

**Audited Financial Statements and  
Supplementary Information**

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

*June 30, 2016*

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

## Contents

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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, 2016 and 2015, 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, 2016 and 2015 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.

Washington, DC  
December 6, 2016

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

## Statements of Financial Position

<i>June 30,</i>	2016	2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 335,459	\$ 459,006
Accounts receivable	74,298	331
Pledges receivable	44,900	47,818
Grants receivable	1,385,664	197,490
Mortgages receivable, current portion	352,563	369,123
Prepaid expenses and other assets	151,666	159,211
Construction in progress	3,032,512	3,419,972
Total current assets	5,377,062	4,652,951
Mortgages receivable, net of current portion	3,163,580	3,335,076
Property and equipment	44,916	50,293
Investment in joint venture	2,474,955	2,501,343
Debt issuance costs	61,173	69,771
<b>Total assets</b>	<b>\$ 11,121,686</b>	<b>\$ 10,609,434</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 324,797	\$ 235,659
Deposits and escrows payable	173,604	160,554
Notes payable, current portion	1,010,581	1,272,634
Total current liabilities	1,508,982	1,668,847
Notes payable, net of current portion	5,069,284	4,639,486
Total liabilities	6,578,266	6,308,333
Commitments and contingencies	-	-
Net assets		
Unrestricted	2,869,712	3,366,783
Temporarily restricted	1,673,708	934,318
Total net assets	4,543,420	4,301,101
<b>Total liabilities and net assets</b>	<b>\$ 11,121,686</b>	<b>\$ 10,609,434</b>

See notes to the financial statements.

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

## Statement of Activities Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and support</b>			
Home sales	\$ 2,919,953	\$ -	\$ 2,919,953
Contributions	607,221	1,537,208	2,144,429
In-kind contributions	348,911		348,911
Grants	82,500	75,000	157,500
Other income	920		920
	3,959,505	1,612,208	5,571,713
Net assets released from restrictions	872,818	(872,818)	-
Total revenue and support	4,832,323	739,390	5,571,713
<b>Expense</b>			
Program services			
Construction	3,976,120		3,976,120
Non construction	713,173		713,173
Total program services	4,689,293	-	4,689,293
Supporting services			
Fund raising	329,255		329,255
General and administrative	310,846		310,846
Total supporting services	640,101	-	640,101
Total expense	5,329,394	-	5,329,394
<b>Change in net assets</b>	(497,071)	739,390	242,319
Net assets, July 1, 2015	3,366,783	934,318	4,301,101
<b>Net assets, June 30, 2016</b>	<b>\$ 2,869,712</b>	<b>\$ 1,673,708</b>	<b>\$ 4,543,420</b>

# 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
Contributions	1,103,845	142,818	1,246,663
In-kind contributions	266,005		266,005
Grants	103,462	460,000	563,462
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 Functional Expense

Year Ended June 30, 2016

	Program Services			Supporting Services		Total
	Construction	Non construction	Total	Fund raising	General and administrative	
Amortization of debt issuance costs	\$ 8,598	\$ -	\$ 8,598	\$ -	\$ -	\$ 8,598
Audit and accounting			-		26,985	26,985
Construction fees	49,760	15,768	65,528		410	65,938
Contract services	7,553	43,051	50,604	19,776	68,595	138,975
Cost of home sales	2,864,242		2,864,242			2,864,242
Depreciation and amortization	8,098	9,532	17,630	3,799	2,400	23,829
Dues and publications	650	1,908	2,558	1,208	1,588	5,354
Employee benefits	88,405	97,692	186,097	34,593	25,372	246,062
Insurance	8,930	5,187	14,117	2,013	1,322	17,452
Interest	105,371		105,371			105,371
Legal	325,112	3,799	328,911			328,911
Office supplies	2,160	272	2,432	1,715	20,785	24,932
Other expenses	1,040	40,207	41,247	21,005	5,596	67,848
Postage	1,007	340	1,347	20,301	1,132	22,780
Printing and publication		4,158	4,158	40,275	255	44,688
Rent	76,949	34,056	111,005	13,099	8,732	132,836
Repairs and maintenance	10,169		10,169		1,224	11,393
Salaries	393,335	426,113	819,448	163,890	113,997	1,097,335
Software	895	4,135	5,030	190	55	5,275
Staff and board development	5,401	6,130	11,531	6,441	20,104	38,076
Telephone	9,261	60	9,321	70	4,408	13,799
Tithe to international affiliate		20,000	20,000		51	20,051
Travel and transportation	5,029	765	5,794	880	7,835	14,509
Utilities	4,155		4,155			4,155
<b>Total expense</b>	<b>\$ 3,976,120</b>	<b>\$ 713,173</b>	<b>\$ 4,689,293</b>	<b>\$ 329,255</b>	<b>\$ 310,846</b>	<b>\$ 5,329,394</b>

See notes to the financial statements.

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

## Statement of Functional Expense

Year Ended June 30, 2015

	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			-		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 event		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.

## Statements of Cash Flows

<i>Year Ended June 30,</i>	2016	2015
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 242,319	\$ (547,849)
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	23,829	23,265
Discount on mortgages issued	-	13,095
Amortization of discount on mortgages	(209,953)	(225,584)
Amortization of debt issuance costs	8,598	8,597
Changes in assets and liabilities:		
Accounts receivable	(73,967)	-
Pledges receivable	2,918	(26,683)
Grants receivable	(1,188,174)	140,718
Mortgages receivable	398,009	54,396
Prepaid expenses and other assets	7,545	65,113
Construction in progress	387,460	(687,528)
Proceeds from property held for sale	-	171,682
Accounts payable and accrued expenses	89,138	(144,436)
Deposits and escrows payable	13,050	11,915
Deferred rent	-	(7,500)
Total adjustments	(541,547)	(655,698)
Net cash used in operating activities	(299,228)	(1,203,547)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(18,452)	(32,919)
Distributions from joint venture	26,388	26,386
Net cash provided by (used in) investing activities	7,936	(6,533)
<b>Cash flows from financing activities</b>		
Proceeds from line-of-credit	200,000	761,175
Payments on line-of-credit	(750,000)	(561,175)
Proceeds from issuance of notes payable	2,082,129	1,650,241
Principal payments on notes payable	(1,364,384)	(654,080)
Net cash provided by financing activities	167,745	1,196,161
<b>Net decrease in cash and cash equivalents</b>	<b>(123,547)</b>	<b>(13,919)</b>
Cash and cash equivalents, beginning of year	459,006	472,925
<b>Cash and cash equivalents, end of year</b>	<b>\$ 335,459</b>	<b>\$ 459,006</b>
<b>Supplemental Disclosures of Cash Flows</b>		
Donated stock liquidated to cash	\$ 2,498	\$ 1,498
Cash paid during the year for interest	\$ 105,371	\$ 94,429

See notes to the financial statements.

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

## Notes to the Financial Statements

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### 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.

Accounts receivable: Accounts receivable for 2016 primarily consisted of amounts due in relation to the Ivy City construction. HFH WDC's management periodically reviews the status of all accounts receivable balances for collectability. Each balance is assessed based on management's knowledge of the customer, HFH WDC's relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances deemed to be uncollectible are charged directly to bad debt expense. Accounts receivable balances were deemed to be collectible at June 30, 2016 and 2015. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

Pledges receivable: Pledges receivable are unconditional promises to give and primarily consisted 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. Pledges receivable balances were deemed to be collectible at June 30, 2016 and 2015. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful pledges had been recorded.

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

## Notes to the Financial Statements

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

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. In general, home sales revenue is lower than cost of home sales expense and, therefore, HFH WDC subsidizes this difference through grants and contributions.

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, accounts receivable totaling \$331 were reclassified from prepaid expenses and other assets to accounts receivable.

### 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,:

	2016	2015
Undesignated - operating	\$ 63,440	\$ 169,892
Designated		
Certificate of deposit (collateral for line-of-credit)	260,000	260,000
New Markets Tax Credit (NMTC)	12,019	29,114
Subtotal designated	272,019	289,114
	<u>\$ 335,459</u>	<u>\$ 459,006</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, 2016 and 2015. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful grants had been recorded.

Grants receivable consisted of the following at June 30,:

	2016	2015
Contributions receivable	\$ 1,293,808	\$ 112,000
Exchange transactions receivable	91,856	85,490
	<u>\$ 1,385,664</u>	<u>\$ 197,490</u>

Conditional contributions receivable: During the year ended June 30, 2016, 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 acquires. During the year ended June 30, 2016, acquisition of twelve units occurred. Accordingly, \$1,292,308 was earned by HFH WDC and included in contribution receivable on the statement of financial position at June 30, 2016. HFH WDC has not recorded a contribution receivable at June 30, 2016 for the remaining unit because the final payment is conditional upon acquisition of the remaining unit which occurred after June 30, 2016.

### 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 \$209,953 and \$225,584 for the years ended June 30, 2016 and 2015, 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,:

	2016	2015
Mortgages receivable	\$ 5,417,651	\$ 5,815,660
Less unamortized discount to net present value	(1,901,508)	(2,111,461)
	<u>\$ 3,516,143</u>	<u>\$ 3,704,199</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
2017	\$ 352,563
2018	338,336
2019	334,927
2020	333,957
2021	325,511
Thereafter	<u>3,732,357</u>
	<b><u>\$ 5,417,651</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, 2018.

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

	2016	2015
Ivy City (see Notes F & G)	\$ 1,540,789	\$ 2,613,861
46th Street	612,361	351,493
60th Street	598,120	289,118
28th Place	275,322	165,500
Skyland Terrace	<u>5,920</u>	<u>-</u>
	<b><u>\$ 3,032,512</u></b>	<b><u>\$ 3,419,972</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 will formally and legally dissolve MFIC LLC during the year ending June 30, 2017 in conjunction with the forgiveness of the NMTC, as described in Note M.

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,:

	2016	2015
Furniture and equipment	\$ 83,276	\$ 64,824
Software	71,522	71,522
Vehicles	69,809	69,809
Leasehold improvements	56,547	56,547
	<u>281,154</u>	<u>262,702</u>
Less accumulated depreciation and amortization	<u>(236,238)</u>	<u>(212,409)</u>
	<u><b>\$ 44,916</b></u>	<u><b>\$ 50,293</b></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. The LLC will formally and legally dissolve during the year ending June 30, 2016 in conjunction with the forgiveness of the NMTC loan during the year ending June 30, 2016, as described in Note M.

# Habitat for Humanity of Washington, D.C

## 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,:

	2016	2015
Investment in joint venture, beginning of year	\$ 2,501,343	\$ 2,527,729
Cash distribution	<u>(26,388)</u>	<u>(26,386)</u>
Investment in joint venture, end of year	<u>\$ 2,474,955</u>	<u>\$ 2,501,343</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 as 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 \$67,787 and \$59,189 at June 30, 2016 and 2015, respectively. HFH WDC was in compliance with the terms of its NMTC loan, including loan covenants, at June 30, 2016 and 2015. Furthermore, HFH WDC has refinanced the NMTC loan during the year ending June 30, 2016, as described in Note M.

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, 2016 and 2015.

During October 2015, HFH WDC obtained an acquisition loan from Pen Fed which totaled \$1,302,720. The loan was used to finance the acquisition of twelve 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% and interest only payments are due monthly. The loan is secured by the properties under acquisition and will mature in September 2025. The balance due on the loan totaled \$913,100 at June 30, 2016.

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

## Notes to the Financial Statements

### G. NOTES PAYABLE – CONTINUED

International affiliate: HFH WDC had a total of five loans from its international affiliate which had various payment terms, interest rates, and maturity dates at June 30, 2015. Three of the international affiliate loans are non-interest bearing and the aggregate balance due on the non-interest bearing loans totaled \$17,542 at June 30, 2015. Two of these loans were paid off during the year ended June 30, 2016. The remaining affiliate non-interest bearing loan totaled \$7,500 at June 30, 2016. Of the remaining two international affiliate loans at June 30, 2015, one was refinanced with another loan from the international affiliate in September 2015. The loans, which have market interest rates of 4.75% and 4.00%, are secured by related mortgages receivable. The aggregate balance due on the two secured interest-bearing international affiliate loans totaled \$1,003,354 and \$864,220 at June 30, 2016 and 2015, respectively. For the loans from the international affiliate, HFH WDC was in compliance with the applicable loan covenants at June 30, 2016 and 2015.

Institute for Community Economics (ICE): HFH WDC has an acquisition loan from ICE for the 60<sup>th</sup> Street property. The loan will mature on either the date of closing on the sales of the 60<sup>th</sup> Street property or September 30, 2016, whichever is earlier. The loan is secured by the 60<sup>th</sup> Street property and interest is calculated at an annual rate of 5.50%. During November 2015, HFH WDC signed an amendment to extend the maturity date of the loan and to increase available construction financing from \$256,600 to \$556,500. No payments have been made on the loan since inception and the balance due on the loan totaled \$413,342 and \$256,500 at June 30, 2016 and 2015, respectively.

City First Enterprises: During the year ended June 30, 2016, HFH WDC obtained a \$294,500 pre-development loan from City First Enterprises for the 28<sup>th</sup> Place property. The loan is secured by the deed of trust related to the 28<sup>th</sup> Place property and interest is calculated at an annual rate of 6%. The balance due on the loan totaled \$294,500 at June 30, 2016. The loan was scheduled to mature on September 1, 2016. However, in July 2016, the loan was repaid.

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 \$59,260 and \$544,409 at June 30, 2016 and 2015, respectively.

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, 2016 and 2015, HFH WDC repaid \$60,001 and \$0. The balance due on the loan totaled \$13,331 and \$73,332 at June 30, 2016 and 2015, respectively.



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

## Notes to the Financial Statements

### G. NOTES PAYABLE – CONTINUED

Line-of-credit: HFH WDC has a line-of-credit facility with a limit of \$760,000 through Capital Bank which expires November 2016. 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 \$200,000 and \$761,175 and payments made on the line-of-credit totaled \$750,000 and \$561,175 during the years ended June 30, 2016 and 2015, respectively. The balance due on the Capital Bank line-of-credit was \$0 and \$550,000 at June 30, 2016 and 2015, respectively.

City First Bank: HFH WDC had a \$1,000,000 construction loan from City First Bank which matured in July 2016. Interest on the construction loan was 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 on the City First Bank loan was \$0 and \$230,639 at June 30, 2016 and 2015, respectively.

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

	2016	2015
New Markets Tax Credit (NMTC)	\$ 3,247,478	\$ 3,247,478
Pentagon Federal Credit Union (Pen Fed)	1,041,100	128,000
International affiliate	1,010,854	881,762
Institute for Community Economics (ICE)	413,342	256,500
City First Enterprises	294,500	-
Forgivable loan - DHCD	59,260	544,409
Local Initiatives Support Corporation (LISC)	13,331	73,332
Line-of-credit	-	550,000
City First Bank	-	230,639
	<u>\$ 6,079,865</u>	<u>\$ 5,912,120</u>

Future maturities of notes payable are as follows:

Year Ending June 30,	Amount
2017	\$ 1,010,581
2018	98,845
2019	103,229
2020	107,809
2021	112,594
Thereafter	<u>4,646,807</u>
	<u>\$ 6,079,865</u>

# 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. Net assets were released from restrictions by incurring expenses satisfying the donor's restricted purpose or by the removal of a time restriction. Transfers represent satisfaction of either time or purpose restriction but not both.

Temporarily restricted net assets consisted of the following at June 30, 2016:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Releases</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Purpose restricted	\$ 774,500	\$ 275,000	\$ (775,000)	\$ 60,500	\$ 335,000
Time restricted					
With purpose restriction	112,000	1,292,308	(50,000)	(1,294,156)	60,152
Without purpose restriction	47,818	44,900	(47,818)	1,233,656	1,278,556
	<u>\$ 934,318</u>	<u>\$ 1,612,208</u>	<u>\$ (872,818)</u>	<u>\$ -</u>	<u>\$ 1,673,708</u>

Temporarily restricted net assets consisted of the following at June 30, 2015:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Releases</u>	<u>Transfers</u>	<u>June 30, 2015</u>
Purpose restricted	\$ 490,592	\$ 445,000	\$ (278,592)	\$ 117,500	\$ 774,500
Time restricted					
With purpose restriction	119,500	110,000		(117,500)	112,000
Without purpose restriction	21,135	47,818	(21,135)		47,818
	<u>\$ 631,227</u>	<u>\$ 602,818</u>	<u>\$ (299,727)</u>	<u>\$ -</u>	<u>\$ 934,318</u>

# Habitat for Humanity of Washington, D.C

## 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,:

	2016	2015
Legal services	\$ 328,911	\$ 237,087
Donated materials, equipment, and travel	<u>20,000</u>	<u>28,918</u>
	<b><u>\$ 348,911</u></b>	<b><u>\$ 266,005</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. No special event occurred during the year ended June 30, 2016.

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, 2015:

Special event revenue	
Unrestricted	\$ 345,670
Temporarily restricted	344,000
Subtotal special event revenue	<u>689,670</u>
Special event expense	
Program services	(73,430)
Fund raising	(189,516)
Subtotal special event expense	<u>(262,946)</u>
	<u>\$ 426,724</u>

### 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 \$24,326 and \$26,695 for the years ended June 30, 2016 and 2015, 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 warehouse space which was effective December 2014 and expires November 2017.

Rent expense relating to the operating leases for office space and warehouse space totaled \$132,836 and \$126,284 for the years ended June 30, 2016 and 2015, respectively.

Future minimum operating lease payments are as follows:

Year Ending June 30,	Amount
2017	\$ 130,190
2018	105,410
2019	87,320
2020	43,660
	<hr/>
	<b>\$ 366,580</b>

Construction contracts: HFH WDC has several construction contracts relating to various construction projects. The estimated combined total commitment under the construction contracts totaled \$848,470. In relation to these construction contracts, HFH WDC has recorded construction in progress totaling \$566,220 at June 30, 2016. Therefore, the remaining commitment on the construction contracts approximates \$282,250 at June 30, 2016.

Government grants: HFH WDC has grants from the Federal government, which fund certain programs. Government grants may be subject to audit by the awarding agencies or their representatives. 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 an audit, should it occur. In addition, the schedule of expenditures of federal awards was less than \$750,000 for the year ended June 30, 2016. Therefore, a single audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) was not required.

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

## Notes to the Financial Statements

### M. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 6, 2016, 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, 2016 through December 6, 2016.

New Markets Tax Credit loans: During July 2016, HFH WDC obtained New Markets Tax Credit (NMTC) loans that provided four new loans totaling \$6,000,000. In addition, HFH WDC's obligation of \$3,247,478 under the old NMTC loan was forgiven by the lender on December 6, 2016.

The new NMTC loans bear an annual interest rate of 5.3% with various maturities ranging from 7 to 23 years. The proceeds from the new NMTC loans will be used for development of 1) construction of 23 condominium units; 2) construction of five homes for resale at 46th Street; 3) construction of 14 homes for resale at 28th Place; 4) rehabilitation of 4 condominium units at 60th Street; and 5) debt consolidation and payment which is described below. All of the homes will be constructed or rehabilitated in Washington, D.C.

Investment in Joint Venture: The new NMTC loans are partially secured by HFH WDC's investment in Mannitat Leveraged Lender, LLC, a new leveraged lender joint venture partnership between HFH WDC and Manna, Inc., which is the NMTC transaction's designated Community Development Entity (CDE). As a result of the new NMTC loans and the forgiveness of the old NMTC loan, HFH-SA Leverage III, LLC, the joint venture partnership related to the previous NMTC loan was dissolved on December 6, 2016.

Payments on notes payable: During July 2016, HFH WDC used a portion of the proceeds from the new NMTC loans to consolidate and payoff certain outstanding notes payable. The following notes payable and amounts were paid using proceeds from the new NMTC loans:

Institute for Community Economics (ICE)	\$	413,342
City First Enterprises		294,500
Pentagon Federal Credit Union (Pen Fed)		<u>128,000</u>
	\$	<u>835,842</u>

## **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, 2016 and 2015, and our report thereon dated December 6, 2016, 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  
December 6, 2016

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

## Statements of Revenue and Expense

<i>Year Ended June 30,</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Cumulative</b>
<b>Revenue and support</b>					
Home sales	\$ 2,919,953	\$ 1,910,300	\$ 626,427	\$ 1,825,151	\$ 7,281,831
Contributions	2,144,429	1,246,663	1,171,537	843,707	5,406,336
Grants	157,500	563,462	829,229	817,270	2,367,461
In-kind contributions	348,911	266,005	147,837	256,199	1,018,952
Other income	920	1,212	12,961	45,907	61,000
Total revenue and support	5,571,713	3,987,642	2,787,991	3,788,234	16,135,580
<b>Expense</b>					
Program services					
Construction	3,976,120	2,923,448	1,381,288	3,193,644	11,474,500
Non construction	713,173	808,901	674,231	689,306	2,885,611
Total program services	4,689,293	3,732,349	2,055,519	3,882,950	14,360,111
Supporting services					
Fund raising	329,255	483,311	319,093	347,912	1,479,571
General and administrative	310,846	319,831	330,637	344,401	1,305,715
Total supporting services	640,101	803,142	649,730	692,313	2,785,286
Total expense	5,329,394	4,535,491	2,705,249	4,575,263	17,145,397
<b>Change in net assets</b>	242,319	(547,849)	82,742	(787,029)	\$ (1,009,817)
Net assets, beginning of year	4,301,101	4,848,950	4,766,208	5,553,237	
<b>Net assets, end of year</b>	\$ 4,543,420	\$ 4,301,101	\$ 4,848,950	\$ 4,766,208	

### *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:

<i>Year Ended June 30,</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>Cumulative</b>
Number of homes sold	10	7	2	9	28
Home sales revenue	\$ 2,919,953	\$ 1,910,300	\$ 626,427	\$ 1,825,151	\$ 7,281,831
Cost of home sales expense	\$ 2,864,242	\$ 1,942,466	\$ 560,805	\$ 2,269,916	\$ 7,637,429
Ratio of revenue over expense	102%	98%	112%	80%	95%