Consolidated Financial Statements

Interfaith Works, Inc. and Affiliate

For the Year Ended June 30, 2020 With Summarized Financial Information for 2019

INTERFAITH WORKS, INC.
AND AFFILIATE

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Interfaith Works, Inc. and Affiliate
Rockville, Maryland

We have audited the accompanying consolidated financial statements of Interfaith Works, Inc. and Affiliate (the Organizations), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organizations as of June 30, 2020, and the consolidated change in their net assets and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Organizations' 2019 consolidated financial statements, which were audited by other auditors and, in their report dated November 25, 2019, they expressed an unmodified opinion on those consolidated statements.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position and Consolidating Schedule of Activities and Change in Net Assets on Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Gelman Rosenberg & Freedman

January 26, 2021

INTERFAITH WORKS, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

ASSETS

	2020	2019
Cash and cash equivalents	$ 1,924,939	$ 578,145
Investments	200,735	-
Accounts receivable	534,749	623,950
Prepaid expenses and other current assets	56,985	55,354
Property and equipment, net	910,209	1,064,809
TOTAL ASSETS	**$ 3,627,617**	**$ 2,322,258**

LIABILITIES AND NET ASSETS

	2020	2019
LIABILITIES		
Federal loan payable	$ 811,800	$ -
Notes payable	520,822	827,736
Forgivable note payable	588,470	588,470
Accounts payable and accrued liabilities	86,843	60,192
Accrued salaries and related benefits	320,780	224,876
Refundable advance	50,500	11,700
Other liabilities	24,106	24,975
Total liabilities	2,403,321	1,737,949
NET ASSETS		
Without donor restrictions	1,186,394	497,876
With donor restrictions	37,902	86,433
Total net assets	1,224,296	584,309
TOTAL LIABILITIES AND NET ASSETS	**$ 3,627,617**	**$ 2,322,258**

See accompanying notes to consolidated financial statements.

INTERFAITH WORKS, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020			2019
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Total**
SUPPORT AND REVENUE				
Donated goods, facilities, and services	$ 7,624,252	$ -	$ 7,624,252	$ 9,937,710
Federal, state, and county contracts	5,211,974	-	5,211,974	4,252,414
Contributions	971,750	397,429	1,369,179	1,237,568
Rental income	241,632	-	241,632	245,275
Program income	99,570	-	99,570	149,135
Investment (loss) income, net	(2,576)	-	(2,576)	274
Gain on sale of property	483,249	-	483,249	-
Other revenue	10,000	-	10,000	-
Net assets released from donor restrictions	445,960	(445,960)	-	-
Total support and revenue	15,085,811	(48,531)	15,037,280	15,822,376
EXPENSES				
Program Services:				
Interfaith Clothing Center	6,051,387	-	6,051,387	8,275,553
Homeless Services	6,109,149	-	6,109,149	5,525,719
Interfaith Housing Coalition	294,837	-	294,837	324,900
Vocational Services	275,813	-	275,813	318,169
Connections	237,881	-	237,881	244,018
Emergency Assistance Coalition	187,091	-	187,091	168,046
Friends in Action	108,377	-	108,377	151,393
Network	101,899	-	101,899	70,919
Other	-	-	-	2,336
Total program services	13,366,434	-	13,366,434	15,081,053
Supporting Services:				
General and Administrative	628,650	-	628,650	586,897
Development	402,209	-	402,209	426,554
Total supporting services	1,030,859	-	1,030,859	1,013,451
Total expenses	14,397,293	-	14,397,293	16,094,504
Change in net assets	688,518	(48,531)	639,987	(272,128)
Net assets at beginning of year	497,876	86,433	584,309	856,437
NET ASSETS AT END OF YEAR	**$ 1,186,394**	**$ 37,902**	**$ 1,224,296**	**$ 584,309**

See accompanying notes to consolidated financial statements.

INTERFAITH WORKS INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020					
	Program Services					
	Interfaith Clothing Center	Homeless Services	Interfaith Housing Coalition	Vocational Services	Connections	Emergency Assistance Coalition
Donated goods and services	$ 5,569,510	$ 551,069	$ 3,866	$ 3,450	$ 1,000	$ 28,925
Salary and wages	233,631	2,786,709	90,275	195,116	99,912	73,649
Donated facilities	153,409	1,225,582	21,307	8,523	8,523	3,688
Taxes and related benefits	29,673	457,630	12,788	34,748	14,931	10,913
Client support	5,323	559,159	30,917	5,273	102,821	-
Professional fees	-	117,926	-	-	-	-
Computers and furniture	15,925	51,932	-	8,262	1,646	1,646
Repairs and maintenance	10,346	93,535	950	4,676	2,094	545
Accounting, audit, and finance	6,063	63,191	2,193	3,987	2,516	1,132
Rent and utilities	-	55,236	796	-	-	4,552
Telephone and communications	8,115	54,042	1,642	5,942	2,730	1,406
Depreciation and amortization	3,072	33,694	25,450	1,824	1,088	1,995
Grants to others	-	-	-	-	-	57,429
Interest	-	-	2,917	-	-	-
Other	-	-	55,912	-	-	-
Printing and production	7,451	19,316	-	1,281	-	310
Homeowners association fees	-	-	38,958	-	-	-
Office and supplies	7,900	9,531	87	976	280	570
Travel and meeting	343	14,020	2,256	1,383	198	42
Personnel-related expenses	59	12,920	15	205	10	-
Postage and delivery	442	2,549	179	167	132	49
Property taxes and licenses	125	908	4,329	-	-	-
Conferences and meetings	-	200	-	-	-	240
TOTAL	**$ 6,051,387**	**$ 6,109,149**	**$ 294,837**	**$ 275,813**	**$ 237,881**	**$ 187,091**

			Supporting Services				2019
Friends in Action	Network	Total Program Services	General and Administrative	Development	Total Supporting Services	Total Expenses	Total Expenses
$ 16,699	$ -	$ 6,174,519	$ -	$ 7,094	$ 7,094	$ 6,181,613	$ 8,513,261
54,305	70,281	3,603,878	385,612	235,033	620,645	4,224,523	3,697,312
21,307	-	1,442,339	-	300	300	1,442,639	1,424,449
6,397	10,511	577,591	109,680	33,990	143,670	721,261	663,164
206	-	703,699	35	315	350	704,049	722,371
-	4,670	122,596	7,767	52,128	59,895	182,491	170,648
3,293	2,810	85,514	21,123	22,766	43,889	129,403	101,313
1,150	503	113,799	2,474	1,496	3,970	117,769	92,396
1,564	2,056	82,702	19,021	4,732	23,753	106,455	72,261
186	4,604	65,374	22,921	13,641	36,562	101,936	98,749
1,492	1,751	77,120	6,591	4,025	10,616	87,736	75,592
907	555	68,585	13,972	4,299	18,271	86,856	113,557
-	-	57,429	-	-	-	57,429	54,226
-	-	2,917	46,486	-	46,486	49,403	46,605
-	262	56,174	(19,875)	11,102	(8,773)	47,401	56,909
-	1,291	29,649	1,922	7,576	9,498	39,147	44,502
-	-	38,958	-	-	-	38,958	38,673
164	450	19,958	5,518	946	6,464	26,422	23,126
485	285	19,012	(20)	40	20	19,032	21,658
86	-	13,295	3,437	95	3,532	16,827	41,954
96	89	3,703	741	2,102	2,843	6,546	6,793
-	-	5,362	-	-	-	5,362	7,394
40	1,781	2,261	1,245	529	1,774	4,035	7,591
$108,377	**$101,899**	**$13,366,434**	**$ 628,650**	**$ 402,209**	**$1,030,859**	**$ 14,397,293**	**$16,094,504**

INTERFAITH WORKS, INC.
AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 639,987	$ (272,128)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	86,856	113,557
Unrealized loss	3,686	-
Gain on sales of property and equipment, net	(446,899)	-
Bad debt	-	990
Decrease (increase) in:		
Accounts receivable	89,201	(102,294)
Prepaid expenses and other current assets	(1,631)	(2,784)
Increase (decrease) in:		
Accounts payable and accrued liabilities	26,651	12,129
Accrued salaries and related benefits	95,904	-
Refundable advance	38,800	(45,000)
Other liabilities	(869)	-
Net cash provided (used) by operating activities	531,686	(295,530)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(20,827)	(32,749)
Proceeds from sale of property and equipment	425,470	-
Purchase of investments	(204,421)	-
Net cash provided (used) by investing activities	200,222	(32,749)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Federal loan payable	811,800	(265,000)
Proceeds from note payable	450,000	-
Payments on note payable	(646,914)	(62,002)
Proceeds from line of credit	500,000	-
Payments on line of credit	(500,000)	-
Net cash provided (used) by financing activities	614,886	(327,002)
Net increase (decrease) in cash and cash equivalents	1,346,794	(655,281)
Cash and cash equivalents at beginning of year	578,145	1,233,426
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,924,939**	**$ 578,145**

SUPPLEMENTAL INFORMATION:

	2020	2019
Gift Card Donations	**$ -**	**$ 975**
Note Payable Paid with Proceeds from Sale of Property and Equipment	**$ 110,000**	**$ -**
Cash Paid During the Year for Interest	**$ 49,403**	**$ 46,605**

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Interfaith Works, Inc. (IW) is a non-profit organization, incorporated in the State of Maryland and located in Washington, DC. IW is a non-sectarian interfaith coalition of more than 165 affiliated congregations of diverse faiths, working together to meet the needs of the poor and homeless in Montgomery County, Maryland. IW's programs shelter, clothe, and feed their neighbors in need and provide supportive services with the goal of helping them achieve self-sufficiency.

The Interfaith Housing Coalition, Inc. (IHC) is a non-profit organization, incorporated in the State of Maryland and located in Washington, D.C. IHC provides permanent, supportive housing to formerly homeless families in 24 housing units scattered throughout the County.

Principles of consolidation -

The accounts of Interfaith Works, Inc. have been consolidated with the Interfaith Housing Coalition (collectively, the Organization) in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which require that financially interrelated organizations be consolidated. All intercompany transactions and balances have been eliminated.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class; such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entitie*s. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions -** Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

New accounting pronouncements adopted -

During 2020, the Organizations adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. The Organizations adopted the ASU using a modified prospective basis.

Cash and cash equivalents -

The Organizations consider all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to a limit of $250,000.

At times during the year, the Organizations maintain cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment (loss) income, which is presented net of investment expenses paid to external investment advisors, in the accompanying Consolidated Statement of Activities and Change in Net Assets. Investments acquired by gift are recorded at their fair value at the date of the gift. The Organizations’s policy is to liquidate all gifts of investments as soon as possible after the gift.

Accounts receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment in excess of $1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended June 30, 2020 totaled $86,856.

Income taxes -

The Organizations are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The Organizations are not private foundations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Uncertain tax positions -

For the year ended June 30, 2020, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Debt issuance costs -

In accordance with the FASB ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, the Organizations present debt issuance costs in the consolidated financial statement as a direct deduction from the related debt liability. Amortization of the costs is reported as interest expense.

Contributions, grants and contracts -

Contributions and grants are recognized in the appropriate category of net assets in the period received. The Organizations perform an analysis of the individual contribution, grant and contract to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal.

For contributions and grants and contracts qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Grant and contract agreements qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied.

Most grants and contract awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, the Organizations recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For contributions and grants and contracts treated as contributions, the Organizations had approximately $200,000 in unrecognized conditional awards as of June 30, 2020.

Contributions and grants and contracts qualifying as contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying consolidated financial statements.

Donated goods, facilities, and services -

Donated goods, facilities, and services are recorded at their fair value as of the date of the gift.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Donated goods, facilities, and services (continued) -

In addition, volunteers have donated significant amounts of their time to the Organizations; these donated services are not reflected in the consolidated financial statements since these services do not meet the criteria for recognition as contributed services.

Use of estimates -

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses directly attributed to a specific functional area of the Organizations are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

A description of the Organization's significant program services are as follows:

Interfaith Clothing Center: Provides free clothing and household goods to 13,000 income-qualified residents each year, including nearly 6,000 children, through the distribution of millions of dollars' worth of donated items. The Interfaith Clothing Center also houses a Prepare to Impress Shop (professional clothing), distributes specialized items such as layettes to expectant mothers and brand-new backpacks filled with new school supplies to MCPS students.

Homeless Services: Beck's House houses senior homeless women in an 8-bed home, providing 24-hour oversight and intensive case management to improve the overall health and stability of frail, higher-need individuals.

Interfaith Works Empowerment Center engages over 800 individuals in a day program with access to showers, laundry, support groups, and case management services to those experiencing homelessness. It also operates as a heating/cooling center during weather extremes. During the winter months, the Overflow Shelter opens to approximately 350 adults, providing a place to sleep on cold nights.

Interfaith Homes provides scattered-site apartments for 31 men and women who have previously experienced chronic homelessness. Interfaith Homes offers wrap around clinical and medical case management services that empower individuals to maintain income and housing.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Functional allocation of expenses (continued) -

Interfaith Works Housing Initiatives Program provides service coordination for 35 individuals housed in their own apartments through Montgomery County's Housing Initiative Program. The program provides wrap-around case management services including coordination of care, life skills development and tenancy support as well as community referrals.Interfaith Works Residences provides 24-hour staff supported private living quarters to 21 men and women who previously have experienced long-term homelessness.Interfaith Works Residences offers a safe environment where residents can identify and overcome barriers to self-sufficiency and housing.

Interfaith Works Women's Center provides emergency shelter, meals and case management to approximately 250 women experiencing homelessness annually at a 70-bed facility. Interfaith Works Women's Center helps women overcome barriers by connecting them with community resources that empower them to overcome homelessness.

Watkins Mill House provides transitional housing to women who have experienced homelessness with behavioral health diagnoses in an 8-bed home, offering 24-hour support and case management. Watkins Mill House links clients to treatment, IW's vocational services, and other resources to help women gain the supports they need to move themselves to more stable, permanent housing.

Interfaith Housing Coalition: Provides permanent housing with supports for 13 families. Each family is engaged in intensive case management and works towards customized family action plan goals aimed at progressing to maximized independence.

Vocational Services: Engages 250 low-income and homeless individuals in job readiness classes, career counseling and training, and one-on-one job placement services.

Connections: Previously named Hand-to-Hand, Connections provides resource counseling to low income individuals and families. Connections provides referrals to programs within Interfaith Works as well as outside of the agency. Connections is also responsible for distributing emergency financial assistance for eviction prevention, utility cut-off prevention, and other unmet needs.

Emergency Assistance Coalition: Previously named Congregation & Community Emergency Support, Emergency Assistance Coalition leads a multi-agency collaboration of emergency assistance providers offering capacity building, financial assistance services and advocacy. Emergency Assistance Coalition impacts the lives of 30,000 financially fragile individuals and supports efforts to empower clients toward self-sufficiency; offers support to congregations through consultation, referral and training; and provides counseling, referrals, grants and loans to help individuals stay utility cut-offs, avoid eviction, and pay for other essential expenses and to facilitate multi-agency collaboration.

Friends in Action: Serves 40 families with 120 trained volunteer mentors divided into teams. Each family member works closely with a case manager to set individualized goals to improve essential living skills and stabilize areas of crisis. Mentor teams work with families for at least one year and often longer.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Functional allocation of expenses (continued) -

Network: Provides assistance to Montgomery County faith communities in meeting community needs including religious land use, neighbors in need, and responding to acts of violence or hate.

Risks and uncertainties -

The Organizations invest in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair value measurement -

The Organizations adopted the provisions of FASB ASC 820, Fair Value Measurement. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organizations account for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation with no effect on the previously reported change on net assets.

New accounting pronouncements not yet adopted -

FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

FASB issued ASU 2019-01, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Organizations plan to adopt the new ASUs at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Organizations' operations. The overall potential impact is unknown at this time.

2. INVESTMENTS

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organizations have categorized their financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Consolidated Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organizations have the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the year ended June 30, 2020. Transfers between levels are recorded at the end of the reporting period, if applicable.

Mutual Funds (Bonds) and Exchange Traded Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by Organizations are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by Organizations are deemed to be actively traded.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy and those invested and measured at NAV as a practical expedient as of June 30, 2020.

	Level 1	Level 2	Level 3	Total
Investments:				
Exchange Traded Funds	$ 177,370	$ -	$ -	$ 177,370
Mutual Funds (Bond)	23,365	-	-	23,365
TOTAL INVESTMENTS	**$ 200,735**	**$ -**	**$ -**	**$ 200,735**

2. INVESTMENTS (Continued)

Included in investment loss are the following:

Interest and dividends, net	$ 1,110
Unrealized loss	(3,686)
TOTAL INVESTMENT LOSS, NET OF INVESTMENT EXPENSES	**$ (2,576)**

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at June 30, 2020:

	In Use	Held for Sale	Total
Land	$ 183,633	$ 46,206	$ 229,839
Buildings	1,116,467	114,127	1,230,594
Computer equipment	714,735	-	714,735
Vehicles	49,897	-	49,897
Leasehold improvements	696,879	-	696,879
Total Property and equipment, net	2,761,611	160,333	2,921,944
Less: Accumulated depreciation and amortization	(2,011,735)	-	(2,011,735)
NET PROPERTY AND EQUIPMENT, NET	**$ 749,876**	**$ 160,333**	**$ 910,209**

Gain on Sales of Property and Equipment: In September 2018, the Organizations' Carr Avenue property was listed for sale. In October 2019, the Organizations sold the land and buildings related to the Carr Avenue property. The Organizations received net proceeds totaling $425,470, which equaled the sale prices of the property less closing costs of $36,650 and a loan payment totaling $110,000. A gain on the sale of $483,249 is reported in the Consolidated Statement of Activities during the year ending June 30, 2020.

Held for Sale: In October 2020, the Organizations' property at 11126 Cedarwood was listed for sale. In December 2020, the Organizations sold the land and buildings related to the Cedarwood property and, therefore, have classified the assets as held for sale at June 30, 2020. The Organizations received net proceeds totaling $356,392, which equaled the sales price of the property less closing costs. A gain on the sale of approximately $381,000 will be reported in the Consolidated Statement of Activities and Change in Net Assets during the year ending June 30, 2021.

Donated Facilities: The Organizations receive free or discounted use of several facilities used for various programs. The value of the free or discounted use of these facilities has been recorded as donated facilities revenue and expense (see Note 11).

4. LINE OF CREDIT

The Organizations have a line-of-credit with a commercial bank which makes available a total of $500,000 for draw-down. The line-of-credit is secured by various properties owned by the Organization and the balance due is payable upon demand. The line of credit has a current maturity date of June 27, 2021. There were no outstanding draws on the line of credit as of June 30, 2020. For the year ended June 30, 2020, interest expense was $4,317.

5. FEDERAL LOAN PAYABLE

On April 21, 2020, the Organizations received loan proceeds in the amount of $811,800 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. The Organizations intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. The Organizations intends to apply for forgiveness after completing the 24 week period. If forgiveness is granted, the Organizations will record revenue from debt extinguishments during the period that forgiveness was approved. Principal payments as stated in the promissory note are due as follows unless otherwise forgiven:

Year Ending June 30,	
2021	$ 360,800
2022	451,000
	$ 811,800

6. FORGIVABLE NOTE PAYABLE

Montgomery County provides funding to the Organizations in the form of promissory notes that may be forgiven if certain conditions are met, some of which are as simple as the passage of time. The Organizations' forgivable notes payables are considered to be liabilities until the conditions of debt forgiveness have been met. While management believes the conditions of debt forgiveness will be met, if the stipulated conditions of debt forgiveness are not met, the notes payable will be repaid in accordance with their terms.

The Organizations had one forgivable note payable totaling $588,470 at June 30, 2020. The forgivable note payable is eligible to be forgiven during the year ending June 30, 2038. There were no forgivable notes payable that met the conditions of debt forgiveness during the year ended June 30, 2020.

7. NOTES PAYABLE

The Organizations have financed the acquisition of various housing properties or building improvements through debt obligations from various lenders such as financial institutions, the State of Maryland Department of Housing and Community Development, or the Montgomery County Department of Housing. The Organizations' various housing properties are pledged as security in relation to the notes payable.

Default and forbearance: The Organizations defaulted on one of their debt obligations during the year ended June 30, 2018. In relation to the line-of-credit that had an interest rate of 5% and a balance due of $240,000 at the time of default, the Organizations signed a forbearance and modification agreement, which was effective February 14, 2018.

The forbearance agreement converted the line-of-credit to a revised debt instrument with an interest rate of 5.5% and a maturity date of July 1, 2019. The outstanding balance due on the date of the agreement was $230,000 but the Organizations were also required to pay legal fees, accrued interest, and other costs. Monthly payments of principal and interest were due over the term of the forbearance agreement. The forbearance note as well an additional note payable, which carried an interest rate of 5.25%, was repaid in full on July 1, 2019 from proceeds from a note with another financial institution.

7. NOTES PAYABLE (Continued)

Potentially forgivable note payable: The mortgage with a maturity in August 2041 (fiscal year ending June 30, 2042) and an interest rate of 1.00% which has a balance of $63,666 at June 30, 2020, could be a forgivable note payable. However, the underlying note documents do not conclusively indicate forgiveness even though the note was provided by Montgomery County and requires no principal payments. Due to the uncertainty of forgiveness, the note payable has not been classified as a forgivable note payable in the consolidated financial statements.

Mortgage payoff: In June 2020, the Organizations paid off an additional note at the time of sale of one of the Organizations' properties (See Note 3).

The notes payable have no debt covenants other than to provide financial information to lenders. The notes payable have various interest rates and maturities and consisted of the following at June 30, 2020:

TYPE	ORIGINAL AMOUNT	RATE	MATURITY	PRINCIPAL REMAINING
Mortgage	$ 14,500	3.00 %	2026	$ 2,959
Mortgage	$ 40,000	4.00 %	2026	12,351
Mortgage	$ 63,666	1.00 %	2042	63,666
Loan	$ 450,000	5.75 %	2029	441,846
				$ 520,822

Principal payments are due as follows:

Year Ending June 30,	
2021	$ 11,614
2022	11,650
2023	12,262
2024	12,845
2025	13,283
2026 and Thereafter	459,168
	$ 520,822

For the year ended June 30, 2020 interest expense was $45,086.

8. BOARD DESIGNATED NET ASSETS

As of June 30, 2020, net assets without donor restrictions have been designated by the Board of Directors for the following purposes:

Operating Reserve	**$ 200,735**

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2020:

Connections	**$ 37,902**

9. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Connections	$ 238,057
Friends in Action	58,365
Network	44,890
Homeless Services	37,799
Interfaith Clothing Centers	29,195
Vocational Services	26,671
Interfaith Housing Coalition	6,554
EAC	4,429
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	**$ 445,960**

10. LIQUIDITY AND AVAILABILITY

The Organizations receive a significant amount of support from donors and consider contributions with donor restrictions related to ongoing programs as available to meet cash needs for general expenditures. The Organizations manage their cash flows using the following three guiding principles: (1) operating within a prudent range of financial soundness and stability, (2) maintaining adequate liquid assets to fund near-term operating needs, and (3) maintaining sufficient reserves so that long-term obligations will be discharged.

The Organizations' liquidity policy requires that current financial assets less current liabilities equal at least one month of operating expense. The Organizations' reserve policy requires that undesignated net assets without donor restrictions at the end of each quarter equal at least 15 to 30 days of projected subsequent period disbursements. To achieve these policy requirements, the Organizations forecast future cash flow needs, monitor liquidity monthly, and monitor reserves quarterly. In the event the Organizations need to utilize Board-designated net assets without restriction, the Board of Directors would be required to authorize such use.

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following:

Cash and cash equivalents	$ 1,924,939
Investments	200,735
Accounts receivable	534,749
Subtotal financial assets available within one year	2,660,423
Less: Donor restricted funds	(37,902)
Less: Board-designated funds	(200,735)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	**$ 2,421,786**

In addition, the Organization has a $500,000 line of credit with a bank as an available resource. The line of credit had a balance due of $0 at June 30, 2020.

11. DONATED GOODS, FACILITIES, AND SERVICES

During the year ended June 30, 2020, the Organizations were the beneficiaries of donated goods, facilities, and services which allowed the Organizations to provide greater resources toward various programs. Donated goods are valued based on either the number of volunteer hours expended in order to distribute donated clothing or the estimated cost of donated school supplies. Donated facilities are recorded based on the fair value of the rental space. Donated services are recognized at fair value 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 the Organizations.

Donated goods, facilities, and services are recognized as contributions in accordance with accounting principles generally accepted in the United States of America. To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended June 30, 2020.

Donated goods	$ 6,017,057
Donated facilities	1,442,638
Donated services	164,557
TOTAL	**$ 7,624,252**

Unrecorded amounts: Many individuals volunteer their time and perform a variety of tasks that assist the Organizations with the administration of its programs. Without these volunteers, the Organizations would have to hire additional staff to maintain the level of service provided to its clients. Although greatly appreciated by the Organizations, accounting principles generally accepted in the United States of America do not allow such services to be recorded in the Consolidated Statements of Activities and Change in Net Assets.

12. LEASE COMMITMENTS

The Organizations have an operating lease for their administrative offices with Rockville United Methodist Church (RUMC). The Organization and RUMC have reached a mutual understanding that the lease arrangement will continue on a month-to-month basis until further notice. The rent expense related to the administrative offices is reported in rent and utilities expense within the accompanying Consolidated Statement of Functional Expenses and totaled $80,256 for the year ended June 30, 2020.

The Organization has operating leases for six houses and several apartments which are occupied by clients of the Homeless Services program. All of the Homeless Services program leases expire within one year.

The Organization has an operating lease for space that supports several programs. The lease expires in April 2021. The base monthly rental was approximately $3,200 during the first lease year, with an annual escalation of 3%. The Organization pays its proportionate share of operating expenses and real estate taxes.

Rent expense related to all of the Homeless Services leases is reported within client support in the consolidated statement of functional revenue and expense and totaled $482,349 for the year ended June 30, 2020.

The following is a schedule of the future minimum lease payments:

Year Ended June 30, 2021	**$ 35,109**

12. LEASE COMMITMENTS (Continued)

Rent expense for the year ended June 30, 2020 was $80,256 and is included in rent and utilities on the Consolidated Statement of Functional Expense.

The Organizations have approximately 40 rental units available for leasing on a month-to-month basis to qualified low-income individuals and families. Although several tenants renew their leases each year, the Organizations do not have any tenant leases with terms greater than one year. The Organizations' rental income was $241,632 for the year ended June 30, 2020.

Cash received from tenants for security deposits is restricted by state law and, therefore, cannot be used for the Organizations' operations. Interest on security deposits, calculated at a rate of 4% per annum if not held in a separate interest-bearing account, is required to be paid to tenants upon termination of tenancy. Cash related to security deposits totaled $12,911 at June 30, 2020. The liability for tenant security deposits has been included in accounts payable and accrued expenses in the accompanying Consolidated Statement of Financial Position.

13. RETIREMENT PLAN

The Organizations have a defined contribution 403(b) salary deferral and savings incentive plan, which covers all eligible employees who meet age and length of service requirements. Until June 30, 2018, the Organizations provided a matching contribution equal to 1% of participant compensation and had the option to provide an additional discretionary contribution. Effective on July 1, 2018, the plan document was amended and restated such that the employer contribution consisted of a discretionary match of employee deferrals. The Organizations, in their sole discretion, determine the amount of the employer matching contribution.

The Organizations' contributions under the plan totaled $29,536 for the year ended June 30, 2020.

14. CONTINGENCY

Certain programs are funded by contracts with Montgomery County and are subject to audit by the County. Until such audits have been completed, a contingency exists that the Organizations could be obligated to refund amounts received in excess of allowable costs. Management believes that no material liability will result from the County’s program audits.

The Organizations participate in a number of federally assisted grant programs. Total Federal expenditures were less than $750,000 for the year ended June 30, 2020. While a single audit was not required, these grant programs are subject to financial and compliance audits by federal agencies or their representatives. Therefore, a contingent liability may exist for potential questioned costs that would result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

15. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through January 26, 2021, the date the consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

**INTERFAITH WORKS INC.
AND AFFILIATE**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF JUNE 30, 2020**

	IW	IHC	Eliminations	Consolidated
ASSETS				
	$ 1,536,612	$ 388,327	$ -	$ 1,924,939
Investments	200,735	-	-	200,735
Receivables	522,726	12,023	-	534,749
Due from affiliate	265,459	-	(265,459)	-
Prepaid expenses and other assets	49,348	7,637	-	56,985
Property and equipment	470,057	440,152	-	910,209
TOTAL ASSETS	**$ 3,044,937**	**$ 848,139**	**$ (265,459)**	**$ 3,627,617**
LIABILITIES				
Federal loan payable	811,800	-	-	811,800
Notes payable	441,846	78,976	-	520,822
Forgivable note payable	588,470	-	-	588,470
Accounts payable and accrued expenses	83,596	3,247	-	86,843
Accrued salaries and related benefits	320,780	-	-	320,780
Due to affiliate	-	265,459	(265,459)	-
Refundable advance	50,500	-	-	50,500
Other liabilities	-	24,106	-	24,106
Total liabilities	2,296,992	371,788	(265,459)	2,403,321
NET ASSETS				
Without donor restriction	710,043	476,351	-	1,186,394
With donor restriction	37,902	-	-	37,902
Total net assets	747,945	476,351	-	1,224,296
TOTAL LIABILITIES AND NET ASSETS	**$ 3,044,937**	**$ 848,139**	**$ (265,459)**	**$ 3,627,617**

INTERFAITH WORKS INC.
AND AFFILIATE

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS
AS OF JUNE 30, 2020

	IW	IHC	Eliminations	Consolidated
SUPPORT AND REVENUE WITHOUT DONOR RESTRICTIONS				
Donated goods, facilities, and services	$ 7,624,252	$ -	$ -	$ 7,624,252
Federal, state, and county contracts	5,211,974	-	-	5,211,974
Contributions	967,864	3,886	-	971,750
Rental income	-	241,632	-	241,632
Program income	99,570	-	-	99,570
Investment (loss) income	(2,736)	160	-	(2,576)
Gain on sale of property	483,249	-	-	483,249
Other revenue	(271,759)	292,610	(10,851)	10,000
Net assets released from donor restrictions	445,960	-	-	445,960
Total support and revenue	14,558,374	538,288	(10,851)	15,085,811
EXPENSES				
Program Services:				
Interfaith Clothing Center	6,051,387	-	-	6,051,387
Homeless Services	6,109,149	-	-	6,109,149
Interfaith Housing Coalition	24,476	281,212	(10,851)	294,837
Vocational Services	275,813	-	-	275,813
Connections	237,881	-	-	237,881
Emergency Assistance Coalition	187,091	-	-	187,091
Friends in Action	108,377	-	-	108,377
Network	101,899	-	-	101,899
Total program services	13,096,073	281,212	(10,851)	13,366,434
Supporting Services:				
General and Administrative	628,650	-	-	628,650
Development	402,209	-	-	402,209
Total supporting services	1,030,859	-	-	1,030,859
Total expenses	14,126,932	281,212	(10,851)	14,397,293
Change in net assets without donor restrictions	431,442	257,076	-	688,518
SUPPORT AND REVENUE WITH DONOR RESTRICTIONS				
Contributions	397,429	-	-	397,429
Net assets released from donor restrictions	(445,960)	-	-	(445,960)
Change in net assets with donor restrictions	(48,531)	-	-	(48,531)
Change in net assets	382,911	257,076	-	639,987
Net assets at beginning of year	365,034	219,275	-	584,309
NET ASSETS AT END OF YEAR	**$ 747,945**	**$ 476,351**	**$ -**	**$ 1,224,296**