**Audited Financial Statements and Supplementary Information**

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

***June 30, 2018***

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

## Contents

TATE & TRYON
A Professional Corporation
Certified Public Accountants and Consultants
2021 L Street, NW
Suite 400
Washington, DC 20036
Telephone 202/293-2200
Facsimile 202/293-2208
www.tatetryon.com

# 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, 2018 and 2017, 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, 2018 and 2017 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.

**Other Matters**

As described in Note M to the financial statements, management determined that HFH WDC will be able to continue as a going concern in the near future. In addition, as described in Note N to the financial statements, several subsequent events occurred during the period from July 1, 2018 and May 15, 2019. Our opinion is not modified with respect to these matters.

Tate & Tryon

Washington, DC
May 15, 2019

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

## Statements of Financial Position

| *June 30,* | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 1,337,453** | $ 3,952,313 |
| Accounts receivable | **20,821** | 631,125 |
| Contributions receivable | **59,000** | 33,673 |
| Mortgages receivable, current portion | **312,837** | 328,638 |
| Accrued interest on note receivable | **69,627** | - |
| Prepaid expenses and other assets | **137,799** | 185,742 |
| Construction in progress | **6,796,085** | 3,869,088 |
| Total current assets | **8,733,622** | 9,000,579 |
| Mortgages receivable, net of current portion | **2,780,711** | 2,975,636 |
| Note receivable | **593,000** | 593,000 |
| Property and equipment | **61,040** | 20,016 |
| Investment in joint venture | **132,667** | 500 |
| **Total assets** | **$ 12,301,040** | $ 12,589,731 |
| **Liabilities and Net Assets** | | |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | **$ 639,812** | $ 366,549 |
| Deposits and escrows payable | **202,055** | 187,329 |
| Notes payable, current portion | **2,780,250** | 522,897 |
| Total current liabilities | **3,622,117** | 1,076,775 |
| Notes payable, net of current portion | **5,538,661** | 7,337,541 |
| Total liabilities | **9,160,778** | 8,414,316 |
| Commitments and contingencies | **-** | - |
| Net assets | | |
| Unrestricted | **2,926,262** | 4,008,742 |
| Temporarily restricted | **214,000** | 166,673 |
| Total net assets | **3,140,262** | 4,175,415 |
| **Total liabilities and net assets** | **$ 12,301,040** | $ 12,589,731 |

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

## Statement of Activities

***Year Ended June 30, 2018***

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Revenue and support** | | | |
| Home sales | $ 1,190,862 | $ - | **$ 1,190,862** |
| Contributions | 1,023,878 | 39,000 | **1,062,878** |
| Grants | 233,299 | 175,000 | **408,299** |
| In-kind contributions | 176,137 | | **176,137** |
| Equity in earnings in joint venture | 132,167 | | **132,167** |
| Interest on promissory note | 69,627 | | **69,627** |
| Other income | 4,694 | | **4,694** |
| | 2,830,664 | 214,000 | **3,044,664** |
| Net assets released from restrictions | 166,673 | (166,673) | **-** |
| Total revenue and support | 2,997,337 | 47,327 | **3,044,664** |
| **Expense** | | | |
| Program services | | | |
| Construction | 2,202,916 | | **2,202,916** |
| Non construction | 910,723 | | **910,723** |
| Total program services | 3,113,639 | - | **3,113,639** |
| Supporting services | | | |
| Fund raising | 546,636 | | **546,636** |
| General and administrative | 419,542 | | **419,542** |
| Total supporting services | 966,178 | - | **966,178** |
| Total expense | 4,079,817 | - | **4,079,817** |
| **Change in net assets** | (1,082,480) | 47,327 | **(1,035,153)** |
| Net assets, July 1, 2017 | 4,008,742 | 166,673 | **4,175,415** |
| **Net assets, June 30, 2018** | $ 2,926,262 | $ 214,000 | **$ 3,140,262** |

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

## Statement of Activities

***Year Ended June 30, 2017***

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Revenue and support** | | | |
| Home sales | 1,965,885 | $ - | **$ 1,965,885** |
| Contributions | 699,750 | 274,364 | **974,114** |
| Grants | 124,000 | 85,000 | **209,000** |
| In-kind contributions | 222,013 | | **222,013** |
| Gain on forgiveness of NMTC loan | 728,198 | | **728,198** |
| Other income | 6,290 | | **6,290** |
| | 3,746,136 | 359,364 | **4,105,500** |
| Net assets released from restrictions | 1,866,399 | (1,866,399) | **-** |
| Total revenue and support | 5,612,535 | (1,507,035) | **4,105,500** |
| **Expense** | | | |
| Program services | | | |
| Construction | 3,015,146 | | **3,015,146** |
| Non construction | 723,671 | | **723,671** |
| Total program services | 3,738,817 | - | **3,738,817** |
| Supporting services | | | |
| Fund raising | 347,291 | | **347,291** |
| General and administrative | 367,598 | | **367,598** |
| Total supporting services | 714,889 | - | **714,889** |
| Total expense | 4,453,706 | - | **4,453,706** |
| **Change in net assets** | 1,158,829 | (1,507,035) | **(348,206)** |
| Net assets, July 1, 2016 | 2,849,913 | 1,673,708 | **4,523,621** |
| **Net assets, June 30, 2017** | $ 4,008,742 | $ 166,673 | **$ 4,175,415** |

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

## Statement of Functional Expense

***Year Ended June 30, 2018***

| | Program Services | | | Supporting Services | | Total |
|---|---|---|---|---|---|---|
| | Construction | Non construction | Total | Fund raising | General and administrative | |
| Amortization of debt issuance costs | $ 75,960 | $ - | $ 75,960 | $ - | $ - | $ 75,960 |
| Audit and accounting | | | | | 28,665 | 28,665 |
| Construction fees | 88,761 | 16,254 | 105,015 | | 929 | 105,944 |
| Contract services | 8,305 | 45,285 | 53,590 | 100,837 | 111,354 | 265,781 |
| Cost of home sales | 877,762 | | 877,762 | | | 877,762 |
| Depreciation and amortization | 5,417 | 5,899 | 11,316 | 9,124 | 1,327 | 21,767 |
| Dues and publications | | 49 | 49 | | 1,100 | 1,149 |
| Employee benefits | 125,357 | 127,954 | 253,311 | 48,433 | 35,110 | 336,854 |
| Insurance | 15,090 | 16,327 | 31,417 | 5,982 | 3,926 | 41,325 |
| Interest | 167,371 | | 167,371 | | | 167,371 |
| Legal | 174,895 | | 174,895 | | | 174,895 |
| Office supplies | 1,131 | | 1,131 | 213 | 16,075 | 17,419 |
| Other expenses | 20,236 | 5,790 | 26,026 | 9,278 | 30,239 | 65,543 |
| Postage | 350 | 347 | 697 | 24,592 | 1,457 | 26,746 |
| Printing and publication | | 652 | 652 | 28,364 | | 29,016 |
| Rent | 73,438 | 32,892 | 106,330 | 12,795 | 8,530 | 127,655 |
| Repairs and maintenance | 9,677 | 50,496 | 60,173 | | 1,112 | 61,285 |
| Salaries | 515,872 | 552,328 | 1,068,200 | 194,499 | 139,958 | 1,402,657 |
| Software | | 1,206 | 1,206 | 2,797 | | 4,003 |
| Special event | | 28,221 | 28,221 | 106,993 | | 135,214 |
| Staff and board development | 7,984 | 5,875 | 13,859 | 2,353 | 24,199 | 40,411 |
| Telephone | 10,807 | 282 | 11,089 | 109 | 5,687 | 16,885 |
| Tithe to international affiliate | | 20,000 | 20,000 | | | 20,000 |
| Travel and transportation | 13,113 | 866 | 13,979 | 267 | 6,108 | 20,354 |
| Utilities | 11,390 | | 11,390 | | 3,766 | 15,156 |
| **Total expense** | **$ 2,202,916** | **$ 910,723** | **$ 3,113,639** | **$ 546,636** | **$ 419,542** | **$ 4,079,817** |

*See notes to the financial statements.*

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

## Statement of Functional Expense

***Year Ended June 30, 2017***

| | Program Services | | | Supporting Services | | Total |
|---|---|---|---|---|---|---|
| | **Construction** | **Non construction** | **Total** | **Fund raising** | **General and administrative** | |
| Amortization of debt issuance costs | $ 79,536 | $ - | $ 79,536 | $ - | $ - | $ 79,536 |
| Audit and accounting | | | | | 34,390 | 34,390 |
| Construction fees | 44,002 | 20,088 | 64,090 | | 1,145 | 65,235 |
| Contract services | 8,522 | 48,968 | 57,490 | 55,226 | 61,573 | 174,289 |
| Cost of home sales | 1,925,786 | | 1,925,786 | | | 1,925,786 |
| Depreciation and amortization | 8,460 | 9,960 | 18,420 | 3,960 | 2,520 | 24,900 |
| Dues and publications | 578 | 799 | 1,377 | 1,496 | 1,298 | 4,171 |
| Employee benefits | 104,204 | 99,493 | 203,697 | 39,940 | 25,763 | 269,400 |
| Insurance | 12,676 | 8,220 | 20,896 | 2,737 | 3,171 | 26,804 |
| Interest | 107,547 | | 107,547 | | | 107,547 |
| Legal | 114,954 | | 114,954 | | | 114,954 |
| Office supplies | 6,393 | 989 | 7,382 | 787 | 23,550 | 31,719 |
| Other expenses | 7,710 | 10,385 | 18,095 | 1,832 | 25,781 | 45,708 |
| Postage | 2,363 | 325 | 2,688 | 19,849 | 987 | 23,524 |
| Printing and publication | | 17,435 | 17,435 | 20,248 | 873 | 38,556 |
| Rent | 77,313 | 33,838 | 111,151 | 13,099 | 8,732 | 132,982 |
| Repairs and maintenance | 15,416 | 6,363 | 21,779 | | 1,769 | 23,548 |
| Salaries | 467,284 | 436,535 | 903,819 | 180,764 | 129,963 | 1,214,546 |
| Software | 99 | 2,241 | 2,340 | 2,871 | 65 | 5,276 |
| Staff and board development | 3,228 | 1,798 | 5,026 | 3,440 | 27,678 | 36,144 |
| Telephone | 12,443 | 329 | 12,772 | 127 | 4,161 | 17,060 |
| Tithe to international affiliate | | 25,000 | 25,000 | | | 25,000 |
| Travel and transportation | 7,300 | 905 | 8,205 | 825 | 13,398 | 22,428 |
| Uncollected contributions receivable | | | | 90 | | 90 |
| Utilities | 9,332 | | 9,332 | | 781 | 10,113 |
| **Total expense** | **$ 3,015,146** | **$ 723,671** | **$ 3,738,817** | **$ 347,291** | **$ 367,598** | **$ 4,453,706** |

*See notes to the financial statements.*

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

## Statements of Cash Flows

| *Year Ended June 30,* | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | **$ (1,035,153)** | $ (348,206) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Uncollected contributions receivable | **-** | 90 |
| Amortization of discount on mortgages receivable | **(241,366)** | (214,885) |
| Donated construction materials inventory | **-** | (76,774) |
| Depreciation and amortization | **21,767** | 24,900 |
| Equity in earnings of joint venture | **(132,167)** | - |
| Amortization of debt issuance costs | **75,960** | 79,536 |
| Proceeds received for debt issuance costs | **196,208** | - |
| Loss on write-off of debt issuance costs | **(41,366)** | - |
| Forgiveness of DHCD loan in home sales | **-** | (59,260) |
| Gain on forgiveness of NMTC loan | **-** | (728,198) |
| Changes in assets and liabilities: | | |
| Accounts receivable | **610,304** | (561,921) |
| Contributions receivable | **(25,327)** | 1,396,801 |
| Mortgages receivable | **452,092** | 412,049 |
| Prepaid expenses and other assets | **47,943** | (34,076) |
| Construction in progress | **(2,926,997)** | (949,124) |
| Accounts payable and accrued expenses | **273,263** | 41,752 |
| Deposits and escrows payable | **14,726** | 13,725 |
| Total adjustments | **(1,674,960)** | (655,385) |
| Net cash used in operating activities | **(2,710,113)** | (1,003,591) |
| **Cash flows from investing activities** | | |
| Issuance of note receivable | **-** | (593,000) |
| Accrued interest on note receivable | **(69,627)** | - |
| Purchases of property and equipment | **(62,791)** | - |
| Distribution from joint venture | **-** | 13,266 |
| Cash contributed to joint venture | **-** | (500) |
| Net cash used in investing activities | **(132,418)** | (580,234) |
| **Cash flows from financing activities** | | |
| Proceeds from line-of-credit | **400,000** | 1,050,000 |
| Payments on line-of-credit | **-** | (550,000) |
| Proceeds from issuance of notes payable | **3,912,873** | 6,172,000 |
| Debt issuance costs | **-** | (520,000) |
| Principal payments on notes payable | **(4,085,202)** | (951,321) |
| Net cash provided by financing activities | **227,671** | 5,200,679 |
| **Net (decrease) increase in cash and cash equivalents** | **(2,614,860)** | 3,616,854 |
| Cash and cash equivalents, beginning of year | **3,952,313** | 335,459 |
| **Cash and cash equivalents, end of year** | **$ 1,337,453** | $ 3,952,313 |
| **Supplemental Disclosures of Cash Flows** | | |
| Cash paid during the year for interest | **$ 167,371** | $ 107,547 |

*See 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 developer, 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 and a sustainability fee of $15,000.

HFH WDC formed Mission First Ivy City, LLC (MFIC LLC) in July 2010 in order to conduct feasibility studies and perform general due diligence with respect to the Ivy City construction projects. HFH WDC has a 90.9% ownership interest in MFIC LLC but HFH WDC has made no capital contributions and, since its formation, MFIC LLC has been financially dormant. HFH WDC is in the process of formally and legally dissolving MFIC LLC.

*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 primarily consisted of 1) miscellaneous receivables such as refunds due from vendors (2018) or 2) amounts due in relation to home sales (2017). HFH WDC's management periodically reviews the status of all 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 and no bad debt expense was recorded as of and for the years ended June 30, 2018 and 2017. 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.

### A. Organization and Summary of Significant Accounting Policies - Continued

*Contributions receivable:* Contributions receivable consisted of unconditional promises to give such as pledges from donors or grants. Management periodically reviews the status of outstanding contributions receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the balance due. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected contributions receivable which totaled $0 and $90 for the years ended June 30, 2018 and 2017, respectively. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful contributions receivable had been recorded.

*Prepaid expenses and other assets:* Prepaid expenses and other assets includes a) deferred costs which will be expensed in future years; and b) donated construction materials inventory (see Note I for additional details related to in-kind contributions).

*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. Home sales revenue also includes the proceeds from the sale of homes if a home buyer has a mortgage with HFH WDC.

*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.

*Reclassifications:* Certain amounts 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, the following line items have been reclassified:

| | Previously Reported | Reclassification | Currently Reported |
|---|---|---|---|
| Assets | | | |
| Construction in progress | $ 4,058,410 | $ (189,322) | $ 3,869,088 |
| Note receivable | - | 593,000 | 593,000 |
| Investment in joint venture | 404,178 | (403,678) | 500 |
| | **$ 4,462,588** | **$ -** | **$ 4,462,588** |

*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.

## 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,:

| | 2018 | 2017 |
|---|---|---|
| Undesignated - operating | $ (30,020) | $ 109,433 |
| Designated | | |
| Certificate of deposit | 253,090 | 250,000 |
| New Markets Tax Credit (NMTC) programs | 1,114,383 | 3,592,880 |
| Subtotal designated | 1,367,473 | 3,842,880 |
| | **$ 1,337,453** | **$ 3,952,313** |

## C. Mortgages Receivable

Mortgages receivable consist of non-interest bearing promissory notes ranging in amounts from $5,000 to $142,673. HFH WDC outsources the administration, servicing, and collection of its mortgage receivables to a third-party service organization. Monthly mortgage payments range from $42 to $476, and maturities range from 2019 to 2029. The discount on mortgages receivable is determined using imputed interest rates (discount rates range from 6% to 9%). Amortization of the discount is included as a reduction of home sales revenue and totaled $241,366 and $214,855 for the years ended June 30, 2018 and 2017, 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 and no bad debt has been recorded as of and for the years ended June 30, 2018 and 2017.

Net mortgages receivable consisted of the following at June 30,:

| | 2018 | 2017 |
|---|---|---|
| Mortgages receivable | $ 4,602,047 | $ 5,042,682 |
| Less unamortized discount to net present value | (1,508,499) | (1,738,408) |
| | **$ 3,093,548** | **$ 3,304,274** |

### C. Mortgages Receivable - Continued

Collections of payments on mortgages receivable are expected to be as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2019 | $ 312,837 |
| 2020 | 313,138 |
| 2021 | 310,206 |
| 2022 | 303,372 |
| 2023 | 299,898 |
| Thereafter | 3,062,596 |
| | **$ 4,602,047** |

### D. 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. While construction projects may span several years, most of the individual units included in a project within construction in progress are expected to be completed and sold in future years.

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

| | **2018** | **2017** |
|---|---|---|
| Cental Place - IZ | $ 3,159,113 | $ 1,811,977 |
| 28th Place | 2,280,011 | 1,011,951 |
| 55th Place | 1,145,771 | - |
| Skyland Terrace | 195,804 | 95,806 |
| Donated inventory | 15,386 | 86,017 |
| 60th Street | - | 341,626 |
| 46th Street | - | 302,883 |
| 1720 Capitol Avenue | - | 218,828 |
| | **$ 6,796,085** | **$ 3,869,088** |

## D. 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,:

| | 2018 | 2017 |
|---|---|---|
| Furniture and equipment | $ 115,184 | $ 224,607 |
| Leasehold improvements | 45,053 | 56,547 |
| | 160,237 | 281,154 |
| Less accumulated depreciation and amortization | (99,197) | (261,138) |
| | **$ 61,040** | **$ 20,016** |

## E. Investments In Joint Ventures

HFH WDC participates in New Markets Tax Credit (NMTC) programs. NMTC programs were originally established as part of the Community Renewal Tax Relief Act of 2000 and the law covering NMTC programs was most recently extended until December 2019. 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 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 NMTC programs, HFH WDC obtained the low-interest loans described in Note G.

*HFHI-SA Leverage III, LLC (the LLC):* During the year ended June 30, 2009, HFH WDC and five other Habitat affiliates formed HFHI-SA Leverage III, LLC (the LLC). HFH WDC's initial investment in the joint venture totaled $2,648,300 and HFH WDC owned 15.1175% of the LLC. Because it owned less than 20%, HFH WDC recorded its investment in the LLC on the cost basis. Effective December 1, 2016, the NMTC statutory compliance period ended and the related note payable was forgiven and cancelled. Therefore, HFH WDC wrote off its investment in the LLC and the related note payable and debt issuance costs during the year ended June 30, 2017.

### E. INVESTMENTS IN JOINT VENTURES - CONTINUED

*Mannitat Leverage Lender, LLC (Mannitat):* During the year ended June 30, 2017, HFH WDC and Manna, Inc. formed Mannitat Leverage Lender, LLC (Mannitat). As part of the agreement, HFHWDC contributed cash of $500 such that HFH WDC owns 50% of Mannitat. Because HFH WDC does not have the ability to exercise undue influence over Mannitat, management determined that consolidated financial statements including both HFH WDC and Mannitat are not required to be presented, which is in accordance with accounting principles generally accepted in the United States of America. HFH WDC recorded its investment in Mannitat using the equity method.

Investments in joint ventures consisted of the following as of and for the years ended June 30,:

| | 2018 | 2017 |
|---|---|---|
| Investment in joint venture, beginning of year | $ 500 | $ 2,474,955 |
| Capital contribution to Mannitat | - | 500 |
| Equity in earnings of Mannitat | 132,167 | - |
| Cash distribution from the LLC | - | (13,266) |
| Write off investment in the LLC | - | (2,461,689) |
| Investment in joint venture, end of year | **$ 132,667** | **$ 500** |

### F. NOTE RECEIVABLE

In conjunction with the New Markets Tax Credits (NMTC) loans described in Note G, HFH WDC provided cash of $593,000 to Mannitat in return for a promissory note in the same amount. The promissory note matures in June 2025 when the balance will be payable in full. The note receivable accrues interest at an annual rate of 6.13%. In accordance with the terms of the promissory note, no principal payments are due until maturity and monthly interest only payments of $3,027 have been accrued. As a result, accrued interest on the note receivable totaled $69,627 at June 30, 2018.

Future maturities of the note receivable as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2019 | $ - |
| 2020 | - |
| 2021 | - |
| 2022 | - |
| 2023 | - |
| Thereafter | 593,000 |
| | **$ 593,000** |

## 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 local government.

*New Markets Tax Credits (NMTC) loans:* HFH WDC had four NMTC loans totaling $6,000,000 at June 30, 2017 from Jubilee Manna Sub-CDE I, LLC, which is a certified community development entity. The loan proceeds were to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. In accordance with the original terms of the loans, monthly payments of principal and interest were required for the first seven years. During the year ended June 30, 2018, HFH WDC paid the outstanding balance due on two of the four NMTC loans (Note A and Note B). In addition, HFH WDC amended the terms of the remaining two loans (Note C and Note D). For Note C, payments of interest only are required until June 15, 2025 and for Note D, payments of interest only are required until August 15, 2023. Interest on the loans accrues at an annual rate of 5.133%. HFH WDC was in compliance with the terms of the NMTC loans, including loan covenants. The following table summarizes the maturity dates and outstanding balances due at June 30, 2018 for the two NMTC loans in accordance with the amended terms of the loans:

| | |
|---|---|
| Note C (June 30, 2025) | $ 2,648,350 |
| Note D (July 13, 2046) | 1,260,924 |
| | **$ 3,909,274** |

In connection with the original four NMTC loans, debt issuance costs totaled $709,322 at June 30, 2017. As a result of the two NMTC loans that were paid, HFH WDC received proceeds in the form of credits related to the debt issuance costs for Note A and Note B which totaled $196,208 during the year ended June 30, 2018. The gross debt issuance costs related to Note C and Note D totaled $513,114 at June 30, 2018. Debt issuance costs will be amortized over 7.5 years. Debt issuance costs, net of accumulated amortization, totaled $402,566 at June 30, 2018, and have been presented as a reduction of notes payable.

*United Bank:* During the year ended June 30, 2018, HFH WDC obtained an acquisition loan from United Bank with a maximum draw of $2,500,000. The loan was used to finance the construction of affordable housing at Central Place and was secured by the Central Place property. The note matures on either the closing date for the related home sales or July 2019, whichever is sooner. The loan accrues interest at an annual rate equal to the 30-day LIBOR plus 3% (5.09% at June 30, 2018 and 4.23% at June 30, 2017). The outstanding balance due on the United Bank loan was $1,744,293 at June 30, 2018.

*International affiliate:* HFH WDC had two loans from the international affiliate (one loan accrued interest at an annual rate of 4.75% and the other loan was a zero-interest loan). The maturity dates of the two loans were December 31, 2024 and September 30, 2025 and both of the loans were secured by mortgages receivable. On June 8, 2018, the loans were refinanced, and HFH WDC obtained a new loan totaling $1,054,861 which matures June 8, 2028. In accordance with the terms of the refinanced loan, interest accrues at 4.75% for the first 5 years and then 4.5% for the remaining 5 years. In accordance with the terms of the refinanced loan, HFH WDC is required to prepay at least $300,000 of the principal balance due on the note within 24 months of closing. Furthermore, a principal payment of $100,000 is due by June 2019 and the remaining $200,000 is due by June 2020, unless the international affiliate agrees to release HFH WDC from the pre-payment requirement. HFH WDC was in compliance with the international affiliate loan covenants at June 30, 2018 and 2017. The outstanding balance due on the international affiliate loans was $1,054,861 and $908,706 at June 30, 2018 and 2017, respectively.

## G. Notes Payable - Continued

*Line-of-credit:* HFH WDC has a $1,500,000 line-of-credit available from Sandy Spring Bank which terminates in June 2020. Under the line-of-credit, HFH WDC is required to maintain a $250,000 certificate of deposit as partial collateral for the outstanding balance. As described in the terms of the line-of-credit agreement, certain other assets of HFH WDC have also been identified as collateral. Drawdowns on the line-of-credit totaled $400,000 and $500,000 during the years ended June 30, 2018 and 2017, respectively. The balance due on the line-of-credit was $900,000 and $500,000 at June 30, 2018 and 2017, respectively.

*Pentagon Federal Credit Union (Pen Fed):* HFH WDC has an acquisition loan from Pen Fed with a maximum draw of $1,302,720 which is secured by the related acquired properties. The loan was used for acquisition of properties. Advances under the acquisition loan accrue interest at a variable rate equal to the Wall Street Journal prime rate plus 1% and monthly interest only payments are required until September 2025, the maturity date of the loan. The outstanding balance due on the Pen Fed loan was $880,100 and $1,085,100 at June 30, 2018 and 2017, respectively.

*DC Department of Housing and Community Development (DHCD):* HFH WDC has a forgivable loan from DHCD with a maximum draw of $400,000. The loan was used to finance the construction of homes for families in Washington, D.C. in accordance with the Housing Protection Trust Fund (HPTF) program. As homes sales occur, portions of the loan will be forgiven through a prorated assumption of the loan by the buyers of the completed homes. Home buyers will assume portions of the loan in accordance with the terms of their home sale. No amounts have been forgiven and the balance due on the forgivable loan was $213,020 at June 30, 2018.

*Ally Financial:* During the year ended June 30, 2018, HFH WDC financed the purchase of a van that will be used in its home repairs program. The purchase price, including applicable taxes and fees, was $20,669. The auto loan matures on April 22, 2022 and interest accrues at an annual rate of 7.62%. Payments of principal and interest of $502 are due monthly. The outstanding balance due on the auto loan was $19,929 at June 30, 2018.

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

| | 2018 | 2017 |
|---|---|---|
| New Markets Tax Credits (NMTC) loans | $ 3,909,274 | $ 6,000,000 |
| Less debt issuance costs, net | (402,566) | (633,368) |
| | 3,506,708 | 5,366,632 |
| United Bank | 1,744,293 | - |
| International affiliate | 1,054,861 | 908,706 |
| Sandy Spring Bank | 900,000 | 500,000 |
| Pentagon Federal Credit Union | 880,100 | 1,085,100 |
| DHCD | 213,020 | - |
| Ally Financial | 19,929 | - |
| | **$ 8,318,911** | **$ 7,860,438** |

### G. NOTES PAYABLE - CONTINUED

Future maturities of notes payable and the related amortization of debt issuance costs are as follows:

| Year Ending June 30, | Payments of Principal | Amortization of Debt Issuance | Notes Payable |
|---|---|---|---|
| 2019 | $ 2,835,524 | $ (55,274) | $ 2,780,250 |
| 2020 | 508,358 | (55,274) | 453,084 |
| 2021 | 99,364 | (55,274) | 44,090 |
| 2022 | 103,121 | (55,274) | 47,847 |
| 2023 | 102,522 | (55,274) | 47,248 |
| Thereafter | 5,072,588 | (126,196) | 4,946,392 |
| | **$ 8,721,477** | **$ (402,566)** | **$ 8,318,911** |

### 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 as of and for the years ended June 30,:

| **2018** | **Beginning Balance** | **Additions** | **Releases** | **Ending Balance** |
|---|---|---|---|---|
| Purpose restricted | $ 133,000 | $ 155,000 | $ (133,000) | $ 155,000 |
| Time restricted | 33,673 | 59,000 | (33,673) | 59,000 |
| | **$ 166,673** | **$ 214,000** | **$ (166,673)** | **$ 214,000** |

| **2017** | **Beginning Balance** | **Additions** | **Releases** | **Ending Balance** |
|---|---|---|---|---|
| Purpose restricted | $ 335,000 | $ 218,000 | $ (420,000) | $ 133,000 |
| Time restricted | | | | |
| Without purpose restriction | 1,278,556 | 141,364 | (1,386,247) | 33,673 |
| With purpose restriction | 60,152 | | (60,152) | - |
| | **$ 1,673,708** | **$ 359,364** | **$ (1,866,399)** | **$ 166,673** |

### 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,:

| | 2018 | 2017 |
|---|---|---|
| Legal services | $ 174,895 | $ 114,954 |
| Unreimbursed CEO travel expenses | 1,242 | - |
| Donated materials (in inventory) | - | 76,774 |
| Donated equipment (not capitalized) | - | 30,285 |
| | **$ 176,137** | **$ 222,013** |

*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.

### J. 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 $48,628 and $32,119 for the years ended June 30, 2018 and 2017, respectively.

## K. 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 expires January 2021. Monthly base is $3,825 and requires escalation of 3% each year.

Rent expense relating to the operating leases for office space and warehouse space totaled $127,655 and $132,982 for the years ended June 30, 2018 and 2017, respectively.

Future minimum operating lease payments are as follows:

| Year Ending June 30, | Office | Warehouse | Total |
|---|---|---|---|
| 2019 | $ 87,320 | $ 46,470 | $ 133,790 |
| 2020 | 43,670 | 47,870 | 91,540 |
| 2021 | - | 28,400 | 28,400 |
| | **$ 130,990** | **$ 122,740** | **$ 253,730** |

*Construction contracts:* HFH WDC has committed to several construction contracts relating to various home building projects. The estimated combined total commitment under the construction contracts totaled $2,919,330. In relation to these construction contracts, HFH WDC has already paid and, therefore, has recorded construction in progress totaling $2,071,753 at June 30, 2018. Therefore, the remaining unpaid commitment on the construction contracts approximates $847,578 at June 30, 2018.

## L. Special Event

During September 2017, HFH WDC held an event referred to as *Women Build: She Nailed It,* which raised unrestricted 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 year ended June 30, 2018:

| | |
|---|---|
| Special event revenue | $ 571,495 |
| Special event expense | |
| Program services | (28,221) |
| Fund raising | (106,993) |
| Subtotal special event expense | (135,214) |
| | **$ 436,281** |

### M. Going Concern Consideration

Cash plus short-term receivables was approximately $1.7 million while accounts payable and accrued expenses plus short-term notes payable was approximately $3.6 million at June 30, 2018. In other words, without context, it appears that HFH WDC could have significant difficulty paying short-term obligations. Furthermore, HFH WDC has reported losses in the statements of activities for 2017 and 2018. In addition to its financial condition, over the last few years, HFH WDC has struggled to obtain unrestricted contributions from donors. The Chief Development Officer position has experienced turn over, which makes fundraising unrestricted dollars even more difficult. In summary, HFH WDC has become highly leveraged and has experienced cash flow and fund raising difficulties.

Management has considered HFH WDC's ability to continue as a going concern through May 15, 2020. HFH WDC has implemented the following steps to alleviate any substantial doubt about its ability to continue as a going concern.

- HFW HDC will be celebrating its 30$^{th}$ Anniversary in November 2019 and expects to receive unrestricted contributions of approximately $1 million from donors in conjunction with its 30$^{th}$ Anniversary Gala.

- HFH WDC has reduced overhead costs during 2019 by 20% resulting in an annual cost savings of approximately $500,000.

- HFH WDC will optimize home sales revenue by combining Workforce housing (for home buyers who are gainfully employed) with lower Area Median Income (AMI) housing, which will allow HFH WDC to maximize the value of every fundraising dollar.

- HFH WDC will reduce construction costs by constantly improving efficiency in the construction process. This is particularly important in the context of the volunteer-based building program.

- HFH WDC will also increase alternative program revenue through the new Home Repair and Financial Literacy programs, which were launched during the year ending June 30, 2019. Projected net income for these programs is estimated to exceed $350,000 and will be funded by grants and earned income during the years ending June 30, 2019 and 2020.

Management believes that HFH WDC will be successful in implementing its plans to alleviate going concern. Therefore, the financial statements have been presented on a going concern basis. Accordingly, no adjustments have been made to the financial statements to report the recoverability and classification of the assets or the settlement and classification of liabilities that would be necessary in the event that HFH WDC is not able to meet its obligations when they become due.

## N. Subsequent Events

Subsequent events have been evaluated through May 15, 2019, which is the date the financial statements were available to be issued. The following information provides details related to transactions which were finalized in the subsequent period from July 1, 2018 through May 15, 2019.

*United Bank loan:* Through April 30, 2019, HFH WDC has repaid approximately $1,679,600 of the outstanding balance due on the United Bank loan.

*Affiliate loan:* On November 6, 2018, HFH WDC obtained a $150,000 unsecured promissory note from the Northern Virginia affiliate. The loan was provided to HFH WDC for short-term working capital needs and accrue interest at a rate of 5.00%. The Northern Virginia affiliate loan was repaid within 120 days of issuance (during March 2019).

*J Street Development grant:* During October 2018, HFH WDC signed a grant agreement from J Street Development. HFH WDC expects that in June 2019, the donor will provide funding of $900,000 to support the development of affordable housing units.

*DHCD grant:* HFH WDC has a grant agreement from DHCD to be the Administrator for the Critical Home Repairs Initiative for Home Preservation (CHRI). The grant provides funding of $1,000,000 between June 2018 and June 2019. The grant is subject to the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and, as such, will require a single audit if expenditures under the grant exceed $750,000 during the year ending June 30, 2019.

TATE
&
TRYON
A Professional Corporation
Certified Public
Accountants
and Consultants
2021 L Street, NW
Suite 400
WASHINGTON, DC
20036
TELEPHONE
202/293-2200
FACSIMILE
202/293-2208
WWW.TATETRYON.COM

# 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, 2018 and 2017, and our report thereon dated May 15, 2019, 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.

Tate & Tryon

Washington, DC
May 15, 2019

*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. 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:

| *Year Ended June 30,* | 2018 | 2017 | 2016 | 2015 | Cumulative |
|---|---|---|---|---|---|
| **Revenue and support** | | | | | |
| Home sales | $ 1,190,862 | $ 1,965,885 | $ 2,934,002 | $ 1,910,300 | **$ 8,001,049** |
| Contributions | 1,062,878 | 974,114 | 2,139,335 | 1,246,663 | **5,422,990** |
| Grants | 408,299 | 209,000 | 157,500 | 563,462 | **1,338,261** |
| In-kind contributions | 176,137 | 222,013 | 348,911 | 266,005 | **1,013,066** |
| Gain on forgiveness of NMTC loan | | 728,198 | | | **728,198** |
| Equity in earnings in joint venture | 132,167 | | | | **132,167** |
| Interst income | 69,627 | | | | **69,627** |
| Other income | 4,694 | 6,290 | 920 | 1,212 | **13,116** |
| Total revenue and support | 3,044,664 | 4,105,500 | 5,580,668 | 3,987,642 | **16,718,474** |
| **Expense** | | | | | |
| Program services | | | | | |
| Construction | 2,202,916 | 3,015,146 | 4,037,636 | 2,923,448 | **12,179,146** |
| Non construction | 910,723 | 723,671 | 680,411 | 808,901 | **3,123,706** |
| Total program services | 3,113,639 | 3,738,817 | 4,718,047 | 3,732,349 | **15,302,852** |
| Supporting services | | | | | |
| Fund raising | 546,636 | 347,291 | 329,255 | 483,311 | **1,706,493** |
| General and administrative | 419,542 | 367,598 | 310,846 | 319,831 | **1,417,817** |
| Total supporting services | 966,178 | 714,889 | 640,101 | 803,142 | **3,124,310** |
| Total expense | 4,079,817 | 4,453,706 | 5,358,148 | 4,535,491 | **18,427,162** |
| **Change in net assets** | (1,035,153) | (348,206) | 222,520 | (547,849) | **$ (1,708,688)** |
| Net assets, beginning of year | 4,175,415 | 4,523,621 | 4,301,101 | 4,848,950 | |
| **Net assets, end of year** | **$ 3,140,262** | **$ 4,175,415** | **$ 4,523,621** | **$ 4,301,101** | |

| *Year Ended June 30,* | 2018 | 2017 | 2016 | 2015 | Cumulative |
|---|---|---|---|---|---|
| Number of homes sold | 4 | 10 | 7 | 2 | **23** |
| Home sales revenue | $ 1,190,862 | $ 1,965,885 | $ 2,934,002 | $ 1,910,300 | **$ 8,001,049** |
| Cost of home sales expense | $ 877,762 | $ 1,925,786 | $ 2,859,148 | $ 1,942,466 | **$ 7,605,162** |
| Ratio of revenue over expense | 136% | 102% | 103% | 98% | **105%** |