

**Audited Financial Statements and  
Supplementary Information**

**HABITAT FOR HUMANITY OF  
WASHINGTON, D.C., INC.**

*June 30, 2015*

# Habitat for Humanity of Washington, D.C., Inc.

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Certified Public

Accountants

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# Independent Auditor's Report on the Financial Statements

To the Board of Directors  
Habitat for Humanity of Washington, D.C., Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Washington, D.C., Inc. (HFH WDC), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 HFH WDC'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 HFH WDC'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 Habitat for Humanity of Washington, D.C., Inc. as of June 30, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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# Habitat for Humanity of Washington, D.C., Inc.

## Statements of Financial Position

<b>June 30,</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 459,006	\$ 472,925
Pledges receivable	47,818	21,135
Grants receivable	197,490	338,208
Mortgages receivable, current portion	369,123	354,455
Prepaid expenses and other assets	159,542	224,655
Construction in progress	3,419,972	2,732,444
Property held for sale	-	118,934
Total current assets	4,652,951	4,262,756
Mortgages receivable, net of current portion	3,335,076	3,191,651
Property and equipment	50,293	40,639
Investment in joint venture	2,501,343	2,527,729
Debt issuance costs	69,771	78,368
<b>Total assets</b>	<b>\$ 10,609,434</b>	<b>\$ 10,101,143</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 235,659	\$ 380,095
Deposits and escrows payable	160,554	148,639
Notes payable, current portion	1,272,634	968,507
Total current liabilities	1,668,847	1,497,241
Deferred rent	-	7,500
Notes payable, net of current portion	4,639,486	3,747,452
Total liabilities	6,308,333	5,252,193
Commitments and contingencies	-	-
Net assets		
Unrestricted	3,366,783	4,217,723
Temporarily restricted	934,318	631,227
Total net assets	4,301,101	4,848,950
<b>Total liabilities and net assets</b>	<b>\$ 10,609,434</b>	<b>\$ 10,101,143</b>

See notes to the financial statements.

# Habitat for Humanity of Washington, D.C., Inc.

## Statement of Activities Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and support</b>			
Home sales	\$ 1,910,300	\$ -	\$ 1,910,300
Grants	103,462	460,000	563,462
Contributions	1,103,845	142,818	1,246,663
In-kind contributions	266,005		266,005
Other income	1,212		1,212
	3,384,824	602,818	3,987,642
Net assets released from restrictions	299,727	(299,727)	-
Total revenue and support	3,684,551	303,091	3,987,642
<b>Expense</b>			
Program services			
Construction	2,923,448		2,923,448
Non construction	808,901		808,901
Total program services	3,732,349	-	3,732,349
Supporting services			
Fund raising	483,311		483,311
General and administrative	319,831		319,831
Total supporting services	803,142	-	803,142
Total expense	4,535,491	-	4,535,491
<b>Change in net assets</b>	(850,940)	303,091	(547,849)
Net assets, July 1, 2014	4,217,723	631,227	4,848,950
<b>Net assets, June 30, 2015</b>	\$ 3,366,783	\$ 934,318	\$ 4,301,101

# Habitat for Humanity of Washington, D.C., Inc.

## Statement of Activities Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and support</b>			
Home sales	\$ 626,427	\$ -	\$ 626,427
Grants	682,729	146,500	829,229
Contributions	828,497	343,040	1,171,537
In-kind contributions	147,837		147,837
Other income	12,961		12,961
	2,298,451	489,540	2,787,991
Net assets released from restrictions	278,966	(278,966)	-
Total revenue and support	2,577,417	210,574	2,787,991
<b>Expense</b>			
Program services			
Construction	1,381,288		1,381,288
Non construction	674,231		674,231
Total program services	2,055,519	-	2,055,519
Supporting services			
Fund raising	319,093		319,093
General and administrative	330,637		330,637
Total supporting services	649,730	-	649,730
Total expense	2,705,249	-	2,705,249
<b>Change in net assets</b>	(127,832)	210,574	82,742
Net assets, July 1, 2013	4,345,555	420,653	4,766,208
<b>Net assets, June 30, 2014</b>	\$ 4,217,723	\$ 631,227	\$ 4,848,950

# Habitat for Humanity of Washington, D.C., Inc.

## Statement of Functional Expense

Year Ended June 30, 2015

	Program Services			Supporting Services		Total
	Construction	Non	Total	Fund raising	General and	
		construction			administrative	
Amortization of debt issuance costs	\$ 8,597	\$ -	\$ 8,597	\$ -	\$ -	\$ 8,597
Audit and accounting			-		33,588	33,588
Construction fees	15,959	25,726	41,685		980	42,665
Contract services	9,129	52,085	61,214	54,661	85,916	201,791
Cost of home sales	1,942,466		1,942,466			1,942,466
Depreciation and amortization	8,374	9,077	17,451	3,489	2,325	23,265
Discount on mortgages issued		13,095	13,095			13,095
Dues and publications	768	269	1,037	1,854	1,286	4,177
Employee benefits	75,937	93,635	169,572	28,776	26,533	224,881
Insurance	13,553	9,566	23,119	3,766	2,417	29,302
Interest	94,429		94,429			94,429
Legal	237,087		237,087			237,087
Office supplies	3,279	3,472	6,751	2,422	16,191	25,364
Other expenses	9,048	51,966	61,014	1,467	12,800	75,281
Postage	2,881		2,881	5,533	2,447	10,861
Printing and publication	282	8,678	8,960	14,795	957	24,712
Rent	78,995	28,804	107,799	11,497	6,988	126,284
Repairs and maintenance	11,091		11,091		1,170	12,261
Salaries	381,483	413,273	794,756	158,951	106,350	1,060,057
Special events		73,430	73,430	189,516		262,946
Software		220	220	215	840	1,275
Staff and board development	5,501	3,523	9,024	4,352	12,265	25,641
Telephone	14,213	82	14,295	1,040	4,297	19,632
Tithe to international affiliate		22,000	22,000			22,000
Travel and transportation	6,161		6,161	977	2,375	9,513
Utilities	4,215		4,215		106	4,321
<b>Total expense</b>	<b>\$ 2,923,448</b>	<b>\$ 808,901</b>	<b>\$ 3,732,349</b>	<b>\$ 483,311</b>	<b>\$ 319,831</b>	<b>\$ 4,535,491</b>

See notes to the financial statements.

# Habitat for Humanity of Washington, D.C., Inc.

## Statement of Functional Expense

Year Ended June 30, 2014

	Program Services			Supporting Services		Total
	Construction	Non construction	Total	Fund raising	General and administrative	
Amortization of debt issuance costs	\$ 8,597	\$ -	\$ 8,597	\$ -	\$ -	\$ 8,597
Audit and accounting			-		24,819	24,819
Construction fees	14,108	10,511	24,619		230	24,849
Contract services	13,155	68,288	81,443	91,370	82,518	255,331
Cost of home sales	560,805		560,805			560,805
Depreciation and amortization	8,327	10,410	18,737	1,850	2,545	23,132
Discount on mortgages issued		10,949	10,949			10,949
Dues and publications	582	2,100	2,682	2,233	1,720	6,635
Employee benefits	94,694	62,715	157,409	23,750	41,902	223,061
Insurance	13,674	2,893	16,567	7,558	1,467	25,592
Interest	58,601		58,601			58,601
Legal	136,881		136,881			136,881
Office supplies	1,587	346	1,933	4,770	19,037	25,740
Other expenses	20,018	7,910	27,928	3,533	18,419	49,880
Postage	1,284		1,284	35,502	2,119	38,905
Printing and publication			-	59,009		59,009
Rent	62,166	27,006	89,172	4,800	6,594	100,566
Repairs and maintenance	16,367		16,367		871	17,238
Salaries	338,957	446,268	785,225	74,121	104,908	964,254
Software			-		680	680
Special event			-	5,850		5,850
Staff and board development	6,274	7,835	14,109	2,284	14,026	30,419
Telephone	12,802		12,802	1,246	4,903	18,951
Tithe to international affiliate		17,000	17,000			17,000
Travel and transportation	7,846		7,846	1,217	3,879	12,942
Utilities	4,563		4,563			4,563
<b>Total expense</b>	<b>\$ 1,381,288</b>	<b>\$ 674,231</b>	<b>\$ 2,055,519</b>	<b>\$ 319,093</b>	<b>\$ 330,637</b>	<b>\$ 2,705,249</b>

See notes to the financial statements.



# Habitat for Humanity of Washington, D.C., Inc.

## Statements of Cash Flows

<b>Year Ended June 30,</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (547,849)	\$ 82,742
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on sale of property held for sale	(52,748)	-
Depreciation and amortization	23,265	23,132
Discount on mortgages issued	13,095	10,949
Amortization of discount on mortgages	(225,584)	(236,427)
Amortization of debt issuance costs	8,597	8,597
Changes in assets and liabilities:		
Accounts receivable	-	225,464
Pledges receivable	(26,683)	(4,169)
Grants receivable	140,718	(108,614)
Mortgages receivable	54,396	366,596
Prepaid expenses and other assets	65,113	(4,243)
Construction in progress	(687,528)	(1,460,050)
Proceeds from property held for sale	171,682	-
Accounts payable and accrued expenses	(144,436)	226,047
Deposits and escrows payable	11,915	16,561
Deferred rent	(7,500)	(15,000)
Total adjustments	(655,698)	(951,157)
Net cash used in operating activities	(1,203,547)	(868,415)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(32,919)	(10,956)
Distributions from joint venture	26,386	26,386
Net cash (used in) provided by investing activities	(6,533)	15,430
<b>Cash flows from financing activities</b>		
Proceeds from lines-of-credit	761,175	650,000
Payments on lines-of-credit	(561,175)	(300,000)
Proceeds from issuance of notes payable	1,650,241	587,450
Principal payments on notes payable	(654,080)	(139,180)
Net cash provided by financing activities	1,196,161	798,270
<b>Net decrease in cash and cash equivalents</b>	<b>(13,919)</b>	<b>(54,715)</b>
Cash and cash equivalents, beginning of year	472,925	527,640
<b>Cash and cash equivalents, end of year</b>	<b>\$ 459,006</b>	<b>\$ 472,925</b>
<b>Supplemental Disclosures of Cash Flows</b>		
Donated stock liquidated to cash	\$ 1,498	\$ 71,905
Cash paid during the year for interest	\$ 94,429	\$ 58,601

See notes to the financial statements.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Habitat for Humanity of Washington, D.C., Inc. (HFH WDC) was incorporated in 1990 in the District of Columbia as a non-profit organization. HFH WDC is committed to eliminating poverty housing and homelessness in the nation's capital by building affordable, energy- and resource-efficient homes for people in need.

HFH WDC sells all the homes it builds to eligible low to moderate income (LMI) households and may finance the home purchase by offering zero-interest mortgages; or assist the prospective homebuyer families in obtaining conventional mortgage financing. Prospective homebuyers make a \$500 down payment and contribute 300 hours of sweat equity towards the construction of their future home. Mortgage payments on HFH WDC originated loans are reinvested in a revolving fund to finance further construction and the acquisition of additional properties and building materials. In essence, HFH WDC is a construction company, a mortgage company, and a social service agency. Providing decent, affordable housing in the nation's capital requires several partners and generous funding from corporations, foundations, local government agencies, and individuals.

HFH WDC is affiliated with, but is not controlled by, Habitat for Humanity International, Inc. (the international affiliate), which is headquartered in Americus, GA. The international affiliate conducts projects worldwide and is a resource center for local affiliates such as HFH WDC. HFH WDC pays an annual tithe to the international affiliate.

Income taxes: HFH WDC is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Pledges receivable: Pledges receivable are unconditional promises to give and primarily consist of annual gifts from donors which are passed-through the United Way of the National Capital Area. Based on historical collections experience, management records the revenue from these gifts net of 25% of the total amount pledged. In addition, management periodically reviews the status of outstanding pledges receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the pledge. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected pledges. All pledges were deemed to be collectible at June 30, 2015 and 2014. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful pledges was recorded.

Home sales and cost of home sales: When home sales occur, the revenue is recorded and the related previously capitalized construction in progress is recognized as cost of home sales expense in the year of the sale. Furthermore, by design, home sales revenue is lower than cost of home sales expense and, therefore, HFH WDC subsidizes this difference through grants and contributions. The ratio of home sales over cost of home sales was 98% and 112% for the years ended June 30, 2015 and 2014, respectively.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions and grants: Contributions and grants are recognized when unconditionally promised to or received by HFH WDC. Contributions and grants are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Specifically, gifts of cash for the acquisition of long-lived assets are recorded as temporarily restricted and promises to give are recorded within temporarily restricted due to implied time restrictions. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when the time restrictions expire or when the purpose restrictions are met.

Functional allocation of expense: The costs of providing program and supporting services activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets. In particular, mortgages receivable totaling \$79,500 were reclassified from current to non-current assets. In addition, for the prior year statement of functional expense, special event expense totaling \$5,850 was reclassified from other expense to special event expense.

### B. CASH AND CASH EQUIVALENTS

For financial statement purposes, HFH WDC considers demand deposits and money market accounts to be cash and cash equivalents. HFH WDC maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss. However, HFH WDC has not experienced any such losses in the past, and does not believe it is exposed to any significant financial risk on these balances as a result of its credit risk strategy which includes maintaining several demand accounts with different banks.

Cash and cash equivalents consisted of the following at June 30,:

	2015	2014
Undesignated - operating	\$ 169,892	\$ 420,098
Designated		
Certificate of deposit (collateral for line-of-credit)	260,000	-
New Markets Tax Credit (NMTC)	29,114	52,501
Other program	-	326
Subtotal designated	<u>289,114</u>	<u>52,827</u>
	<u>\$ 459,006</u>	<u>\$ 472,925</u>

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### C. GRANTS RECEIVABLE

Grants receivable consist of both contributions and exchange transactions. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the receivable balance. All grants receivable were deemed to be collectible at June 30, 2015 and 2014. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful grants was recorded.

Grants receivable consisted of the following at June 30,:

	2015	2014
Exchange transactions receivable	\$ 85,490	\$ 218,708
Contributions receivable	<u>112,000</u>	<u>119,500</u>
	<u><b>\$ 197,490</b></u>	<u><b>\$ 338,208</b></u>

### D. MORTGAGES RECEIVABLE

Mortgages receivable consist of non-interest bearing promissory notes ranging in amounts from \$5,000 to \$142,673. Monthly payments range from \$42 to \$476, and maturities range from 2018 to 2044. The discount on mortgages receivable is determined using imputed interest rates (discount rates range from 6% to 9%). Amortization of the discount is included in home sales revenue and totaled \$225,584 and \$236,427 for the years ended June 30, 2015 and 2014, respectively. Because the mortgages are secured by the deeds of trust on the respective properties, management believes that no allowance for doubtful mortgages is necessary. Furthermore, HFH WDC outsources the administration, servicing, and collection of its mortgage receivables to a third party service organization.

Mortgages receivable consisted of the following at June 30,:

	2015	2014
Mortgages receivable	\$ 5,815,660	\$ 5,870,056
Less unamortized discount to net present value	<u>(2,111,461)</u>	<u>(2,323,950)</u>
	<u><b>\$ 3,704,199</b></u>	<u><b>\$ 3,546,106</b></u>

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### D. MORTGAGES RECEIVABLE - CONTINUED

Future collections of mortgages receivable are expected to be as follows:

Year Ending June 30,	Amount
2016	\$ 369,123
2017	356,596
2018	345,536
2019	342,907
2020	341,257
Thereafter	<u>4,060,241</u>
	<b><u>\$ 5,815,660</u></b>

### E. PROPERTY AND EQUIPMENT

Construction in progress: Costs associated with the acquisition, development, and construction of a project are capitalized. Such costs may include (1) pre-acquisition costs such as land acquisition or improvement; (2) infrastructure development or construction costs such as equipment rental, construction materials, or subcontractors; and (3) other costs such as interest, insurance, or construction benefits. Most of the projects included in construction in progress are currently expected to be completed and sold during the year ending June 30, 2016.

Construction in progress consisted of the following at June 30,:

	2015	2014
Ivy City (see Notes F & G)	\$ 2,613,861	\$ 988,084
46th Street	351,493	194,162
60th Street	289,118	-
28th Place	165,500	32,392
56th Place	<u>-</u>	<u>1,517,806</u>
	<b><u>\$ 3,419,972</u></b>	<b><u>\$ 2,732,444</u></b>

During July 2010, HFH WDC formed Mission First Ivy City, LLC (MFIC LLC) in order to conduct feasibility studies and perform general due diligence with respect to the Ivy City construction project. MFIC LLC was also formed to enter into agreements with the District of Columbia to facilitate the development of affordable housing units in Ivy City. HFH WDC has a 90.9% ownership interest in MFIC LLC but has made no capital contributions. Since its formation, MFIC LLC has had no financial activity and HFH WDC expects to formally and legally dissolve MFIC LLC in the near future.

Property held for sale: During the year ended June 30, 2015, HFH WDC sold the property it held for sale for a purchase price of \$230,000. As a result of the sale, HFH WDC received cash proceeds, net of related costs to sell the property, totaling \$171,682. Therefore, after deducting the book value of \$118,934, HFH WDC recorded a gain on the sale as part of home sales revenue, which totaled \$52,748 during the year ended June 30, 2015.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### E. PROPERTY AND EQUIPMENT - CONTINUED

*Property and equipment:* Acquisitions of property and equipment greater than \$2,500 and all expenditures for repairs, maintenance and betterments that materially prolong the useful lives of assets are capitalized at cost. Property and equipment, other than donated property, is stated at cost. Donated property is valued at fair market value at the date of the gift.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets: furniture and equipment – 3 to 5 years; software – 5 years; and vehicles – 3 to 7 years. Amortization of leasehold improvements is calculated using the straight-line method over the lesser of the remaining term of the office lease or the estimated useful life of the improvements.

Property and equipment consisted of the following at June 30,:

	2015	2014
Furniture and equipment	\$ 64,824	\$ 64,824
Software	71,522	71,522
Vehicles	69,809	69,809
Leasehold improvements	56,547	23,628
	<u>262,702</u>	<u>229,783</u>
Less accumulated depreciation and amortization	<u>(212,409)</u>	<u>(189,144)</u>
	<u>\$ 50,293</u>	<u>\$ 40,639</u>

### F. INVESTMENT IN JOINT VENTURE

HFH WDC participates in a New Markets Tax Credit (NMTC) program. NMTC programs were originally established as part of the Community Renewal Tax Relief Act of 2000 which were most recently extended with the Tax Increase Prevention Act of 2014 which extended the program until December 2014. The goal of NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in certified community development entities. The tax credit for investors equals 39% of the investment, and investors receive the tax credit over a seven year period. A community development entity (CDE) is required to participate and has the primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as Habitat affiliates to receive low-interest loans or investment capital from CDEs, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the NMTC program, HFH WDC has obtained the low-interest loan described in Note G. The loan is guaranteed by Smith NMTC Associates, LLC, which also provides administrative support for the NMTC program on behalf of the Habitat affiliates participating in the NMTC program.

In connection with the NMTC program, HFH WDC and five other Habitat affiliates formed HFHI-SA Leverage III, LLC (the LLC). The LLC is a joint venture which allows the participating Habitat affiliates to take advantage of NMTC financing. HFH WDC's initial investment in the joint venture totaled \$2,648,300. As a result, HFH WDC owns 15.1175% of the LLC and, because it owns less than 20%, HFH WDC records its investment in joint venture on the cost basis.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### F. INVESTMENT IN JOINT VENTURE - CONTINUED

HFH WDC's investment in the LLC consisted of the following as of and for the years ended June 30,:

	2015	2014
Investment in joint venture, beginning of year	\$ 2,527,729	\$ 2,554,115
Cash distribution	<u>(26,386)</u>	<u>(26,386)</u>
Investment in joint venture, end of year	<u>\$ 2,501,343</u>	<u>\$ 2,527,729</u>

### G. NOTES PAYABLE

HFH WDC has financed the acquisition or construction of various housing properties through several notes payable from various lenders such as financial institutions, the international affiliate, and other sources.

New Markets Tax Credit (NMTC): HFH WDC participates in the NMTC program described in Note F and has obtained a loan of \$3,247,478 payable to City First Capital 21, LLC, which is a certified community development entity. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. Semi-annual payments of interest only are required for the first seven years. Beginning December 1, 2016, principal and interest payments will be due based on an eight year loan amortization. The stated interest rate is 0.8126% and the loan matures on November 5, 2024. In connection with the loan, HFH WDC also incurred debt issuance costs of \$128,960 which have been capitalized and will be amortized over the term of the loan. Debt issuance costs are presented net of accumulated amortization of \$59,189 and \$50,592 at June 30, 2015 and 2014, respectively. HFH WDC was in compliance with the terms of its NMTC loan, including loan covenants, at June 30, 2015 and 2014.

International affiliate: HFH WDC has a total of five loans from its international affiliate which have various payment terms, interest rates, and maturity dates. Three of the international affiliate loans are non-interest bearing and the aggregate balance due on the non-interest bearing loans totaled \$17,542 and \$30,127 at June 30, 2015 and 2014, respectively. The remaining two international affiliate loans, which have market interest rates of 4.75% and 5.50%, are secured by related mortgages receivable. The aggregate balance due on the two secured interest-bearing international affiliate loans totaled \$864,220 and \$427,572 at June 30, 2015 and 2014, respectively. For the loans from the international, HFH WDC was in compliance with the applicable loan covenants at June 30, 2015 and 2014.

Lines-of-credit: HFH WDC had a \$760,000 line-of-credit from Citibank Bank which expired September 2014 and was not renewed or extended. The balance due on the Citibank line-of-credit was \$0 and \$350,000 at June 30, 2015 and 2014, respectively.

After the expiry of the Citibank line-of-credit, HFH WDC secured, in November 2014, a new line-of-credit facility with a similar limit of \$760,000 through Capital Bank. In conjunction with the terms of the Capital Bank line-of-credit, HFH WDC is required to maintain a \$260,000 certificate of deposit which is held as collateral. As described in the terms of the line-of-credit, certain other assets of HFH WDC have also been identified as collateral. Drawdowns on the line-of-credit totaled \$561,175 and payments made on the line-of-credit totaled \$11,175 during the year ended June 30, 2015. The balance due on the Capital Bank line-of-credit was \$550,000 at June 30, 2015.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### G. NOTES PAYABLE – CONTINUED

Forgivable – DC Department of Housing and Community Development (DHCD): HFH WDC obtained a forgivable loan not to exceed \$651,900 from DHCD to finance the construction of homes for families in Washington, D.C. who are in need of affordable housing. The balance due on the forgivable loan is equivalent to drawdowns on the forgivable loan net of amounts forgiven, if any. As homes sales occur in future years, portions of the loan will be forgiven through a prorated assumption by the buyer of the completed home in amounts equal to \$59,264 per home. The balance due on the forgivable loan equaled the drawdowns which totaled \$544,409 at June 30, 2015.

Institute for Community Economics (ICE): HFH WDC has a \$256,500 acquisition loan from ICE for the 60<sup>th</sup> Street property. The acquisition loan will mature on either the date of closing on the sales of the 60<sup>th</sup> Street property or October 29, 2015, whichever is earlier. The acquisition loan is secured by the 60<sup>th</sup> Street property and interest is calculated at an annual rate of 5.50%. No payments have been made and the balance due on the loan totaled \$256,600 at June 30, 2015.

HFH WDC had a \$600,000 construction loan from ICE which was secured by the properties at 56<sup>th</sup> Place. The balance due on the loan totaled \$459,450 at June 30, 2014. However, during the year ended June 30, 2015, in conjunction with the sale of the properties at 56<sup>th</sup> Place, HFH WDC paid the entire balance due on the loan.

City First Bank: HFH WDC obtained a \$1,000,000 construction loan from City First Bank which matures in July 2016. Interest on the construction loan is calculated monthly using the Wall Street Journal prime rate but the terms of the loan indicate the interest rate will not exceed 5.50%. The balance due on the construction loan equaled the drawdowns which totaled \$230,639 at June 30, 2015.

Pentagon Federal Credit Union (Pen Fed): HFH WDC obtained a \$128,000 acquisition loan from Pentagon Federal Credit Union (Pen Fed) for 46<sup>th</sup> Street. Advances under the acquisition loan incur interest at a variable rate equal to the Wall Street Journal prime rate plus 1% (initially set at 4.25%). Pen Fed is also one of the title sponsors for the special event which occurred in November 2014 (see Note J). Interest only payments are due monthly and the loan is secured by the property at 46<sup>th</sup> Street. Beginning on the 9<sup>th</sup> day of the month following the initial disbursement, interest only payments will be due and the entire outstanding loan balance will be due on January 31, 2024. The balance due on the loan totaled \$128,000 at June 30, 2015 and 2014.

Local Initiatives Support Corporation (LISC): HFH WDC obtained a \$100,000 loan from LISC for the Ivy City project. Drawdowns on the loan totaled \$100,000 and, as home sales have occurred, portions of the loan have been repaid in amounts equal to \$6,667 per home. During the years ended June 30, 2015 and 2014, HFH WDC repaid \$0 and \$26,668. The balance due on the loan totaled \$73,332 at June 30, 2015 and 2014.



# Habitat for Humanity of Washington, D.C

## Notes to the Financial Statements

### G. NOTES PAYABLE – CONTINUED

Notes payable, grouped by lender, consisted of the following at June 30,:

	<b>2015</b>	<b>2014</b>
New Markets Tax Credit (NMTC)	\$ 3,247,478	\$ 3,247,478
International affiliate	881,762	457,699
Lines-of-credit	550,000	350,000
Forgivable loan - DHCD	544,409	-
Institute for Community Economics (ICE)	256,500	459,450
City First Bank	230,639	-
Pentagon Federal Credit Union (Pen Fed)	128,000	128,000
Local Initiatives Support Corporatoin (LISC)	73,332	73,332
	<b><u>\$ 5,912,120</u></b>	<b><u>\$ 4,715,959</u></b>

Future maturities of notes payable are as follows:

Year Ending June 30,	Amount
2016	\$ 1,272,634
2017	594,476
2018	105,086
2019	110,613
2020	116,433
Thereafter	<u>3,712,878</u>
	<b><u>\$ 5,912,120</u></b>

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### H. NET ASSETS

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. However, HFH WDC has no board designated net assets.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by HFH WDC has been donor restricted by specified purpose or time limitations. Temporarily restricted net assets consisted of the following at June 30,:

	2015	2014
Purpose restricted	\$ 774,500	\$ 490,592
Time restricted		
With purpose restriction	112,000	119,500
Without purpose restriction	47,818	21,135
	<u>\$ 934,318</u>	<u>\$ 631,227</u>

Within the time restricted with purpose restriction category, the balance between years decreased \$7,500. Within this category of net assets, new contributions receivable totaling \$110,000 were added during the year ended June 30, 2015. Furthermore, collections of previous contributions receivable in this category totaling \$117,500 were transferred to the purpose restricted category during the year ended June 30, 2015.

Net assets were released from restrictions by incurring expenses satisfying the donor's restricted purpose or by the removal of a time restriction. Net assets released from restrictions consisted of the following for the years ended June 30,:

	2015	2014
Purpose restricted	\$ 278,592	\$ 262,000
Time restricted *	21,135	16,966
	<u>\$ 299,727</u>	<u>\$ 278,966</u>

\* Releases from restriction within the time restricted category only relate to those time restrictions that are without purpose restriction. Releases from restriction related to time restrictions that also have a purpose restriction are classified within the purpose restricted category.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### I. IN-KIND CONTRIBUTIONS

Recorded amounts: Donated services are recognized as contributions and expense in accordance with generally accepted accounting principles, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by HFH WDC.

Gifts of land, buildings, equipment, or construction materials are capitalized and reported as unrestricted in-kind contributions unless use of the assets are limited by donor-imposed restrictions. From time to time, donors provide in-kind contributions of land but these donated assets are not recorded by HFH WDC until all environmental and feasibility studies have occurred and all right of use issues have been resolved.

In-kind contributions consisted of the following for the years ended June 30.:

	<b>2015</b>	<b>2014</b>
Legal services	\$ 237,087	\$ 136,881
Donated materials and equipment	<u>28,918</u>	<u>10,956</u>
	<b><u>\$ 266,005</u></b>	<b><u>\$ 147,837</u></b>

Unrecorded amounts: HFH WDC relies on contributions of both time and expertise from its pool of volunteers who donate thousands of hours of service, the total value of which cannot be easily calculated or estimated, yet these volunteers contribute significantly to the work, impact, and success of HFH WDC. These volunteer services have not been reflected in the accompanying financial statements because the volunteer services provided do not meet the criteria necessary for recognition under generally accepted accounting principles.

# Habitat for Humanity of Washington, D.C

## Notes to the Financial Statements

### J. SPECIAL EVENT

During November 2014, HFH WDC hosted Raising the Roof, a special event to celebrate its 25 year anniversary which benefited both the Ivy City project and general operations. Therefore, gross proceeds paid by special event participants has been included in both unrestricted and temporarily restricted contributions.

The costs of direct benefits to donors, which includes meals, t-shirts, or other items provided to event participants have been included in program services expense. All other costs relating to the special event have been included in fund raising expense.

Special event revenue and expense consisted of the following for the years ended June 30,:

	<b>2015</b>	<b>2014 *</b>	<b>Cumulative</b>
Special event revenue			
Unrestricted	\$ 345,670	\$ 75,000	\$ 420,670
Temporarily restricted	344,000	175,000	519,000
Subtotal special event revenue	689,670	250,000	939,670
Special event expense			
Program services	(73,430)	-	(73,430)
Fund raising	(189,516)	(5,850)	(195,366)
Subtotal special event expense	(262,946)	(5,850)	(268,796)
	<b>\$ 426,724</b>	<b>\$ 244,150</b>	<b>\$ 670,874</b>

\* While the special event occurred during the year ended June 30, 2015, two donors provided or promised a total of \$250,000 prior to June 30, 2014. The gross amount of support from these two donors was reported within temporarily restricted contributions in the 2014 statement of activities.

### K. RETIREMENT PLAN

HFH WDC sponsors a defined contribution 401(k) plan for participants who meet age and length of service requirements. The Plan allows for elective deferrals which may be limited by the Internal Revenue Code. HFH WDC contributes a matching amount to the Plan which is equal to participant salary deferrals. HFH WDC's contributions to the Plan totaled \$26,695 and \$18,851 for the years ended June 30, 2015 and 2014, respectively.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

### L. COMMITMENTS AND CONTINGENCIES

Operating leases: HFH WDC leases office space at 2115 Ward Court under an operating lease which expires December 2019. Monthly base rental is \$7,277 and the office lease does not require any future escalations in base rentals.

HFH WDC also leases two warehouse spaces. One of the warehouse leases is month to month and the other warehouse lease was effective December 2014 and expires November 2017.

Rent expense relating to the operating leases for office space and warehouse space totaled \$126,284 and \$100,566 for the years ended June 30, 2015 and 2014, respectively.

Future minimum operating lease payments are as follows:

Year Ending June 30,	Amount
2016	\$ 128,950
2017	130,190
2018	105,410
2019	87,320
2020	<u>43,660</u>
	<b><u>\$ 495,530</u></b>

Construction contracts: HFH WDC has several construction contracts relating to various construction projects. The estimated combined total commitment under the construction contracts totaled \$431,980. In relation to these construction contracts, HFH WDC has recorded construction in progress totaling \$236,536 at June 30, 2015. Therefore, the remaining commitment on the construction contracts approximates \$195,600 at June 30, 2015.

Government grants: Certain programs are funded by agreements with either the Federal government or the government of the District of Columbia. Government grants may be subject to audit by the awarding agencies. Unless and until such audits have been completed, a contingency exists that HFH WDC could be obligated to refund amounts received in excess of allowable costs. However, management believes that no material liability will result from such audits, should they occur. However, HFH WDC had no federal awards during the years ended June 30, 2015 and 2014.

# Habitat for Humanity of Washington, D.C., Inc.

## Notes to the Financial Statements

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### M. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 3, 2015, which is the date the financial statements were available to be issued. The following information provides details related to notes payable transactions which were finalized in the subsequent period from July 1, 2015 through November 3, 2015.

International affiliate: During September 2015, HFH WDC obtained another loan from the international affiliate which totaled \$572,600. The loan will be paid over 10 years and has an interest rate of 4.0%.

Pen Fed: During October 2015, HFH WDC obtained an acquisition loan from Pen Fed which totaled \$1,302,720. The loan will be used to finance the acquisition of thirteen units of affordable residential housing. Advances under the acquisition loan incur interest at a variable rate equal to the Wall Street Journal prime rate plus 1%. Interest only payments are due monthly and the loan is secured by the properties under acquisition. The loan will mature in September 2025.

ICE: During November 2015, HFH WDC signed an amendment to the ICE acquisition loan described in Note G. The loan was amended to add another \$300,000 to the principal so that borrowings under the loan will total \$556,500. Furthermore, the amendment extended the maturity date from October 29, 2015 to September 30, 2016.

Contribution: During October 2015, HFH WDC signed an agreement with a construction company such that HFH WDC would be provided with a contribution, limited to \$1,400,000 in the aggregate, which is to be used for the acquisition, development, and construction of thirteen units of affordable residential housing. Under the terms of the agreement, HFH WDC must acquire the parcels of land and build the thirteen units in order to receive a contribution of \$107,692 for each unit it completes.

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

## Independent Auditor's Report on the Supplementary Information

To the Board of Directors  
Habitat for Humanity of Washington, D.C., Inc.

We have audited the financial statements of Habitat for Humanity of Washington, D.C., Inc. (HFH WDC) as of and for the years ended June 30, 2015 and 2014, and our report thereon dated November 3, 2015, which contained an unmodified opinion on those financial statements appears on page one. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on the following page 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 supplementary 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 supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Washington, DC  
November 3, 2015

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2021 L STREET, NW

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SUITE 400

.....  
WASHINGTON, DC

20036

.....  
TELEPHONE  
202/293-2200

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FACSIMILE  
202/293-2208

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# Habitat for Humanity of Washington, D.C., Inc.

## Statements of Revenue and Expense

<b>Year Ended June 30,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>Cumulative</b>
<b>Revenue and support</b>					
Home sales	\$ 1,910,300	\$ 626,427	\$ 1,825,151	\$ 1,935,450	\$ 6,297,328
Grants	563,462	829,229	817,270	1,289,267	3,499,228
Contributions	1,246,663	1,171,537	843,707	811,847	4,073,754
In-kind contributions	266,005	147,837	256,199	642,381	1,312,422
Other income	1,212	12,961	45,907	2,522	62,602
Total revenue and support	3,987,642	2,787,991	3,788,234	4,681,467	15,245,334
<b>Expense</b>					
Program services					
Construction	2,923,448	1,381,288	3,193,644	3,092,204	10,590,584
Non construction	808,901	674,231	689,306	1,018,411	3,190,849
Total program services	3,732,349	2,055,519	3,882,950	4,110,615	13,781,433
Supporting services					
Fund raising	483,311	319,093	347,912	357,595	1,507,911
General and administrative	319,831	330,637	344,401	298,338	1,293,207
Total supporting services	803,142	649,730	692,313	655,933	2,801,118
Total expense	4,535,491	2,705,249	4,575,263	4,766,548	16,582,551
<b>Change in net assets</b>	(547,849)	82,742	(787,029)	(85,081)	<b>\$ (1,337,217)</b>
Net assets, beginning of year	4,848,950	4,766,208	5,553,237	5,638,318	
<b>Net assets, end of year</b>	<b>\$ 4,301,101</b>	<b>\$ 4,848,950</b>	<b>\$ 4,766,208</b>	<b>\$ 5,553,237</b>	

### *Management's Discussion and Analysis:*

The change in net assets is affected by, and dependent upon, home sales which may vary widely from year to year. By design, home sales revenue is generally lower than the cost of home sales expense, which is reported in the statements of functional expense on pages 5 and 6. As a result, HFH WDC subsidizes this difference by obtaining grants and contributions. The following chart illustrates the ratio, over time, of home sales over the cost of home sales:

<b>Year Ended June 30,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>Cumulative</b>
Number of homes sold	7	2	9	10	28
Home sales revenue	\$ 1,910,300	\$ 626,427	\$ 1,825,151	\$ 1,935,450	\$ 6,297,328
Cost of home sales expense	\$ 1,942,466	\$ 560,805	\$ 2,269,916	\$ 2,256,522	\$ 7,029,709
Ratio of revenue over expense	98%	112%	80%	86%	90%