

**Audited Financial Statements and
Supplementary Information**

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

June 30, 2014

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

Contents

<i>Independent Auditor's Report on the Financial Statements</i>	1
<i>Financial Statements</i>	
Statements of financial position	2
Statements of activities	3 - 4
Statements of functional expense	5 - 6
Statements of cash flows	7
Notes to the financial statements	8 - 19
<i>Supplementary Information</i>	
Independent auditor's report on the supplementary information	20
Statements of revenue and expense	21



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, 2014 and 2013, and the related statements of activities, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Washington, D.C., Inc. as of June 30, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, DC
December 5, 2014

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

Statements of Financial Position

June 30,	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 472,925	\$ 527,640
Accounts receivable	-	225,464
Pledges receivable	21,135	16,966
Grants receivable	338,208	229,594
Mortgages receivable, current portion	433,955	463,214
Prepaid expenses and other assets	224,655	220,412
Construction in progress	2,732,444	1,272,394
Property held for sale	118,934	118,934
Total current assets	4,342,256	3,074,618
Mortgages receivable, net of current portion	3,112,151	3,224,010
Property and equipment	40,639	52,815
Investment in joint venture	2,527,729	2,554,115
Debt issuance costs	78,368	86,965
Total assets	\$ 10,101,143	\$ 8,992,523
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 380,095	\$ 154,048
Deposits and escrows payable	148,639	132,078
Notes payable, current portion	968,507	212,511
Total current liabilities	1,497,241	498,637
Deferred rent	7,500	22,500
Notes payable, net of current portion	3,747,452	3,705,178
Total liabilities	5,252,193	4,226,315
Commitments and contingencies	-	-
Net assets		
Unrestricted	4,217,723	4,345,555
Temporarily restricted	631,227	420,653
Total net assets	4,848,950	4,766,208
Total liabilities and net assets	\$ 10,101,143	\$ 8,992,523

See notes to the financial statements.

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

Statement of Activities Year Ended June 30, 2014

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

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

Statement of Activities Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Contributions	\$ 778,741	\$ 64,966	\$ 843,707
Grants	688,270	129,000	817,270
Home sales	1,825,151		1,825,151
In-kind contributions	256,199		256,199
Other income	45,907		45,907
	3,594,268	193,966	3,788,234
Net assets released from restrictions	114,958	(114,958)	-
Total revenue and support	3,709,226	79,008	3,788,234
Expense			
Program services			
Construction	3,193,644		3,193,644
Non construction	689,306		689,306
Total program services	3,882,950	-	3,882,950
Supporting services			
General and administrative	344,401		344,401
Fund raising	347,912		347,912
Total supporting services	692,313	-	692,313
Total expense	4,575,263	-	4,575,263
Change in net assets	(866,037)	79,008	(787,029)
Net assets, July 1, 2012	5,211,592	341,645	5,553,237
Net assets, June 30, 2013	\$ 4,345,555	\$ 420,653	\$ 4,766,208

See notes to the financial statements.

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

Statement of Functional Expense

Year Ended June 30, 2014

	Program Services			Supporting Services		Total
	Construction	Non construction	Total	General and administrative	Fund raising	
Amortization of debt issuance costs	\$ 8,597	\$ -	\$ 8,597	\$ -	\$ -	\$ 8,597
Audit and accounting			-	24,819		24,819
Construction fees	14,108	10,511	24,619	230		24,849
Contract services	13,155	68,288	81,443	82,518	91,370	255,331
Cost of home sales	560,805		560,805			560,805
Depreciation and amortization	8,327	10,410	18,737	2,545	1,850	23,132
Discount on mortgages issued		10,949	10,949			10,949
Dues and publications	582	2,100	2,682	1,720	2,233	6,635
Employee benefits	94,694	62,715	157,409	41,902	23,750	223,061
Insurance	13,674	2,893	16,567	1,467	7,558	25,592
Interest	58,601		58,601			58,601
Legal	136,881		136,881			136,881
Office supplies	1,587	346	1,933	19,037	4,770	25,740
Other expenses	20,018	7,910	27,928	18,419	9,383	55,730
Postage	1,284		1,284	2,119	35,502	38,905
Printing and publication			-		59,009	59,009
Rent	62,166	27,006	89,172	6,594	4,800	100,566
Repairs and maintenance	16,367		16,367	871		17,238
Salaries	338,957	446,268	785,225	104,908	74,121	964,254
Software			-	680		680
Staff and board development	6,274	7,835	14,109	14,026	2,284	30,419
Telephone	12,802		12,802	4,903	1,246	18,951
Tithe to international affiliate		17,000	17,000			17,000
Travel and transportation	7,846		7,846	3,879	1,217	12,942
Utilities	4,563		4,563			4,563
Total expense	\$ 1,381,288	\$ 674,231	\$ 2,055,519	\$ 330,637	\$ 319,093	\$ 2,705,249

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

Statement of Functional Expense

Year Ended June 30, 2013

	Program Services			Supporting Services		Total
	Construction	Non construction	Total	General and administrative	Fund raising	
Amortization of debt issuance costs	\$ 8,597	\$ -	\$ 8,597	\$ -	\$ -	\$ 8,597
Audit and accounting			-	37,240		37,240
Community development	855		855			855
Construction fees	14,495	10,283	24,778	678	8	25,464
Contract services	22,595	69,536	92,131	81,888	57,490	231,509
Cost of home sales	2,269,916		2,269,916			2,269,916
Depreciation and amortization	8,403	8,095	16,498	1,974	1,422	19,894
Discount on mortgages issued		89,852	89,852			89,852
Dues and publications	440		440	7,701	1,684	9,825
Employee benefits	81,582	45,644	127,226	30,013	19,039	176,278
Insurance	10,323	6,594	16,917	1,499	1,049	19,465
Interest	70,767		70,767			70,767
Legal	230,099		230,099			230,099
Office supplies	1,942		1,942	23,599	4,449	29,990
Other expenses	23,143		23,143	8,598	18,256	49,997
Postage	1,245		1,245	2,239	67,336	70,820
Printing and publication			-		11,741	11,741
Rent	59,696	26,400	86,096	6,000	4,200	96,296
Repairs and maintenance	7,021		7,021	997		8,018
Salaries	356,580	402,312	758,892	106,099	64,004	928,995
Software	395		395	775	21	1,191
Staff and board development	5,235	590	5,825	24,457	1,844	32,126
Telephone	10,110		10,110	5,611	2,020	17,741
Tithe to international affiliate		30,000	30,000			30,000
Travel and transportation	5,734		5,734	5,033	430	11,197
Uncollected grants and pledges			-		92,919	92,919
Utilities	4,471		4,471			4,471
Total expense	\$ 3,193,644	\$ 689,306	\$ 3,882,950	\$ 344,401	\$ 347,912	\$ 4,575,263

See notes to the financial statements.

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

Statements of Cash Flows

<i>Year Ended June 30,</i>	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 82,742	\$ (787,029)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	23,132	19,894
Discount on mortgages issued	10,949	89,852
Amortization of discount on mortgages	(236,427)	(247,159)
Uncollected grants and pledges	-	92,919
Amortization of debt issuance costs	8,597	8,597
Changes in assets and liabilities:		
Accounts receivable	225,464	(225,464)
Pledges receivable	(4,169)	49
Grants receivable	(108,614)	(129,207)
Mortgages receivable	366,596	293,081
Prepaid expenses and other assets	(4,243)	(89,699)
Construction in progress	(1,460,050)	1,257,607
Purchase of property held for sale	-	(118,934)
Accounts payable and accrued expenses	226,047	(34,278)
Deposits and escrows payable	16,561	13,180
Deferred rent	(15,000)	(15,000)
Total adjustments	(951,157)	915,438
Net cash used in operating activities	(868,415)	128,409
Cash flows from investing activities		
Purchases of property and equipment	(10,956)	(23,785)
Distributions received from joint venture	26,386	26,386
Net cash provided by investing activities	15,430	2,601
Cash flows from financing activities		
Proceeds from line-of-credit	650,000	500,000
Payments on line-of-credit	(300,000)	(500,000)
Proceeds from issuance of notes payable	587,450	10,162
Principal payments on notes payable	(139,180)	(126,456)
Net cash provided by (used in) financing activities	798,270	(116,294)
Net (decrease) increase in cash and cash equivalents	(54,715)	14,716
Cash and cash equivalents, beginning of year	527,640	512,924
Cash and cash equivalents, end of year	\$ 472,925	\$ 527,640
Supplemental Disclosures of Cash Flows		
Donated stock liquidated to cash	\$ 71,905	\$ -
Cash paid during the year for interest	\$ 58,601	\$ 70,767

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

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

HFH WDC sells all the homes it builds to eligible low to moderate income (LMI) households and may finance the home purchase by offering zero-interest 30 year mortgages; or assist the prospective homebuyer families in obtaining conventional mortgage financing. Prospective homebuyers make a \$500 down payment and contribute 300 hours of sweat equity towards the construction of their future home. Mortgage payments on HFH WDC originated loans are reinvested in a revolving fund to finance further construction and the acquisition of additional properties and building materials. In essence, HFH WDC is a construction company, a mortgage company, and a social service agency. Providing decent, affordable housing in the nation's capital requires several partners and generous funding from corporations, foundations, local government agencies, and individuals.

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

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

HFH WDC believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. Generally, income tax returns related to the current and three prior years remain open for examination by taxing authorities.

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 consisted of proceeds from home sales that were finalized late in the month of June 2013. The proceeds from home sales were held in escrow accounts with either settlement agents or legal counsel who assisted with the closing process.

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

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pledges receivable: Pledges receivable are unconditional promises to give and primarily consist of annual gifts from donors which are passed-through the United Way of the National Capital Area. Based on historical collections experience, management records the revenue from these gifts net of 25% of the total amount pledged. In addition, management periodically reviews the status of outstanding pledges receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the pledge. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected pledges expense which totaled \$2,919 for the year ended June 30, 2013. All pledges were deemed to be collectible at June 30, 2014. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful pledges was recorded.

Home sales and cost of home sales: When home sales occur, the revenue is recorded and the related previously capitalized construction in progress is recognized as cost of home sales expense in the year of the sale. Furthermore, by design, home sales revenue is lower than cost of home sales expense and, therefore, HFH WDC subsidizes this difference through grants and contributions. The ratio of home sales over cost of home sales was 112% and 80% for the years ended June 30, 2014 and 2013, respectively.

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.

Special event: HFH WDC did not host any special events during the years ended June 30, 2014 and 2013. During November 2014, HFH WDC hosted Raising the Roof, a special event to benefit the Ivy City project and celebrate a 25 year anniversary. In relation to the November 2014 event, two donors provided a total of \$250,000 prior to June 30, 2014, which consisted of cash and an unconditional promise to give. The gross amount of support provided, or promised, by donors has been reported within temporarily restricted contributions in the 2014 statement of activities.

The costs of direct benefits to donors, which includes meals, t-shirts, or other items provided to event participants, will be reported as a reduction of special event revenue in the 2015 statement of activities. All other costs relating to the special event will be included in fund raising expense.

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.

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

Notes to the Financial Statements

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 categories at June 30,:

	2014	2013
Undesignated - operating	\$ 420,098	\$ 441,528
Designated		
New Markets Tax Credit (NMTC) program	52,501	75,917
Other programs	<u>326</u>	<u>10,195</u>
Subtotal designated	<u>52,827</u>	<u>86,112</u>
	<u>\$ 472,925</u>	<u>\$ 527,640</u>

C. GRANTS RECEIVABLE

Grants receivable consist of both contributions and exchange transactions. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected grants expense which totaled \$90,000 for the year ended June 30, 2013. All grants receivable were deemed to be collectible at June 30, 2014. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful grants was recorded.

Grants receivable consisted of the following at June 30,:

	2014	2013
Exchange transactions receivable	\$ 218,708	\$ 174,594
Contributions receivable	<u>119,500</u>	<u>55,000</u>
	<u>\$ 338,208</u>	<u>\$ 229,594</u>

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

Notes to the Financial Statements

D. MORTGAGES RECEIVABLE

Mortgages receivable consist of non-interest bearing promissory notes ranging in amounts from \$5,000 to \$142,673. Monthly payments range from \$42 to \$476, and maturities range from 2018 to 2043. The discount on mortgages receivable is determined using imputed interest rates (discount rates range from 6% to 9%). Amortization of the discount is included in home sales revenue and totaled \$236,427 and \$247,159 for the years ended June 30, 2014 and 2013, respectively. Because the mortgages are secured by the deeds of trust on the respective properties, management believes that no allowance for doubtful mortgages is necessary. Furthermore, HFH WDC outsources the administration, servicing, and collection of its mortgage receivables to a third party service organization.

Mortgages receivable consisted of the following at June 30,:

	2014	2013
Mortgages receivable	\$ 5,870,056	\$ 6,236,652
Less unamortized discount to net present value	<u>(2,323,950)</u>	<u>(2,549,428)</u>
	<u>\$ 3,546,106</u>	<u>\$ 3,687,224</u>

Future expected collections on mortgages receivables are as follows:

Year Ending June 30,	Amount
2015	\$ 433,956
2016	370,011
2017	363,295
2018	350,271
2019	345,476
Thereafter	<u>4,007,047</u>
	<u>\$ 5,870,056</u>

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

Notes to the Financial Statements

E. PROPERTY AND EQUIPMENT

Construction in progress: Costs associated with the acquisition, development, and construction of a project are capitalized. Such costs may include (1) pre-acquisition costs such as land acquisition or improvement; (2) infrastructure development or construction costs such as equipment rental, construction materials, or subcontractors; and (3) other costs such as interest, insurance, or construction benefits. Most of the projects included in construction in progress are currently expected to be completed and sold during the year ending June 30, 2015.

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

	2014	2013
56th Place	\$ 1,517,806	\$ 191,237
Ivy City (see Notes F, G & L)	988,084	1,081,157
46th Street	194,162	-
28th Place	32,392	-
	<u>\$ 2,732,444</u>	<u>\$ 1,272,394</u>

During July 2010, HFH WDC formed Mission First Ivy City, LLC (MFIC LLC) in order to conduct feasibility studies and perform general due diligence with respect to the Ivy City construction project. MFIC LLC was also formed to enter into agreements with the District of Columbia to facilitate the development of affordable housing units in Ivy City. HFH WDC has a 90.9% ownership interest in MFIC LLC but has made no capital contributions and MFIC LLC has no assets or liabilities because it is financially dormant. Furthermore, MFIC LLC is expected to be formally and legally dissolved during the year ended June 30, 2015.

Property held for sale: During the year ended June 30, 2013, HFH WDC purchased a home from a homeowner for \$118,934. HFH WDC intended to sell the home during the year ending June 30, 2014 after completing minor maintenance and repair work. However, the sale was not finalized and closed until October 2014. Thus, the value of the home, which is equal to the purchase price, was classified as held for sale at June 30, 2014 and 2013.

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.

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

Notes to the Financial Statements

E. PROPERTY AND EQUIPMENT - CONTINUED

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

	2014	2013
Furniture and equipment	\$ 64,824	\$ 64,824
Software	71,522	60,566
Vehicles	69,809	69,809
Leasehold improvements	<u>23,628</u>	<u>23,628</u>
	229,783	218,827
Less accumulated depreciation and amortization	<u>(189,144)</u>	<u>(166,012)</u>
	<u>\$ 40,639</u>	<u>\$ 52,815</u>

F. INVESTMENT IN JOINT VENTURE

HFH WDC participates in a New Markets Tax Credit (NMTC) program. NMTC programs were established as part of the Community Renewal Tax Relief Act of 2000 and the New Markets Tax Credit Extension Act of 2012 extended the program until January 2014. The goal of NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in certified community development entities. The tax credit for investors equals 39% of the investment, and investors receive the tax credit over a seven year period. A community development entity (CDE) is required to participate and has the primary mission of providing financing for revitalization projects in low-income communities.

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

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

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

Notes to the Financial Statements

F. INVESTMENT IN JOINT VENTURE - CONTINUED

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

	2014	2013
Investment in joint venture, beginning of year	\$ 2,554,115	\$ 2,580,501
Cash distribution	<u>(26,386)</u>	<u>(26,386)</u>
Investment in joint venture, end of year	<u>\$ 2,527,729</u>	<u>\$ 2,554,115</u>

G. NOTES PAYABLE

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

New Markets Tax Credit (NMTC): HFH WDC participates in the NMTC program described in Note F and has obtained a loan of \$3,247,478 payable to City First Capital 21, LLC, which is a certified community development entity. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. Semi-annual payments of interest only are required for the first seven years. Beginning December 1, 2016, principal and interest payments will be due based on an eight year loan amortization. The stated interest rate is 0.8126% and the loan matures on November 5, 2024. In connection with the loan, HFH WDC also incurred debt issuance costs of \$128,960 which have been capitalized and will be amortized over the term of the loan. Debt issuance costs are presented net of accumulated amortization of \$50,592 and \$41,995 at June 30, 2014 and 2013, respectively. HFH WDC was in compliance with the terms of its NMTC loan, including loan covenants, at June 30, 2014 and 2013.

Institute for Community Economics (ICE): HFH WDC obtained a \$600,000 construction loan from ICE for 56th Place during July 2013. Advances under the construction loan incur interest at a monthly fixed rate of 5.5%. Interest only payments are due monthly and the loan is secured by the properties at 56th Place. The balance due on the loan totaled \$459,450 at June 30, 2014. The loan agreement provides for two payment options. Under the first payment option, beginning April 15, 2015, principal payments will be due in five monthly payments equal to 20% of the loan balance and the final payment will be due on August 15, 2015. The second payment option is tied to the partial release of each of the ICE liens on the 56th Place properties, which occurs as the properties are sold. HFH WDC estimates that all properties will be sold before December 31, 2014 and has mutually agreed with ICE to accelerate the payment of the loan balance such that the loan will be paid in full prior to June 30, 2015.

International affiliate: HFH WDC has several loans from its international affiliate which have various payment terms, interest rates, and maturity dates. Three of the international affiliate loans are non-interest bearing. The balance on the non-interest bearing loans totaled \$30,127 and \$42,711 at June 30, 2014 and 2013, respectively. The remaining international affiliate loans, which have market interest rates ranging from 4.00% to 5.50%, are secured by certain mortgages receivable. The aggregate balance due on these secured interest-bearing international affiliate loans totaled \$427,572 and \$521,250 at June 30, 2014 and 2013, respectively. For the international affiliate loans, HFH WDC was in compliance with the loan covenants at June 30, 2014 and 2013.

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

Notes to the Financial Statements

G. NOTES PAYABLE – CONTINUED

Lines-of-credit: HFH WDC had a \$760,000 line-of-credit with a bank and obtained proceeds totaling \$650,000 and \$500,000 during the years ended June 30, 2014 and 2013, respectively. HFH WDC made payments on the line-of-credit totaling \$300,000 and \$500,000 during the years ended June 30, 2014 and 2013, respectively. HFH WDC's line-of-credit expired September 30, 2014 and was not renewed.

However, during October 2014, HFH WDC obtained a commitment from another bank for a \$760,000 line-of-credit which would expire October 31, 2015. Under the new line-of-credit, HFH WDC would be required to obtain a \$260,000 certificate of deposit which would be pledged as collateral and certain other assets would be identified as collateral as well.

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

Local Initiatives Support Corporation (LISC): HFH WDC obtained a \$75,000 loan from Local Initiatives Support Corporation (LISC) for the Ivy City project. The loan was fully paid during the year ended June 30, 2014. The balance due on the loan totaled \$6,250 at June 30, 2013 and was secured by deeds of trust for the various properties included in the project. The stated interest rate was 3.00% and principal payments of \$6,250 were due upon the sale of the various properties.

LISC also provided a \$100,000 forgivable loan to HFH WDC for the Ivy City project. The loan will be forgiven if certain conditions are met, some of which are as simple as the passage of time. The cumulative drawdowns on the forgivable loan totaled \$100,000 during the year ended June 30, 2013. As home sales occurred during the year ended June 30, 2014, portions of the loan were forgiven and HFH WDC recorded contribution revenue related to the loan balance forgiven. The balance due on the forgivable loan totaled \$73,332 and \$100,000 at June 30, 2014 and 2013, respectively.

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

	2014	2013
New Markets Tax Credit (NMTC)	\$ 3,247,478	\$ 3,247,478
Institute for Community Economics (ICE)	459,450	-
International affiliate	457,699	563,961
Line-of-credit (Citibank)	350,000	-
Pentagon Federal Credit Union (Pen Fed)	128,000	-
Local Initiatives Support Corporation (LISC)	73,332	106,250
	<u>\$ 4,715,959</u>	<u>\$ 3,917,689</u>

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

Notes to the Financial Statements

G. NOTES PAYABLE – CONTINUED

Future maturities of notes payable are as follows:

Year Ending June 30,	Amount
2015	\$ 968,507
2016	10,042
2017	7,500
2018	-
2019	-
Thereafter	<u>3,729,910</u>
	<u>\$ 4,715,959</u>

Forgivable loans from government: During February 2013, HFH WDC obtained a forgivable loan not to exceed \$489,040 from DC Department of Housing and Community Development (DHCD) in order to finance the construction of homes for DC families in need of affordable housing. The forgivable loan balance was \$326,691, which was equivalent to the draw-downs on the loan. Prior to June 30, 2013, all loan balances were transferred from HFH WDC to new homeowners as the sales of the homes occurred. DHCD verified the transfers and provided a written release of debt obligation to HFH WDC. Therefore, the DHCD loan was written off and HFH WDC recorded grant revenue totaling \$326,691 during the year ended June 30, 2013.

During July 2013, HFH WDC obtained another forgivable loan not to exceed \$651,900 from DHCD in order to finance the construction of homes for families in Washington, D.C. who are in need of affordable housing. The terms of the new forgivable loan are similar to the terms of the previous forgivable loan described above. However, HFH WDC has not drawn any proceeds from this forgivable loan.

H. NET ASSETS

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

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

	2014	2013
Purpose restricted	\$ 490,592	\$ 348,687
Time restricted		
With purpose restriction	119,500	55,000
Without purpose restriction	<u>21,135</u>	<u>16,966</u>
	<u>\$ 631,227</u>	<u>\$ 420,653</u>

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

Notes to the Financial Statements

H. NET ASSETS - CONTINUED

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

	2014	2013
Purpose restricted	\$ 262,000	\$ 855
Time restricted		
With purpose restriction	-	91,250
Without purpose restriction	16,966	22,853
	<u>\$ 278,966</u>	<u>\$ 114,958</u>

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,:

	2014	2013
Legal services	\$ 136,881	\$ 230,099
Computer equipment	10,956	-
Construction materials	-	26,100
	<u>\$ 147,837</u>	<u>\$ 256,199</u>

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 the Financial Statements

J. RETIREMENT PLAN

HFH WDC has a defined contribution 401(k) plan (the 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 and HFH WDC contributes a matching amount equal to participant salary deferrals. HFH WDC's contributions to the Plan totaled \$18,851 and \$17,702 for the years ended June 30, 2014 and 2013, respectively.

K. COMMITMENTS AND CONTINGENCIES

Operating lease: HFH WDC leases office space at 2115 Ward Court under an operating lease which was scheduled to expire in December 2014. The lease included an abatement of base rent for the first twelve months of the lease term. The rent abatement was reported as deferred rent which has been amortized on a basis to achieve straight-line rent expense over the life of the lease. HFH WDC also leases warehouse space on a month to month basis. Rent expense relating to both the office lease and the month to month warehouse rentals totaled \$100,566 and \$96,296 for the years ended June 30, 2014 and 2013, respectively.

Under the terms of the office lease, HFH WDC exercised its right to extend the lease term for an additional three years to December 2017 at a monthly base rental rate of \$7,277.

Future minimum office lease payments are as follows:

Year Ending June 30,	Amount
2015	\$ 81,200
2016	87,300
2017	87,300
2018	43,700
	<hr/>
	\$ 299,500

Construction contracts: HFH WDC has several construction contracts relating to various construction projects which have an estimated combined commitment of approximately \$827,400. HFH WDC has already recorded construction in progress related to these contracts totaling \$510,652 at June 30, 2014.

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

The schedule of expenditures of federal awards totaled \$22,125 for the year ended June 30, 2013. Since the total expenditures were less than \$500,000, an audit in accordance with OMB Circular A-133 was not required. HFH WDC had no federal awards during the year ended June 30, 2014.

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

Notes to the Financial Statements

L. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 5, 2014, 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, 2014 through December 5, 2014.

Asset held for sale: During October 2014, HFH WDC finalized the sale of the home which was reported as asset held for sale at June 30, 2014. The sale price was \$230,000 and net proceeds totaled \$171,682. Therefore, HFH WDC will report a net gain on the sale of approximately \$52,700 during the year ending June 30, 2015.

Special event: During November 2014, HFH WDC hosted Raising the Roof, its 25th Anniversary Event. Support for the special event approximated \$760,000 through November 2014, including \$250,000 of support which has been reported in the statement of activities for the year ended June 30, 2014.

Line-of-credit: During November 2014, HFH WDC finalized the terms of the new line-of-credit which is described in Note G.

Warehouse: During November 2014, HFH WDC signed a three year operating lease agreement for new warehouse space located in Maryland. The lease terminates in November 2017 and future minimum lease payments will approximate \$126,400.

International affiliate loan: During December 2014, the international affiliate provided another FlexCAP loan totaling \$510,685. The loan has a maturity of 10 years and an interest rate of 4.75%.

City First Bank loan: During October 2013, HFH WDC obtained preliminary terms for a construction loan of \$1,000,000 from City First Bank of D.C., N.A. (the Bank). HFH WDC planned to use the loan proceeds in order to finance the construction of homes for families in Washington, D.C. However, HFH WDC and the Bank have not yet formally closed on the loan agreement but they intend to close on the loan during the year ending June 30, 2015.

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Supplementary Information

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

We have audited the financial statements of Habitat for Humanity of Washington, D.C., Inc. (HFH WDC) as of and for the years ended June 30, 2014 and 2013, and our report thereon dated December 5, 2014, which contained an unmodified opinion on those financial statements appears on page one. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on the following page is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Washington, DC
December 5, 2014

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

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

Statements of Revenue and Expense

<i>Year Ended June 30,</i>	2014	2013	2012	2011	Cumulative
Revenue and support					
Home sales	\$ 626,427	\$ 1,825,151	\$ 1,935,450	\$ 556,081	\$ 4,943,109
Grants	829,229	817,270	1,289,267	1,519,759	4,455,525
Contributions	1,171,537	843,707	811,847	1,112,996	3,940,087
In-kind contributions	147,837	256,199	642,381	431,441	1,477,858
Other income	12,961	45,907	2,522	116,403	177,793
Total revenue and support	2,787,991	3,788,234	4,681,467	3,736,680	14,994,372
Expense					
Program services					
Construction	1,381,288	3,193,644	3,092,204	1,399,894	9,067,030
Non construction	674,231	689,306	1,018,411	595,466	2,977,414
Total program services	2,055,519	3,882,950	4,110,615	1,995,360	12,044,444
Supporting services					
General and administrative	330,637	344,401	298,338	274,571	1,247,947
Fund raising	319,093	347,912	357,595	365,604	1,390,204
Total supporting services	649,730	692,313	655,933	640,175	2,638,151
Total expense	2,705,249	4,575,263	4,766,548	2,635,535	14,682,595
Change in net assets	82,742	(787,029)	(85,081)	1,101,145	\$ 311,777
Net assets, beginning of year	4,766,208	5,553,237	5,638,318	4,537,173	
Net assets, end of year	\$ 4,848,950	\$ 4,766,208	\$ 5,553,237	\$ 5,638,318	

Management's Discussion and Analysis:

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

<i>Year Ended June 30,</i>	2014	2013	2012	2011	Cumulative
Number of homes sold	2	9	10	2	23
Home sales revenue	\$ 626,427	\$ 1,825,151	\$ 1,935,450	\$ 556,081	\$ 4,943,109
Cost of home sales expense	\$ 560,805	\$ 2,269,916	\$ 2,256,522	\$ 455,297	\$ 5,542,540
Ratio of revenue over expense	112%	80%	86%	122%	89%