of Columbia Home Assistance Program Fund, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia, as of September 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

2014 Financial Statements

The accompanying financial statements of the Fund as of September 30, 2014 and for the year then ended were audited by other auditors whose report, dated October 28, 2015, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Washington, DC
January 28, 2016

SB & Company, LLC

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Management’s Discussion and Analysis
September 30, 2015 and 2014 (unaudited)**

The following is a discussion and analysis of the Government of the District of Columbia’s (District) Home Purchase Assistance Program Fund 0602 (the Fund) financial performance for the fiscal years ended September 30, 2015 and 2014. The financial statements and accompanying notes on pages 6 through 10 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 financial statements focus primarily on the sources, uses, and balances of current financial resources. The financial statements consist of a balance sheet 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.

2015 Financial Highlights

- Net loans receivable decreased by \$385,620 or 3%.
- There were no new loans issued in 2015.
- The Fund’s allowance methodology was changed in 2014 to fully reserve the deferred or non-amortizing loans and to increase the allowance on amortizing loans based on historical collection experience.
- Unearned Revenue recorded for the Fund was \$10,841,581, which correspond to the net loans receivable.

2014 Financial Highlights

- Net loans receivable decreased by \$8,715,935 or 44%.
- There were no new loans issued in 2014.
- The Fund’s allowance methodology was changed to fully reserve the deferred or non-amortizing loans and to increase the allowance on amortizing loans based on historical collection experience.
- Unearned Revenue recorded for the Fund was \$11,227,201, which correspond to the net loans receivable.

Condensed Balance Sheets as of September 30, 2015, 2014 and 2013

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>2015-2014</u>		<u>2014-2013</u>	
Total Assets	\$ 10,954,555	\$ 11,308,017	\$ 23,533,934	\$ (353,462)	-3%	\$ (12,225,917)	-52%
Total Liabilities	10,922,253	12,454,092	25,315,762	(1,531,839)	-12%	(12,861,670)	-51%
Fund Balance (Deficit)	\$ 32,302	\$ (1,146,075)	\$ (1,781,828)	\$ 1,178,377	103%	\$ 635,753	36%

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Management's Discussion and Analysis
September 30, 2015 and 2014 (unaudited)**

2015

Assets

- Net loans receivable decreased by \$385,620 or 3%. The loan allowance decreased by \$1,341,589. Deferred or non-amortizing loans are fully reserved and the allowance on amortizing loans is based on actual historical collection experience. Also, there were no new loans issued from the Fund during the year.

Liabilities

- Liabilities increased by \$1,531,839 or 12%, primarily due to an increase in unearned revenue, which corresponds to the increase in the net loans receivable.

2014

Assets

- Net loans receivable decreased by \$8,715,935 or 44%, due to a change in allowance methodology to fully reserve the deferred or non-amortizing loans and to increase the allowance on amortizing loans based on actual historical collection experience, resulting in an increase in the allowance of \$6,780,537. Also, there were no new loans issued from the Fund during the year.

Liabilities

- Liabilities decreased by \$12,861,670 or 51%, primarily due to a decrease in unearned revenue, which corresponds to the decrease in the net loans receivable, resulting from a change in the Fund's loans allowance methodology

**Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance
for the years ended September 30, 2015, 2014, and 2013**

	2015	2014	2013	Change			
				2015-2014		2014-2013	
Revenue							
Principal and Interest	\$1,633,092	\$ 1,682,175	\$ 1,223,361	\$ (49,083)	-3%	\$ 458,814	38%
Expenditures							
Salaries and Benefits	188,457	505,323	377,818	(316,866)	63%	127,505	34%
Intra-district, Professional, Contractual Services & other	266,258	541,099	120,051	(274,841)	51%	421,048	351%
Total Expenditures	<u>454,715</u>	<u>1,046,422</u>	<u>497,869</u>	<u>(591,707)</u>	<u>57%</u>	<u>548,552</u>	<u>110%</u>
Excess of Revenue Over Expenditures	<u>1,178,377</u>	<u>635,753</u>	<u>725,492</u>	<u>542,624</u>	<u>85%</u>	<u>(89,739)</u>	<u>-12%</u>
Net Changes in Fund Balance	<u>\$1,178,377</u>	<u>\$ 635,753</u>	<u>\$ 725,492</u>	<u>\$ 542,624</u>	<u>85%</u>	<u>\$ (\$89,739)</u>	<u>-12%</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Management's Discussion and Analysis
September 30, 2015 and 2014 (unaudited)**

2015

Expenditures

- Expenditures decreased by \$591,707 or 57% due to a reduction in administrative cost primarily as the result of the Fund not issuing new loans.

Revenues

- Revenue has decreased by \$49,083 or 3% due to a decrease in loan repayments.

2014

Expenditures

- Expenditures increased by \$548,552 or 110% due to a change in allocation of loan servicing costs.

Revenues

- Revenue increased by \$458,814 or 38% due to increase in repayments and loan payoffs received from borrowers as the housing market remained stable in the District of Columbia.

This report is designed to provide a general financial overview of the District of Columbia Government's Home Purchase Assistance Program Special Revenue Fund. If you have any questions regarding this report, please contact Doug Kemp, Agency Fiscal Officer of the Department of Housing and Community Development at (202) 442-7173.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Balance Sheets
September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Pooled Cash	\$ 44,792	\$ -
Loans Receivable, Net	10,841,581	11,227,201
Accounts Receivable	<u>68,182</u>	<u>80,816</u>
Total Assets	<u>\$ 10,954,555</u>	<u>\$ 11,308,017</u>
LIABILITIES		
Due to General Fund	\$ -	\$ 1,098,206
Accounts Payable	55,629	9,142
Accrued Expenses	25,043	119,543
Unearned Revenue	<u>10,841,581</u>	<u>11,227,201</u>
Total Liabilities	<u>10,922,253</u>	<u>12,454,092</u>
Fund Balance (Deficit)	<u>32,302</u>	<u>(1,146,075)</u>
Total Liabilities and Fund Balance	<u>\$ 10,954,555</u>	<u>\$ 11,308,017</u>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Statements of Revenues, Expenditures, and Changes in Fund Balance
For the Years Ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Revenue		
Principal and Interest	<u>\$ 1,633,092</u>	<u>\$ 1,682,175</u>
Total Revenue	<u>1,633,092</u>	<u>1,682,175</u>
Expenditures		
Salaries and Benefits	<u>188,457</u>	<u>505,323</u>
Professional, Contractual & Other Admin Expenses	<u>266,258</u>	<u>541,099</u>
Total Expenditures	<u>454,715</u>	<u>1,046,422</u>
Excess of Revenue Over Expenditures	<u>1,178,377</u>	<u>635,753</u>
Fund Balance (Deficit), Beginning	<u>(1,146,075)</u>	<u>(1,781,828)</u>
Fund Balance (Deficit), Ending	<u>\$ 32,302</u>	<u>\$ (1,146,075)</u>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Notes to Financial Statements
September 30, 2014 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Home Purchase Assistance Program Fund 0602 (the Fund), established under the District of Columbia (the District) Home Purchase Assistance Fund Act of 1978, D.C. law 2-103 (D.C. Code 45-2201 et seq.). Title 14 Chapter 25 of the D.C. Municipal Regulations (DCMR) provides rules for loans made under the Home Purchase Assistance Program. The Department of Housing and Community Development (DHCD) is responsible for the administration of the program.

The purpose of the District of Columbia Home Purchase Assistance Program Fund 0602 is to:

- Provide financial assistance to lower and moderate income residents of the District;
- Enable lower and moderate income residents to purchase decent, safe, and sanitary homes within the District;
- Enable lower and moderate income residents to make payment toward the purchase of a home within the District; and
- Enable lower and moderate income residents to make a share payment or other payment to a housing cooperative to secure occupancy rights to a home within the District as his or her principal place of residence.

The maximum amount of down payment and closing costs assistance that an eligible participant can receive under the program is \$50,000 and \$4,000, respectively.

Reporting Entity

The financial statements present only the District Fund 0602 and do not purport to, and do not present fairly the financial position of the District as of September 30, 2015 and 2014 and the changes in its financial position for the years 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 general 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 District to be one year. Expenditures are recorded when the related liabilities are incurred.

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.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Notes to Financial Statements
September 30, 2014 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unassigned. At September 30, 2015, the cumulative revenue exceeded the cumulative expenditures incurred, resulting in positive fund balance. At September 30, 2014, the cumulative expenditures incurred exceeded the fund balance.

2. POOLED CASH

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 service provider that receives and tracks the majority of the loan repayments and balances. At September 30, 2015 and 2014, the service provider had not remitted the September loan and interest payments totaling \$68,182 and \$80,816, respectively, to the District before year-end.

4. LOANS RECEIVABLE

The Fund's loans consist of two types: deferred and amortized.

- Deferred loans allow the borrower to defer payment of the principal until the property purchased ceases to be their principal residence. Except for employee deferred loans, deferred loans with a closing date subsequent to March 14, 1997, require repayment to begin after five years. Employee loans are provided under Employee Assisted Housing Program (EAHP) to employees of the District of Columbia who are first time homebuyers purchasing in the District. Repayments on employee loans are deferred until the housing unit is sold transferred or cease to be the borrower's principal residence. In FY 2015 and 2014, the Fund total principal amount of employee deferred loans were \$1,524,301 and \$1,664,985, respectively. There were no loans written off in 2015 and 2014.
- Amortized loans are required to be completely paid-off over a specific period of time at a predetermined interest rate.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
HOME PURCHASE ASSISTANCE PROGRAM FUND 0602**

**Notes to Financial Statements
September 30, 2014 and 2015**

4. LOANS RECEIVABLE (continued)

As of September 30, 2015 and 2014, loans receivable consisted of the following:

	2015		
	Loan Amount	Allowance	Net Loans Receivable
Amortized Loans	\$ 26,990,924	\$ (16,149,343)	\$ 10,841,581
Deferred Loans	11,041,976	(11,041,976)	-
Total	<u>\$ 38,032,900</u>	<u>\$ (27,191,319)</u>	<u>\$ 10,841,581</u>

	2014		
	Loan Amount	Allowance	Net Loans Receivable
Amortized Loans	\$ 28,068,003	\$ (16,840,802)	\$ 11,227,201
Deferred Loans	11,692,106	(11,692,106)	-
Total	<u>\$ 39,760,109</u>	<u>\$ (28,532,908)</u>	<u>\$ 11,227,201</u>

In 2015 and 2014, allowance for deferred loans was assessed at 100% of the total outstanding loans balance. Allowance for amortized loans was assessed based on delinquency and actual historical collections.

5. DUE FROM/TO GENERAL FUND

The Fund's cash is maintained by the District in a pooled cash account (see Note 2). The District does not allocate any interest to the program. In the prior fiscal years, as required by law to close the District's projected budget gap, the District transferred funds from the Fund's pooled cash account. At September 30, 2015, the total amount due from the District to the fund was \$44,792. At September 30, 2014, the amount owed to the District's appropriated general fund was \$1,098,206.

6. SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through the date this report was available for issuance which was January 28, 2016. There are no material events that would have an effect on the financial statements.



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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***

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

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 accompanying financial statements of the Government of the District of Columbia Home Purchase Assistance Program Fund (the Fund), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Washington, DC
January 28, 2016

A handwritten signature in black ink that reads "SB & Company, LLC".