



FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR 2018)

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Washington, D.C., Inc. (HFH WDC), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2019 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

HFH WDC's 2018 financial statements were audited by other auditors whose report dated May 15, 2019, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
January 9, 2020

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents - unrestricted	\$ 219,378	\$ --
Cash and cash equivalents - restricted	1,157,358	1,337,453
Accounts receivable and other current assets	937,287	158,620
Grants and pledges receivable	189,392	59,000
Mortgages receivable, current portion	305,747	312,837
Accrued interest on note receivable	105,954	69,627
Construction in progress	5,271,143	6,796,085
Total Current Assets	8,186,259	8,733,622
Mortgages receivable, net of current portion	2,609,892	2,780,711
Note receivable	593,000	593,000
Property and equipment, net	41,568	61,040
Investment in joint venture	214,128	132,667
Total Assets	\$ 11,644,847	\$ 12,301,040
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 215,106	\$ 536,221
Line of credit	1,295,000	900,000
Deposits and escrows payable	208,434	202,055
Other current liabilities	64,341	103,591
Notes payable, current portion	495,279	1,880,250
Total Current Liabilities	2,278,160	3,622,117
Notes payable, net of current portion	5,681,016	5,538,661
Total Liabilities	7,959,176	9,160,778
Net Assets		
Net Assets Without Donor Restrictions	2,327,761	2,926,262
Net Assets With Donor Restrictions	1,357,910	214,000
Total Net Assets	3,685,671	3,140,262
Total Liabilities and Net Assets	\$ 11,644,847	\$ 12,301,040

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

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support				
Sale of homes	\$ 2,906,475	\$ --	\$ 2,906,475	\$ 1,190,862
Home repair programs	178,774	--	178,774	118,299
Contributions	782,338	1,110,500	1,892,838	1,062,878
Grants	692,904	375,000	1,067,904	290,000
In-kind contributions	151,576	--	151,576	176,137
Other income	214,175	--	214,175	206,488
Net assets released from restrictions:				
Satisfaction of program restrictions	282,590	(282,590)	--	--
Satisfaction of time restrictions	59,000	(59,000)	--	--
Total Revenue and Support	<u>5,267,832</u>	<u>1,143,910</u>	<u>6,411,742</u>	<u>3,044,664</u>
Expenses				
Program services				
Construction	4,238,069	--	4,238,069	2,202,916
Non construction	700,271	--	700,271	910,723
Total Program Services	<u>4,938,340</u>	<u>--</u>	<u>4,938,340</u>	<u>3,113,639</u>
Supporting services				
Fundraising	464,748	--	464,748	546,636
General and administrative	463,245	--	463,245	419,542
Total Supporting Services	<u>927,993</u>	<u>--</u>	<u>927,993</u>	<u>966,178</u>
Total Expenses	<u>5,866,333</u>	<u>--</u>	<u>5,866,333</u>	<u>4,079,817</u>
Change in Net Assets	(598,501)	1,143,910	545,409	(1,035,153)
Net Assets – Beginning	<u>2,926,262</u>	<u>214,000</u>	<u>3,140,262</u>	<u>4,175,415</u>
Net Assets – Ending	<u>\$ 2,327,761</u>	<u>\$ 1,357,910</u>	<u>\$ 3,685,671</u>	<u>\$ 3,140,262</u>

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

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

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	2019						2019 Total	2018 Total
	Program Services			Supporting Services				
	Construction	Non Construction	Total	Fundraising	General and Administrative	Total		
Cost of home sales - construction costs	3,145,241	--	3,145,241	--	--	--	3,145,241	877,762
Salaries and employee benefits	513,501	506,699	1,020,200	274,850	161,607	436,457	1,456,657	1,739,511
Contract services	18,084	25,288	43,372	125,477	191,978	317,455	360,827	265,781
Office	51,572	71,345	122,917	34,338	59,082	93,420	216,337	539,125
Interest	170,780	--	170,780	--	2,411	2,411	173,191	167,371
Professional fees	151,576	--	151,576	--	26,250	26,250	177,826	203,560
Office and warehouse rent	74,892	33,620	108,512	13,099	8,273	21,372	129,884	127,655
Insurance	29,649	31,504	61,153	13,286	8,499	21,785	82,938	41,325
Amortization of debt issuance costs	75,960	--	75,960	--	--	--	75,960	75,960
Tithe to HFHI and other affiliates	--	25,000	25,000	--	3,000	3,000	28,000	20,000
Depreciation and amortization	6,814	6,815	13,629	3,698	2,145	5,843	19,472	21,767
Total Expenses	\$ 4,238,069	\$ 700,271	\$ 4,938,340	\$ 464,748	\$ 463,245	\$ 927,993	\$ 5,866,333	\$ 4,079,817

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

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 545,409	\$ (1,035,153)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of discount on mortgages receivable	(197,156)	(241,366)
Depreciation and amortization	19,472	21,767
Equity in earnings of joint venture	(81,461)	(132,167)
Amortization of debt issuance costs	75,959	75,960
Proceeds received for debt issuance costs	--	196,208
Loss on write-off of debt issuance costs	--	(41,366)
Changes in assets and liabilities:		
Accounts receivable and other current assets	(778,667)	658,247
Grants and pledges receivable	(130,392)	(25,327)
Mortgages receivable	375,065	452,092
Construction in progress	1,524,942	(2,926,997)
Accounts payable and accrued expenses	(321,115)	273,263
Deposits and escrows payable	6,379	14,726
Other current liabilities	(39,250)	--
Total Adjustments	453,776	(1,674,960)
Net Cash Provided by (Used in) Operating Activities	999,185	(2,710,113)
Cash Flows From Investing Activities		
Accrued interest on mortgages receivable	(36,327)	(69,627)
Purchases of property and equipment	--	(62,791)
Net Cash Used in Investing Activities	(36,327)	(132,418)
Cash Flows From Financing Activities		
Proceeds from line-of-credit	395,000	400,000
Proceeds from issuance of notes payable	690,471	3,912,873
Principal payments on notes payable	(2,009,046)	(4,085,202)
Net Cash Provided by (Used in) Financing Activities	(923,575)	227,671
Net Increase (Decrease) in Cash and Cash Equivalents	39,283	(2,614,860)
Cash and Cash Equivalents - Beginning	1,337,453	3,952,313
Cash and Cash Equivalents - Ending	\$ 1,376,736	\$ 1,337,453
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 173,191	\$ 167,371
Cash and cash equivalents, unrestricted	\$ 219,378	\$ --
Cash and cash equivalents, restricted	1,157,358	1,337,453
Total	\$ 1,376,736	\$ 1,337,453

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – 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 capitol 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 tithing to the international affiliate and a sustainability fee of \$28,000.

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 incurred.

CASH AND CASH EQUIVALENTS

HFH WDC classifies all highly liquid investments with original maturities of less than 90 days as cash equivalents. Cash and cash equivalents include demand deposits and money market funds. Restricted cash includes a loan reserve established for payment of the servicing fee in compliance with the notes payable agreements.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE

Accounts receivable primarily consisted of 1) miscellaneous receivables such as refunds due from vendors; or 2) amounts due in relation to home sales. HFH WDC's management periodically reviews the status of all balances for collectability. Management determines the allowance for doubtful accounts by reviewing all outstanding receivables for possible uncollectibility. Accounts are charged to the allowance account when deemed uncollectible. Accounts receivable balances were deemed to be collectible and no bad debt expense was recorded as of and for the year ended June 30, 2019.

GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consist of unconditional promises to give to HFH WDC. Unconditional promises to give are recorded at their present net realizable value. For those due in more than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns. Management determines the allowance for doubtful grants and pledges by reviewing all outstanding pledges for possible uncollectibility. Pledges are charged to the allowance account when deemed uncollectible.

PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION

Acquisitions of property and equipment greater than \$2,500 and with estimated useful life greater than one year and all expenditures for repairs, maintenance and betterments that materially prolong the useful lives of assets are capitalized. Donated property is valued at fair 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.

IMPAIRMENT OF LONG-LIVED ASSETS

HFH WDC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – 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. Home sales revenue also includes the proceeds from the sale of homes if a home buyer has a mortgage with HFH WDC. Cost of home sales consists mostly of capitalized home construction costs, including certain costs related to the sale of homes.

CONTRIBUTIONS AND GRANTS

Contributions and grants are recognized when unconditionally promised to or received by HFH WDC. Contributions and grants are recorded as with or without donor restrictions 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 with donor restrictions and promises to give are recorded as with donor restrictions due to implied time restrictions. Within net assets with donor restrictions, amounts are reclassified to net assets without donor restrictions when the time restrictions expire or when the purpose restrictions are met.

In-kind contributions are recognized at their estimated fair value when received. Donated services are recognized if the services received create or enhance nonfinancial assets, or if the services require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

CLASSIFICATION OF NET ASSETS

HFH WDC's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of HFH WDC at the discretion of HFH WDC's management and the Board of Directors (the Board).
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of HFH WDC or by the passage of time.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area of HFH WDC are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas, such as salaries and employee benefits, rent and depreciation and amortization, have been allocated among the various functional areas based on direct salaries.

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.

NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. HFH WDC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to the summarized comparative information presented for the year ended June 30, 2018.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30, 2019:

Cash – undesignated	\$ 219,378
Cash – restricted for New Market Tax Credit (NMTC) programs	900,596
Certificates of deposit – required balance of line of credit	<u>256,762</u>
Total Cash and Cash Equivalents	<u>\$ 1,376,736</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 3 – MORTGAGES RECEIVABLE

Mortgages receivable consist of non-interest bearing promissory notes ranging in amounts from \$5,000 to \$143,000. 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 totaled \$197,156 for the year ended June 30, 2019. Management believes that the mortgages receivable are fully collectible and no allowance for uncollectability is necessary and no bad debt has been recorded as of and for the year ended June 30, 2019.

Net mortgages receivable consisted of the following at June 30, 2019:

Mortgages receivable, current	\$ 305,747
Mortgages receivable, non-current	<u>3,940,136</u>
Mortgages receivable	4,245,883
Less: Unamortized discount to net present value	<u>(1,330,244)</u>
Net present value of mortgage receivable	<u>\$ 2,915,639</u>

In previous years, HFH WDC entered into an agreement in which it used noninterest-bearing mortgage receivable as security to obtain an operating loan. The details of this loan is shown in Note 7. The mortgage receivable used as security remain as assets in the statement of financial position with a corresponding liability in the form of secured obligations. The terms and payment schedules of the secured obligations are coincident with those of the underlying mortgage receivable. At June 30, 2019, the book value of these secured obligations, net of unamortized discount and deferred finance fees, was \$968,289.

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

For the Year Ending <u>June 30,</u>	
2020	\$ 305,747
2021	305,546
2022	295,878
2023	281,436
2024	269,878
Thereafter	<u>2,787,396</u>
	<u>\$ 4,245,883</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 4 – CONSTRUCTION IN PROGRESS AND 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, 2019:

Central Place – IZ	\$ 630,927
28 th Place	2,717,623
55 th Place	1,236,430
Skyland Terrace	240,395
Donated inventory	17,387
J Street Project	<u>428,381</u>
	<u>\$ 5,271,143</u>

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019:

Furniture and equipment	\$ 115,184
Leasehold improvements	<u>45,053</u>
	160,237
Less: Accumulated Depreciation and Amortization	<u>(118,669)</u>
Property and Equipment, Net	<u>\$ 41,568</u>

Depreciation and amortization expense was \$19,472 for the year ended June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 5 – INVESTMENT IN JOINT VENTURE

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 7.

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, HFH WDC contributed cash of \$500 such that HFH WDC owns 50% of Mannitat. Because HFH WDC does not have effective control 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.

Investment in joint venture consisted of the following as of and for the year ended June 30, 2019:

Investment in joint venture, beginning of year	\$ 132,667
Equity in earnings of Mannitat	<u>81,461</u>
Investment in joint venture, end of year	<u>\$ 214,128</u>

NOTE 6 – NOTE RECEIVABLE

In conjunction with the New Markets Tax Credits (NMTC) loans described in Note 7, 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 only monthly interest payments of \$3,027 have been accrued. As a result, accrued interest on the note receivable totaled \$105,954 at June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 – 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 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 5.13%. HFH WDC was in compliance with the financial loan covenants of the NMTC loans. The following table summarizes the maturity dates and outstanding balances due at June 30, 2019 for the two NMTC loans in accordance with the terms of the loans:

Note C (June 30, 2025)	\$ 2,648,350
Note D (July 13, 2046)	<u>1,260,924</u>
	<u>\$ 3,909,274</u>

Debt issuance costs, net of accumulated amortization, totaled \$326,607 at June 30, 2019, 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 September 2019, whichever is sooner. The loan accrues interest at an annual rate equal to the 30-day LIBOR plus 3% (5.43% at June 30, 2019). The outstanding balance due on the United Bank loan was \$64,696 at June 30, 2019. The loan was fully paid on August 30, 2019 (see Note 15).

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 – NOTES PAYABLE (CONTINUED)

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, respectively 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, unless the international affiliate agrees to release HFH WDC from the pre-payment requirement. HFH WDC was in compliance with the international affiliate loan financial covenants at June 30, 2019. The outstanding balance due on the international affiliate loans was \$968,289 at June 30, 2019.

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 the 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 interest rate at June 30, 2019 is 6.50%. The outstanding balance due on the Pen Fed loan was \$1,210,100 at June 30, 2019.

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 \$335,346 at June 30, 2019.

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 \$15,297 at June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 – NOTES PAYABLE (CONTINUED)

Notes payable, grouped by lender, consisted of the following at June 30, 2019:

New Markets Tax Credits (NMTC) loans	\$ 3,909,274
United Bank	64,696
International affiliate	968,289
Pentagon Federal Credit Union	1,210,100
DHCD	335,246
Ally Financial	<u>15,297</u>
Total	6,502,902
Less: Debt issuance costs, net	<u>(326,607)</u>
	<u>\$ 6,176,295</u>

Future maturities of notes payable are as follows:

Year Ending June 30,	
2020	\$ 495,279
2021	99,634
2022	103,121
2023	102,522
2024	106,949
Thereafter	<u>5,595,397</u>
	<u>\$ 6,502,902</u>

NOTE 8 - LINE-OF-CREDIT

HFH WDC has a \$1,500,000 line-of-credit available from Sandy Spring Bank which terminates in August 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. As of June 30, 2019, the interest rate was 5.75%. Drawdowns on the line-of-credit totaled \$395,000 during the year ended June 30, 2019. The balance due on the line-of-credit was \$1,295,000 at June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2019, HFH WDC's net assets with donor restrictions were restricted for specific purposes or time periods as follows:

Subject to expenditure for specified purpose:

J Street Construction Project (purpose and time restricted)	\$ 815,000
Skyland Construction Project	205,410
Safe at Home Program	102,000
HomeSmart Program	<u>25,000</u>

Total Subject to Expenditure for Specified Purpose	\$ 1,147,410
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Subject to occurrence of specified events/passage of time:

30th Anniversary Gala	<u>\$ 210,000</u>
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Total Net Assets With Donor Restrictions	<u>\$ 1,357,910</u>
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NOTE 10 – 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. Donated services consisted of legal services of 151,576 for the year ended June 30, 2019.

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.

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., INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 11 – 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 \$58,505 for the year ended June 30, 2019.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

CONCENTRATION OF CREDIT RISK

HFH WDC maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balances may exceed, at times, the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of June 30, 2019, HFH WDC had \$1,526,000 composed of demand deposits that was primarily for the purpose of funding construction costs that would be fully expended in 2018, which exceeded the maximum limit insured by the FDIC by approximately \$761,000. HFH WDC monitors the creditworthiness of these institutions and has not experienced any historical credit losses on its cash and cash equivalents.

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 has elected to extend the term of the lease for a renewal term of five years, commencing on January 1, 2020 with a monthly rate of 8,465.

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 \$129,883 for the year ended June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

OPERATING LEASES (CONTINUED)

Future minimum operating lease payments are as follows:

	Office	Warehouse	Total
Year Ending June 30,			
2020	\$ 94,452	\$ 47,470	\$ 141,922
2021	101,580	28,400	129,980
2022	101,580	-	101,580
2023	101,580	-	101,580
2024	50,790	-	50,790
	<u>\$ 449,982</u>	<u>\$ 75,870</u>	<u>\$ 525,852</u>

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 \$1,838,485. In relation to these construction contracts, HFH WDC has already paid and, therefore, has recorded construction in progress totaling \$1,616,200 at June 30, 2019. Therefore, the remaining unpaid commitment on the construction contracts approximates \$222,285 at June 30, 2019.

NOTE 13 – AVAILABILITY AND LIQUIDITY

HFH WDC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. HFH WDC's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2019, were as follows:

Cash and cash equivalents – not restricted	\$ 219,378
Accounts receivable	827,480
Grants and pledges receivable	189,392
Mortgages receivable, current portion	<u>305,747</u>
Total Financial Assets Available Within One Year	1,541,997
Less: Amounts unavailable for general expenditures within one year due to donor's restrictions	<u>(1,147,410)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 394,587</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 13 – AVAILABILITY AND LIQUIDITY (CONTINUED)

HFH WDC has various sources of liquidity at its disposal, including cash and cash equivalents, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of HFH WDC throughout the year. This is done through monitoring and reviewing HFH WDC's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of HFH WDC's cash flow related to HFH WDC's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. To help manage unanticipated liquidity needs, HFH WDC has a committed line of credit of \$1,500,000, of which approximately \$205,000 was unused and available to draw upon as of June 30, 2019. HFH WDC's used line of credit is secured by HFH WDC's certificates of deposit and property.

NOTE 14 – INCOME TAXES

Under Section 501(c)(3) of the IRC, HFH WDC is exempt from the payment of taxes on income other than net unrelated business income. HFH WDC reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertainty in income taxes. For the year ended June 30, 2019, no provision for income taxes was made, as HFH WDC had no net unrelated business income and did not identify any uncertainty in income taxes requiring recognition or disclosure in these financial statements. HFH WDC's tax returns are subject to possible examination by the taxing authorities. For federal purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns. There are currently no examinations pending or in progress regarding HFH WDC's tax returns. It is HFH WDC's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 9, 2020, 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, 2019 through January 9, 2020.

- **Repayment of United Bank and Completion of an Inclusionary Zoning Project with Level 2 Development:** A \$1.7 million loan due to United Bank was repaid in full upon the completion and settlement of a 13-unit development in Ivy City in Ward 5 on August 30, 2019. The project was part of an offsite

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 15 – SUBSEQUENT EVENTS (CONTINUED)

inclusionary zoning agreement with Level 2 Development, the first of its kind approved by the DC Zoning Commission. It was a successful partnership between a nonprofit and a for-profit developer that permitted for sale family-sized housing to be built to satisfy the inclusionary zoning requirements of a private developer. The average median family income of all homeowners in the project was just below 50% of median family income.

- **30th Anniversary Event:** On November 5th, 2019, DC Habitat hosted 500 donors and other supporters at a gala at Union Station. The event raised over \$1.4 million from over 165 donors, of which 96 were new donors with the balance of 70 legacy and renewed donors. The Mayor was honored as well as four other long-time corporate donors. A DC Habitat homeowner, whose story was featured in a short video, received a standing ovation for overcoming substantial obstacles on her path to homeownership.
- **J Street Development Inclusionary Zoning Grant:** In October, 2018, DC Habitat entered into a second inclusionary zoning agreement to provide offsite family sized homes to satisfy the inclusionary zoning requirements of J Street Development’s upcoming condominium project in Ward 6. DC Habitat has acquired the requisite land, and upon receipt of the remaining \$815,000 grant expects to break ground in the Spring of 2020 on three homes in Ward 6.
- **Current and Future Construction:** As of November, 2019, a 14-unit condominium development in Randle Highlands in Ward 7 is 80% complete with settlements with new DC Habitat homeowners expected in the Spring and early Summer of 2020. In addition, DC Habitat expects to break ground on two more developments: 8 town homes in Skyland in Ward 8 and 17 town homes in Deanwood in Ward 7.
- **Operating Cost Reductions:** To improve cash flow and the affiliate’s overall financial condition, operating costs, including staff reductions, have decreased by nearly 25% compared to the prior fiscal year. Further savings are anticipated with a move to new office space.
- **Women Build:** A major fundraising event entitled “Women Build”, held successfully in FY 2018, is planned for the Fall of 2020. Fundraising for this event will begin by January, 2020 with the expectation of once again exceeding a \$500,000 goal.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 15 – SUBSEQUENT EVENTS (CONTINUED)

- **A Revision of the Strategic Plan**: DC Habitat’s current 3-year Strategic Plan’s objectives will be substantially completed by 2020, the final year of the plan. This coming year the DC Habitat Board, staff and other outside stakeholders will engage in an intensive planning process to produce the next 3-5 year Strategic Plan.