

**Audited Consolidated Financial Statements
and Supplementary Information**

INTERFAITH WORKS, INC. & AFFILIATE

June 30, 2016

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Independent Auditor’s Report on the Consolidated Financial Statements

To the Board of Directors
Interfaith Works, Inc. & Affiliate

We have audited the accompanying consolidated financial statements of Interfaith Works, Inc. & Affiliate (the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional revenue and expense, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Organization’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 Organization’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.

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Opinion

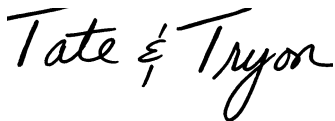
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interfaith Works, Inc. & Affiliate as of June 30, 2016, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 17, 2016, on our consideration of Interfaith Works, Inc.'s (IW) internal control over financial reporting and on our tests of the compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. However, our report in accordance with *Government Auditing Standards* does not extend to Interfaith Housing Coalition, Inc. (the affiliate). The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over IW's financial reporting and compliance.



Washington, DC
October 17, 2016

Interfaith Works, Inc. & Affiliate

Consolidated Statements of Financial Position

<i>June 30,</i>	2016	2015
Assets		
Cash and cash equivalents - Note B	\$ 508,862	\$ 624,374
Investments - Notes B & C	307,039	300,237
Receivables - Note D	335,436	352,934
Prepaid expenses and other assets	82,005	76,771
Property and equipment - Note E	1,459,455	1,558,056
Total assets	\$ 2,692,797	\$ 2,912,372
 Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses - Note F	\$ 430,544	\$ 352,506
Forgivable notes payable - Note G	588,470	588,470
Notes payable - Note H	927,381	896,883
Total liabilities	1,946,395	1,837,859
Commitments and contingencies - Note M	-	-
Net assets		
Unrestricted - Notes I & J	699,651	987,761
Temporarily restricted - Note I	46,751	86,752
Total net assets	746,402	1,074,513
Total liabilities and net assets	\$ 2,692,797	\$ 2,912,372

See notes to the consolidated financial statements.

Interfaith Works, Inc. & Affiliate

Consolidated Statements of Activities

<i>Year Ended June 30,</i>	2016	2015
Unrestricted activities		
Revenue and support		
Donated goods, facilities, and services - Note K	\$ 6,644,358	\$ 5,919,637
Federal, state, and county contracts	4,239,750	4,188,009
Contributions	618,920	637,237
Program income	265,859	227,193
Rental income - Note F	257,203	258,305
Investment income - Note C	7,989	9,959
	12,034,079	11,240,340
Special events	164,183	119,130
Less costs of direct benefits to donors	(6,591)	(11,024)
	157,592	108,106
Net assets released from restriction - Note I	395,174	477,703
Total revenue and support	12,586,845	11,826,149
Expense		
Program services		
Interfaith Clothing Centers	6,099,384	5,401,580
Homeless Services	5,261,284	5,220,421
Interfaith Housing Coalition	407,025	437,968
Congregation & Community Emergency Support	274,375	243,636
Friends in Action	133,289	139,468
Hand to Hand	85,885	88,719
Education and Advocacy	4,715	-
Total program services	12,265,957	11,531,792
Supporting services		
Development	495,430	505,840
General and administrative	113,568	58,426
Total supporting services	608,998	564,266
Total expense	12,874,955	12,096,058
Change in unrestricted net assets from operations	(288,110)	(269,909)
Notes forgiven - Note G	-	4,848
Change in unrestricted net assets	(288,110)	(265,061)
Temporarily restricted activities		
Contributions	355,173	474,815
Net assets released from restriction - Note I	(395,174)	(477,703)
Change in temporarily restricted net assets	(40,001)	(2,888)
Change in net assets	(328,111)	(267,949)
Net assets, beginning of year	1,074,513	1,342,462
Net assets, end of year	\$ 746,402	\$ 1,074,513

See notes to the consolidated financial statements.

Interfaith Works, Inc. & Affiliate

Consolidated Statement of Functional Revenue and Expense

Year Ended June 30, 2016 with Summarized Financial Information for the Year Ended June 30, 2015 Totals

	Program Services						Supporting Services		2016 Total	2015 Total	
	Interfaith Clothing Centers	Homeless Services	Interfaith Housing Coalition	Congregation & Community	Friends in Action	Hand to Hand	Education and Advocacy	Development			General and Administrative
Revenue and support											
Donated goods, facilities, and services - Note K	\$ 5,768,493	\$ 765,663	\$ 617	\$ 25,654	\$ 23,200	\$ -	\$ -	\$ -	\$ 60,731	\$ 6,644,358	\$ 5,919,637
Federal, state, and county contracts	113,322	3,839,222		77,791	55,620	15,000			138,795	4,239,750	4,188,009
Contributions and loans forgiven - Note G	61,341	102,511	67,427	82,989	31,261	9,644		229,281	389,639	974,093	1,116,900
Program income	31,248	217,105	10,100	7,116		290				265,859	227,193
Rental income - Note F			257,203							257,203	258,305
Investment income - Note C			3,362						4,627	7,989	9,959
	5,974,404	4,924,501	338,709	193,550	110,081	24,934	-	229,281	593,792	12,389,252	11,720,003
Special events								164,183		164,183	119,130
Less costs of direct benefits to donors								(6,591)		(6,591)	(11,024)
	-	-	-	-	-	-	-	157,592	-	157,592	108,106
Total revenue and support	5,974,404	4,924,501	338,709	193,550	110,081	24,934	-	386,873	593,792	12,546,844	11,828,109
Expense											
Donated goods and services - Note K	5,682,168	384,681	617	25,654	23,200				60,731	6,177,051	5,452,330
Salaries and wages	228,530	2,521,772	157,987	50,638	72,683	51,227		263,467	336,539	3,682,843	3,619,454
Client support - Note M	325	718,548	46,767	79,498	1,736	13,318		3,155		863,347	808,646
Taxes and related benefits - Note L	27,800	462,274	22,332	13,763	8,382	6,972		45,942	124,000	711,465	650,406
Donated facilities - Note K	86,325	380,982								467,307	467,307
Depreciation and amortization	6,344	64,873	76,576	1,696	1,661	848		4,657	4,983	161,638	170,571
Computers and furniture	5,645	62,075	1,075	1,552	3,234	881	4,300	11,907	5,497	96,166	103,314
Accounting, audit, and finance	5,951	60,232	3,163	1,811	1,551	937		6,310	11,102	91,057	70,172
Professional fees	2,174	22,608	1,679	582	570	291		52,406	9,390	89,700	175,266
Repairs and maintenance	5,951	72,543	1,085	560	547	280		1,536	1,639	84,141	82,617
Telephone and communications	6,181	45,458	3,462	1,414	1,722	622		4,803	5,751	69,413	81,962
Grants to others				61,516						61,516	75,840
Rent and utilities		2,101	11,701	4,376	4,281	2,188		12,017	22,191	58,855	58,359
Interest			21,022						21,933	42,955	41,797
Printing and production	2,974	12,940	571	294	287	147		17,978	862	36,053	43,897
Homeowners association fees			35,761							35,761	35,268
Insurance	2,239	25,047	966	498	487	249		1,364	1,460	32,310	29,187
Travel and transportation	1,329	12,201	6,505	627	1,534			871	383	23,450	20,388
Office and supplies	5,324	8,776	1,078	2,149	1,093	185		2,340	1,409	22,354	28,484
Personnel-related expenses	1,080	10,255	251	38	453	7		3,989	4,767	20,840	23,185
Event expenses			291					11,831		12,122	21,207
Bad debt			8,081					1,876		9,957	9,100
Postage and delivery	146	1,410	346	530	295	265	5	4,711	2,178	9,886	12,264
Conferences and meetings		270		5,551				1,189	395	7,405	4,761
Property taxes and licenses	125	1,312	5,626						300	7,363	7,330
Newsletter										-	2,946
Total expense before allocation	6,070,611	4,870,358	406,942	252,747	123,716	78,417	4,305	452,349	615,510	12,874,955	12,096,058
Overhead allocation	28,773	390,926	83	21,628	9,573	7,468	410	43,081	(501,942)	-	-
Total expense	6,099,384	5,261,284	407,025	274,375	133,289	85,885	4,715	495,430	113,568	12,874,955	12,096,058
Change in net assets	\$ (124,980)	\$ (336,783)	\$ (68,316)	\$ (80,825)	\$ (23,208)	\$ (60,951)	\$ (4,715)	\$ (108,557)	\$ 480,224	\$ (328,111)	\$ (267,949)

Interfaith Works, Inc. & Affiliate

Consolidated Statements of Cash Flows

<i>Year Ended June 30,</i>	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (328,111)	\$ (267,949)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Net loss (gain) on investments	4,283	(6)
Bad debt	9,957	9,100
Depreciation and amortization	161,640	170,571
Donated property and equipment	-	(10,500)
Gain on sale of property and equipment	-	(1,200)
Notes forgiven	-	(4,848)
Changes in assets and liabilities		
Receivables	7,541	137,117
Prepaid expenses and other assets	(5,234)	7,788
Accounts payable and accrued expenses	78,038	(9,353)
Total adjustments	256,225	298,669
Net cash (used in) provided by operating activities	(71,886)	30,720
Cash flows from investing activities		
Purchases of investments	(11,085)	(11,467)
Proceeds from sale of property and equipment	-	1,200
Purchases of property and equipment	(63,039)	(42,753)
Net cash used in investing activities	(74,124)	(53,020)
Cash flows from financing activities		
Borrowings on lines-of-credit	320,000	155,000
Payments on lines-of-credit	(250,000)	(155,000)
Principal payments on notes payable	(39,502)	(37,775)
Net cash provided by (used in) financing activities	30,498	(37,775)
Net decrease in cash and cash equivalents	(115,512)	(60,075)
Cash and cash equivalents, beginning of year	624,374	684,449
Cash and cash equivalents, end of year	\$ 508,862	\$ 624,374
Supplemental disclosures of cash flow information		
Donated stock liquidated to cash	\$ 4,113	\$ 487
Gift card donations	\$ 563	\$ 6,133
Donated property and equipment	\$ -	\$ 10,500
Cash paid during the year for interest	\$ 42,955	\$ 41,797

See notes to the consolidated financial statements.

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Interfaith Works, Inc. (IW), a non-profit corporation, was established in 1972 and incorporated in 1978 under the laws of the State of Maryland. 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 our neighbors in need and provide supportive services with the goal of helping them achieve self-sufficiency. IW is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation under Section 509(a)(1).

The Interfaith Housing Coalition, Inc. (IHC) is a non-profit organization founded in 1987 under the laws of the State of Maryland. IHC provides permanent, supportive housing to formerly homeless families in 26 housing units scattered throughout the County. IHC is exempt from the payment of income taxes on its exempt purpose activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation under Section 509(a)(1).

Principles of consolidation: The consolidated financial statements include the accounts of IW and IHC (the Organization). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Basis of accounting: The Organization prepares its consolidated financial statements on the accrual basis of accounting. Consequently, revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

Use of estimates: Preparation of consolidated financial statements in accordance 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. Actual results could differ from those estimates.

Cash and cash equivalents: The Organization considers demand deposits and money market accounts to be cash and cash equivalents.

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated purpose restriction is accomplished or when a time restriction expires), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in the appropriate restricted net asset class. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets. The Organization reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment.

Program income: Program income consists of rental payments and other fees for services provided to clients. Payments are recorded as revenue in the period earned or as services are performed.

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Costs of direct benefits to donors: IW conducts special events in which a portion of the gross proceeds represents both a contribution and a payment for the direct benefits received by the participant at the event. Typically, direct benefits to donors relates to the cost of meals and entertainment provided at special events.

Program services: Program services descriptions are as follows:

Interfaith Clothing Centers: Interfaith Clothing Centers provide free clothing and household goods, provide new infant supplies to expectant parents, offer books to children, distribute school supplies for low-income families, and links families with available resources through Project INFORM. The Centers serve over 13,000 income-qualified residents each year, including nearly 6,000 children.

Homeless Services: Wilkins Avenue Women's Assessment Center provides shelter and supportive services to approximately 250 women experiencing homelessness each year. Together, with a case manager, residents work to address barriers to housing, receiving access to mental health services, treatment for addictions, and vocational counseling.

Horizon Houses is a permanent supportive housing program annually serving approximately 30 women and men, who are disabled and experiencing homelessness. They reside in five shared group homes and, with the support of a case manager, work toward maximum independence and self-sufficiency.

Carroll House Men's Transitional Shelter annually serves approximately 70 men experiencing homelessness, by providing case management and vocational counseling to address barriers to housing and providing access to resources in the community.

Becky's House annually provides supportive housing for 8-10 older adult women, who are disabled, experiencing homelessness, and cannot live independently. Staff provide twenty-four hour support, including medication monitoring and coordination of care.

Watkins Mill is a transitional housing program that annually serves as many as 16 women who are experiencing homelessness, have a mental illness, and can eventually become self-sufficient.

Interfaith Homes is a permanent supportive housing program using the Housing First approach to provide housing for 31 chronically homeless or vulnerable women and men annually. They reside in 31 scattered-site units and, with case-worker support, work to stabilize and maintain housing.

Community Vision, on an annual basis, engages approximately 400 individuals experiencing homelessness in day programming. Clients can access mental health services; treatment for addictions; resource referral; life skills development; vocational counseling and employment training, meals, laundry, and showers. Community Vision also provides seasonal night shelter for hypothermia and hyperthermia, serving approximately 350 homeless adults annually.

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfaith Housing Coalition: The Interfaith Housing Coalition, Inc. (IHC) purchases and maintains homes to be used as permanent supportive housing for 25 qualified low-income individuals and families. IHC provides intensive case management to tenants who receive employment counseling, life skills education and the opportunity to work with a team of mentors. Thus, tenants have resources for self-sufficiency allowing them to move forward to greater independence.

Congregation & Community Emergency Support: The Congregation & Community Emergency Support (CCES) program provides resources and technical assistance to IW congregations and non-profit agencies; administers grants to prevent evictions and foreclosures and utility cut-offs; buys medicine and food; leverages funds to address unmet needs; ensures equal access to emergency services; and assesses community needs.

Friends in Action: The Friends in Action function links 40 low-income families with volunteer mentoring teams. Mentors provide supportive services, such as tutoring, job coaching, parenting skills training, and legal advice; thus, providing a comprehensive approach to erasing poverty.

Hand to Hand: The Hand to Hand function prevents homelessness by providing loans to low-income working families and individuals who are in imminent danger of being evicted.

Education and Advocacy: The Education and Advocacy function helps communities work together toward a common vision of social justice by educating and developing congregation and stakeholder participation in the policy-making process.

Supporting services: Supporting services descriptions are as follows:

Development: The development function supports efforts to grow current and new revenue sources. IW holds several fund-raising events throughout the year.

General and Administrative: The general and administrative function supports the administrative areas of the Organization.

Allocation of expense: The costs of providing various program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Measure of operations: The Organization excludes loans forgiven from the change in net assets from operations.

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation, with no effect on the previously reported change in net assets. In particular, bad debt expense totaling \$9,100 for the year ended June 30, 2015 was reclassified from unrestricted contribution revenue to development expense.

Subsequent events: Subsequent events have been evaluated through October 17, 2016, which is the date the consolidated financial statements were available to be issued.

Notes to the Consolidated Financial Statements

B. CONCENTRATIONS

Credit risk: The Organization 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 to the Organization.

Market value risk: The Organization also invests in a professionally managed portfolio of mutual funds. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks could materially affect investment balances and the amounts reported in the consolidated financial statements.

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Organization uses the following prioritized input levels to measure fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity’s assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Investments have been designated for the Organization’s board-designated endowment. Investments consisted of mutual funds, which include exchange traded funds. Mutual funds were valued based on quoted prices in active markets for identical assets. Therefore, Level 1 inputs were used to determine the fair value, measured on a recurring basis, of the following investments at June 30,:

	2016	2015
Mutual funds		
Fixed income	\$ 158,476	\$ 153,669
Domestic equity	125,155	121,162
International equity	23,408	25,406
	\$ 307,039	\$ 300,237

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

C. INVESTMENTS - CONTINUED

Investment income consisted of the following for the years ended June 30,:

	2016	2015
Interest and dividends	\$ 12,272	\$ 9,953
Net gain (loss) on investments	<u>(4,283)</u>	<u>6</u>
	<u>\$ 7,989</u>	<u>\$ 9,959</u>

D. RECEIVABLES

Receivables primarily consisted of amounts due from services provided under contracts with Montgomery County and the U.S. Department of Housing and Urban Development. Receivables also included unconditional promises to give, a significant portion of which is expected to be received in less than one year. Therefore, promises to give approximate net realizable value.

Receivable are presented at the gross amount due to the Organization with no allowance for doubtful receivables. Management periodically reviews the status of all receivables for collectability. Each balance is assessed based on management's knowledge of the amount due and the age of the balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded. Bad debt expense totaled \$9,957 and \$9,100 for the years ended June 30, 2016 and 2015, respectively.

Receivables consisted of the following at June 30,:

	2016	2015
Contracts receivable	\$ 309,612	\$ 318,324
Promises to give	20,000	23,876
Other receivables	<u>5,824</u>	<u>10,734</u>
	<u>\$ 335,436</u>	<u>\$ 352,934</u>

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

E. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 are recorded at cost, and depreciated using the straight-line method over estimated useful lives (buildings – 10 to 27.5 years; building improvements – 10 to 20 years; and furniture, equipment, and vehicles – 3 to 10 years). Leasehold improvements are amortized using the straight-line basis over the remaining term of the lease.

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

	2016	2015
Land	\$ 666,092	\$ 666,092
Building and improvements	1,744,834	1,724,692
Leasehold improvements	486,421	474,548
Furniture and equipment	545,096	514,072
Vehicles	60,396	60,396
	<u>3,502,839</u>	<u>3,439,800</u>
Less accumulated depreciation and amortization	<u>(2,043,384)</u>	<u>(1,881,744)</u>
	<u>\$ 1,459,455</u>	<u>\$ 1,558,056</u>

Donated facilities: Montgomery County has donated the use of the Sophia House to the Organization in conjunction with the Homeless Services program. In order to use the facility, the Organization is responsible for maintaining the property. The value of the free use of the Sophia House has been recorded as donated facilities revenue and expense.

F. TENANT LEASES

The Organization has 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 Organization does not have any tenant leases with terms greater than one year. The Organization's rental income was \$257,203 and \$258,305 for the years ended June 30, 2016 and 2015, respectively.

Cash received from tenants for security deposits is restricted by state law and, therefore, cannot be used for the Organization's 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 \$10,997 and \$8,617 at June 30, 2016 and 2015, respectively. The liability for tenant security deposits has been included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

Notes to the Consolidated Financial Statements

G. FORGIVABLE NOTES PAYABLE

Montgomery County provides funding to the Organization 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 Organization's forgivable notes payable 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 Organization had one forgivable note payable totaling \$588,470 at June 30, 2016 and 2015. The forgivable note payable is eligible to be forgiven during the year ending June 30, 2038.

Forgivable notes payable totaling \$4,848 met the conditions of debt forgiveness due to the passage of time during the year ended June 30, 2015. Therefore, notes forgiven totaling \$4,848 were recognized as unrestricted revenue during the year ended June 30, 2015.

H. NOTES PAYABLE

The Organization has financed the acquisition of various housing properties or building improvements through several notes payable and lines-of-credit 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 notes payable and lines-of-credit are collateralized by the related housing properties.

Forgivable note payable: The mortgage with a maturity in 2041 and an interest rate of 1.00% which has a balance of \$63,666 at June 30, 2016 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.

Loan guarantee: One of IW's mortgages was guaranteed by IHC. The carrying value of the note payable guaranteed by IHC was \$382,794 at June 30, 2016.

Lines-of-credit: The Organization also has two lines-of-credit with commercial banks and the total available for draw down under the lines-of-credit is \$525,000. The lines-of-credit are secured by various properties owned by the Organization. During the year ended June 30, 2016, a total of \$320,000 was drawn on the lines of credit. Of this amount, \$250,000 was repaid during the year; therefore, a balance due of \$70,000 is included in the consolidated statement of financial position as of June 30, 2016. A total of \$155,000 was drawn on the lines-of-credit and subsequently repaid during the year ended June 30, 2015; therefore, no balance was due at June 30, 2015.

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

H. NOTES PAYABLE – CONTINUED

The mortgage notes payable and lines-of-credit have no restrictive debt covenants, have various interest rates and maturities, and consisted of the following, grouped by interest rate, at June 30, 2016:

Type of Note	Rate	Maturity	Principal
Mortgage	1.00%	2041	\$ 63,666
Mortgage	3.00%	2026	4,848
Mortgages (2)	4.00%	2026	43,054
Mortgage	4.25%	2026	83,518
Mortgage	4.61%	2023	382,794
Lines-of-credit (2)	5.00%	2017	70,000
Mortgage	5.25%	2019	279,501
			\$ 927,381

Future maturities of principal under the notes payable and lines-of-credit are as follows at June 30, 2016:

Year Ending June 30,	Amount
2017	\$ 113,390
2018	45,431
2019	278,740
2020	31,920
2021	33,300
Thereafter	424,600
	\$ 927,381

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

I. 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. Undesignated net assets are used for the general operations of the Organization.

Designated net assets include those net assets whose use by the Organization has been designated by resolution of the Board of Directors.

Unrestricted net assets consisted of the following at June 30,:

	2016	2015
Undesignated	\$ 278,534	\$ 573,554
Designated		
Board-designated for endowment	308,838	301,028
Board reserve	90,605	90,605
Education and Advocacy		
McGregor Fund	19,651	20,551
Advocacy Fund (Dring)	2,023	2,023
Subtotal designated	421,117	414,207
	\$ 699,651	\$ 987,761

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by the Organization has been donor restricted by specified purpose or time limitations.

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

	2016	2015
Program restrictions		
Homeless Services	\$ 10,000	\$ 16,151
Education and Advocacy	8,876	13,176
	18,876	29,327
Time restrictions		
Interfaith Clothing Centers	20,000	17,500
Homeless Services	7,875	12,975
Development	-	15,754
Computers and software	-	7,696
Promises to give - for future use	-	3,500
	27,875	57,425
	\$ 46,751	\$ 86,752

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

I. NET ASSETS – CONTINUED

Net assets were released from restrictions either by incurring expenses satisfying the donor's restricted purpose or by the passage of time which allowed for the expiration of time restrictions.

Net assets released from restrictions consisted of the following for the years ended June 30,:

	2016	2015
Satisfaction of program restrictions		
Homeless Services	\$ 108,662	\$ 133,396
Congregation & Community Emergency Support	82,989	83,156
Interfaith Housing Coalition	67,427	83,987
Friends in Action	31,261	23,715
Interfaith Clothing Centers	21,341	7,578
Hand to Hand	9,644	8,332
Education and Advocacy	4,300	-
Subtotal program restrictions	325,624	340,164
Expiration of time restrictions		
Interfaith Clothing Centers	37,500	42,000
Development	15,754	54,246
Computers and software	7,696	8,868
Homeless Services	5,100	9,325
Promises to give - for future use	3,500	9,100
Congregation & Community Emergency Support	-	9,000
Friends in Action	-	5,000
Subtotal time restrictions	69,550	137,539
	\$ 395,174	\$ 477,703

Notes to the Consolidated Financial Statements

J. ENDOWMENT

The Organization's endowment consists of a fund designated by the Board of Directors to function as an endowment, which is classified as a designated fund within unrestricted net assets.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. As part of the Organization's continuing diversification and risk management strategy, a portion of endowment funds are invested in cash, fixed income mutual funds, and equity mutual funds. The investment portfolio is intended to produce returns higher than inflation. As a result, a fair amount of risk is deemed acceptable.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places more emphasis on equity securities to achieve its long-term return objectives.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Organization's spending policy allows appropriation of the annual income upon approval of the Board. In establishing this policy, the Organization considered the long-term expected return on its endowment. The spending policy is consistent with the Organization's objective to maintain the purchasing power of the endowment assets.

Changes in the endowment fund consisted of the following for the years ended June 30,:

	2016	2015
Endowment, beginning of year	\$ 301,028	\$ 291,492
Investment return		
Interest and dividends	12,093	9,530
Net (loss) gain on investments	(4,283)	6
Total investment return	<u>7,810</u>	<u>9,536</u>
Endowment, end of year	<u>\$ 308,838</u>	<u>\$ 301,028</u>

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

K. DONATED GOODS, FACILITIES, AND SERVICES

Recorded amounts: Donated goods, facilities, and services are recognized as contributions in accordance with accounting principles generally accepted in the United States of America.

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 Organization.

Donated goods, facilities, and services recorded in the consolidated statement of activities consisted of the following for the year ended June 30, 2016:

	Goods	Facilities	Services	Total
Interfaith Clothing Centers	\$ 5,677,525	\$ 86,325	\$ 4,643	\$ 5,768,493
Homeless Services	355,341	380,982	29,340	765,663
Interfaith Housing Coalition			617	617
Congregation & Community				
Emergency Support	22,520		3,134	25,654
Friends in Action	23,200			23,200
General and administrative	7,693		53,038	60,731
	\$ 6,086,279	\$ 467,307	\$ 90,772	\$ 6,644,358

Donated goods, facilities, and services recorded in the consolidated statement of activities consisted of the following for the year ended June 30, 2015:

	Goods	Facilities	Services	Total
Interfaith Clothing Centers	\$ 5,035,800	\$ 86,325	\$ -	\$ 5,122,125
Homeless Services	316,297	380,982	6,410	703,689
Interfaith Housing Coalition	500		1,610	2,110
Congregation & Community				
Emergency Support	695		7,632	8,327
Friends in Action	25,005			25,005
General and administrative	10,531		47,850	58,381
	\$ 5,388,828	\$ 467,307	\$ 63,502	\$ 5,919,637

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

K. DONATED GOODS, FACILITIES, AND SERVICES – CONTINUED

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

Management has estimated the value of these unrecorded donated services as follows for the years ended June 30,:

	2016	2015
Interfaith Clothing Centers	\$ 558,321	\$ 411,864
Homeless Services	917,991	914,578
Congregation & Community Emergency Support	92,614	566,204
Friends in Action	66,227	23,769
General and administrative	49,311	83,686
	<u>\$ 1,684,464</u>	<u>\$ 2,000,101</u>

L. RETIREMENT PLAN

The Organization has a defined contribution 403(b) salary deferral and savings incentive plan, which covers all eligible employees who meet age and length of service requirements. Under the plan, the Organization may make employer discretionary contributions. The Organization provides a matching contribution equal to 1% of participant compensation and may provide an additional discretionary contribution. The Organization's contributions under the plan totaled \$30,699 and \$32,386 for the years ended June 30, 2016 and 2015, respectively.

M. COMMITMENTS AND CONTINGENCIES

Administrative operating leases: The Organization has an operating lease for its 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 revenue and expense and totaled \$48,541 and \$48,275 for the years ended June 30, 2016 and 2015, respectively.

The Organization also has an operating lease for copier equipment which expires December 2018. The rent expense related to the copier equipment is reported in printing and production expense within the accompanying consolidated statement of functional revenue and expense and totaled \$18,898 and \$20,049 for the years ended June 30, 2016 and 2015, respectively.

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

M. COMMITMENTS AND CONTINGENCIES – CONTINUED

Homeless Services operating leases: The Organization also 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 except for two residential leases located at Shea Lane and Grandin Avenue which will expire in August 2016 and August 2017, respectively. The Shea Lane lease was not renewed after its expiration in August 2016.

The 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 \$596,626 and \$511,984 for the years ended June 30, 2016 and 2015, respectively.

A summary of the future minimum lease payments related to the aforementioned long-term operating leases is as follows at June 30, 2016:

Year Ending June 30,	Amount
2017	\$ 49,470
2018	19,280
2019	<u>7,140</u>
	<u>\$ 75,890</u>

New lease: The Organization signed an operating lease in February 2016 for space that will support several programs. The lease will become effective after leasehold improvements are completed by the landlord. The lease expires in June 2018, with one option to extend for an additional five years. The initial base monthly rental will be approximately \$3,200, with an annual escalation of 3%. The Organization will also pay its proportionate share of operating expenses and real estate taxes.

Program audits: 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 Organization 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.

Federal awards: The Organization participates in a number of federally assisted grant programs which 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.

Security deposits: As stipulated in certain tenant lease agreements and by state law, the Organization must meet certain requirements in maintaining security deposits received from tenants. If the Organization is found to be non-compliant with the requirements, it could be liable for up to three times the amount of the original security deposit, plus reasonable attorney's fees.

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
Interfaith Works, Inc. & Affiliate

We have audited the consolidated financial statements of Interfaith Works, Inc. & Affiliate (the Organization) as of and for the year ended June 30, 2016 and issued our report thereon dated October 17, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities as of and for the year ended June 30, 2016, and the consolidated statement of expense, net of in-kind, for the year ended June 30, 2016 with 2015 totals, on the following pages are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, or cash flows of the individual companies, and is not a required part of the consolidated financial statements. The supplementary 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 supplementary 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 supplementary information on the following pages is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC
October 17, 2016

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Interfaith Works, Inc. & Affiliate

Consolidating Statement of Financial Position

June 30, 2016

	IW	IHC	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 470,702	\$ 38,160	\$ -	\$ 508,862
Investments	307,039			307,039
Receivables	334,865	571		335,436
Due from affiliate		115,740	(115,740)	-
Loan guarantee from IHC	382,794		(382,794)	-
Prepaid expenses and other assets	53,769	28,236		82,005
Property and equipment	536,514	922,941		1,459,455
Total assets	\$ 2,085,683	\$ 1,105,648	\$ (498,534)	\$ 2,692,797
Liabilities and net assets				
Liabilities				
Accounts payable and accrued expenses	\$ 407,679	\$ 22,865	\$ -	\$ 430,544
Due to affiliate	115,740		(115,740)	-
Loan guarantee to IW		382,794	(382,794)	-
Forgivable notes payable	588,470			588,470
Notes payable	452,794	474,587		927,381
Total liabilities	1,564,683	880,246	(498,534)	1,946,395
Net assets				
Unrestricted	474,249	225,402		699,651
Temporarily restricted	46,751			46,751
Total net assets	521,000	225,402	-	746,402
Total liabilities and net assets	\$ 2,085,683	\$ 1,105,648	\$ (498,534)	\$ 2,692,797

Interfaith Works, Inc. & Affiliate

Consolidating Statement of Activities

Year Ended June 30, 2016

	IW	IHC	Eliminations	Consolidated
Unrestricted activities				
Revenue and support				
Donated goods, facilities, and services	\$ 6,643,741	\$ 617	\$ -	\$ 6,644,358
Federal, state, and county contracts	4,239,750			4,239,750
Contributions	637,231		(18,311)	618,920
Program income	255,759	10,100		265,859
Rental income		257,203		257,203
Investment income	4,627	3,362		7,989
	11,781,108	271,282	(18,311)	12,034,079
Special events	164,183			164,183
Less costs of direct benefits to donors	(6,591)			(6,591)
	157,592	-	-	157,592
Net assets released from restriction	329,999	65,175		395,174
Total support and revenue	12,268,699	336,457	(18,311)	12,586,845
Expense				
Program services				
Interfaith Clothing Centers	6,099,384			6,099,384
Homeless Services	5,261,284			5,261,284
Interfaith Housing Coalition	41,442	383,894	(18,311)	407,025
Congregation & Community Emergency Support	274,375			274,375
Friends in Action	133,289			133,289
Hand to Hand	85,885			85,885
Education and Advocacy	4,715			4,715
Total program services	11,900,374	383,894	(18,311)	12,265,957
Supporting services				
Development	495,430			495,430
General and administrative	73,084	40,484		113,568
Total supporting services	568,514	40,484	-	608,998
Total expense	12,468,888	424,378	(18,311)	12,874,955
Change in unrestricted net assets	(200,189)	(87,921)	-	(288,110)
Temporarily restricted activities				
Contributions	289,998	65,175		355,173
Net assets released from restriction	(329,999)	(65,175)		(395,174)
Change in temporarily restricted net assets	(40,001)	-	-	(40,001)
Change in net assets	(240,190)	(87,921)	-	(328,111)
Net assets, July 1, 2015	761,190	313,323	-	1,074,513
Net assets, June 30, 2016	\$ 521,000	\$ 225,402	\$ -	\$ 746,402

Interfaith Works, Inc. & Affiliate

Consolidated Statement of Expense, Net of In-Kind Year Ended June 30, 2016 with 2015 Totals

	2016			2015
	Expense	In-Kind	Expense Net of In-Kind	Expense Net of In-Kind
Program services				
Interfaith Clothing Centers	\$ 6,099,384	\$ (5,768,493)	\$ 330,891	\$ 279,455
Homeless Services	5,261,284	(765,663)	4,495,621	4,516,732
Interfaith Housing Coalition	407,025	(617)	406,408	435,858
Congregation & Community Emergency Support	274,375	(25,654)	248,721	235,309
Friends in Action	133,289	(23,200)	110,089	114,463
Hand to Hand	85,885		85,885	88,719
Education and Advocacy	4,715		4,715	-
Total program services	12,265,957	(6,583,627)	5,682,330	5,670,536
Supporting services				
Development	495,430		495,430	505,840
General and administrative	113,568	(60,731)	52,837	45
Total supporting services	608,998	(60,731)	548,267	505,885
Total expense	\$ 12,874,955	\$ (6,644,358)	\$ 6,230,597	\$ 6,176,421