

**Audited Consolidated Financial Statements  
and Supplementary Information**

**INTERFAITH WORKS, INC. & AFFILIATE**

*June 30, 2017*

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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, 2017, 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. 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.

## 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, 2017, 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.

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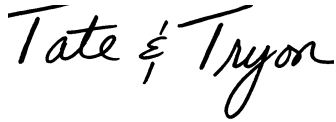
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To the Board of Directors  
February 14, 2018  
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**Summarized Comparative Information**

We have previously audited the Organization's 2016 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The image shows a handwritten signature in black ink that reads "Tate & Tryon". The signature is written in a cursive, flowing style.

Washington, DC  
February 14, 2018

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Financial Position

<i>June 30,</i>	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 372,415	\$ 508,862
Investments	336,500	307,039
Receivables	474,595	335,436
Prepaid expenses and other assets	77,200	82,005
Property and equipment	1,418,023	1,459,455
<b>Total assets</b>	<b>\$ 2,678,733</b>	<b>\$ 2,692,797</b>
<b>Liabilities and net assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 316,673	\$ 430,544
Forgivable notes payable	588,470	588,470
Notes payable	1,320,567	927,381
Total liabilities	2,225,710	1,946,395
Commitments and contingencies	-	-
Net assets		
Unrestricted	386,672	699,651
Temporarily restricted	66,351	46,751
Total net assets	453,023	746,402
<b>Total liabilities and net assets</b>	<b>\$ 2,678,733</b>	<b>\$ 2,692,797</b>

See notes to the consolidated financial statements.

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Activities

<i>Year Ended June 30,</i>	2017	2016
<b>Unrestricted activities</b>		
Revenue and support		
Donated goods, facilities, and services	\$ 7,745,241	\$ 6,644,358
Federal, state, and county contracts	4,223,394	4,239,750
Contributions	710,181	618,920
Rental income	310,728	257,203
Program income	198,534	265,859
Investment income	30,487	7,989
	<b>13,218,565</b>	<b>12,034,079</b>
Special events	90,006	164,183
Less costs of direct benefits to donors	<b>(20,447)</b>	<b>(6,591)</b>
	<b>69,559</b>	<b>157,592</b>
Net assets released from restriction	<b>374,369</b>	<b>395,174</b>
Total revenue and support	<b>13,662,493</b>	<b>12,586,845</b>
Expense		
Program services		
Interfaith Clothing Center	6,482,631	6,099,384
Homeless Services	5,804,751	5,148,988
Interfaith Housing Coalition	380,303	407,025
Congregation & Community Emergency Support	243,746	274,375
Vocational Services	231,457	112,296
Friends in Action	139,000	133,289
Hand to Hand	83,924	85,885
Education and Advocacy	3,618	4,715
Total program services	<b>13,369,430</b>	<b>12,265,957</b>
Supporting services		
Development	492,478	495,430
General and administrative	113,564	113,568
Total supporting services	<b>606,042</b>	<b>608,998</b>
Total expense	<b>13,975,472</b>	<b>12,874,955</b>
Change in unrestricted net assets	<b>(312,979)</b>	<b>(288,110)</b>
<b>Temporarily restricted activities</b>		
Contributions	393,969	355,173
Net assets released from restriction	<b>(374,369)</b>	<b>(395,174)</b>
Change in temporarily restricted net assets	<b>19,600</b>	<b>(40,001)</b>
<b>Change in net assets</b>	<b>(293,379)</b>	<b>(328,111)</b>
Net assets, beginning of year	746,402	1,074,513
<b>Net assets, end of year</b>	<b>\$ 453,023</b>	<b>\$ 746,402</b>

See notes to the consolidated financial statements.

Interfaith Works, Inc. & Affiliate

Consolidated Statement of Functional Revenue and Expense

Year Ended June 30, 2017 with 2016 Totals

	Program Services							Supporting Services		2017 Total	2016 Total	
	Interfaith Clothing Center	Homeless Services	Interfaith Housing Coalition	Congregation & Community	Vocational Services	Friends in Action	Hand to Hand	Education and Advocacy	Development			General and Administrative
<b>Revenue and support</b>												
Donated goods, facilities, and services	\$ 6,054,414	\$ 1,581,466	\$ 9,131	\$ 5,535	\$ 7,467	\$ 27,982	\$ -	\$ -	\$ -	\$ 59,246	\$ 7,745,241	\$ 6,644,358
Federal, state, and county contracts	113,482	3,706,246	-	75,841	83,000	65,325	20,000	-	-	159,500	4,223,394	4,239,750
Contributions	154,715	60,635	16,485	77,794	49,082	26,683	8,575	-	225,888	484,293	1,104,150	974,093
Rental income	-	-	310,728	-	-	-	-	-	-	-	310,728	257,203
Program income	31,716	143,325	20,200	120	1,486	-	420	-	-	1,267	198,534	265,859
Investment income	-	29	13,003	-	-	-	-	-	-	17,455	30,487	7,989
	6,354,327	5,491,701	369,547	159,290	141,035	119,990	28,995	-	225,888	721,761	13,612,534	12,389,252
Special events	-	-	-	-	-	-	-	-	90,006	-	90,006	164,183
Less costs of direct benefits to donors	-	-	-	-	-	-	-	-	(20,447)	-	(20,447)	(6,591)
	-	-	-	-	-	-	-	-	69,559	-	69,559	157,592
Total revenue and support	6,354,327	5,491,701	369,547	159,290	141,035	119,990	28,995	-	295,447	721,761	13,682,093	12,546,844
<b>Expense</b>												
Donated goods and services	5,782,224	674,149	2,464	4,635	2,400	21,315	-	-	-	58,486	6,545,673	6,177,051
Salaries and wages	253,732	2,315,186	150,786	51,370	135,143	68,526	52,564	-	268,824	361,542	3,657,673	3,682,843
Donated facilities	272,190	907,317	6,667	900	5,067	6,667	-	-	-	760	1,199,568	467,307
Taxes and related benefits	32,891	429,787	21,013	8,515	26,904	12,716	2,492	-	40,031	97,817	672,166	711,465
Client support	10	536,245	26,086	79,681	9,193	703	14,487	-	1,680	-	668,085	863,347
Computers and furniture	8,012	175,198	3,166	2,260	11,546	4,173	1,552	3,300	14,651	7,431	231,289	96,166
Depreciation and amortization	5,715	53,834	79,189	1,054	2,272	1,423	519	-	6,698	6,661	157,365	161,640
Accounting, audit, and finance	7,610	81,042	7,593	1,668	3,669	2,224	809	-	10,851	15,565	131,031	91,057
Repairs and maintenance	55,374	62,546	1,471	824	643	1,334	382	-	2,005	382	127,282	84,141
Professional fees	124	49,995	80	27	58	36	13	-	36,639	1,315	88,287	89,700
Rent and utilities	1,083	25,063	6,701	5,168	1,690	3,329	2,584	-	14,432	21,372	81,422	58,855
Telephone and communications	11,949	48,107	3,067	1,432	4,876	2,159	460	-	3,793	4,851	80,694	69,413
Grants to others	-	-	-	58,966	-	-	-	-	-	-	58,966	61,516
Interest	-	-	19,648	-	-	-	-	-	-	33,840	53,488	42,955
Printing and production	3,148	12,085	406	1,429	1,150	205	179	-	19,367	1,078	39,047	36,053
Homeowners association fees	-	-	36,929	-	-	-	-	-	-	-	36,929	35,761
Insurance	2,020	21,963	949	318	685	429	157	-	2,021	2,012	30,554	32,310
Office and supplies	5,796	9,938	856	2,167	722	1,224	177	-	2,884	2,930	26,694	22,352
Personnel-related expenses	1,249	15,666	182	221	3,988	545	6	-	1,003	1,302	24,162	20,840
Travel and transportation	1,427	11,133	5,005	277	993	1,995	-	-	741	13	21,584	23,450
Event expenses	-	48	-	-	550	-	-	-	13,207	92	13,897	12,122
Postage and delivery	116	1,004	328	835	32	246	172	-	4,019	2,155	8,907	9,886
Property taxes and licenses	125	1,270	6,231	-	-	-	-	-	-	300	7,926	7,363
Conferences and meetings	226	249	-	1,077	203	-	-	-	3,685	1,177	6,617	7,405
Bad debt	-	2,000	1,473	-	-	-	-	-	-	-	3,473	9,957
Newsletter	-	-	-	-	-	-	-	-	2,693	-	2,693	-
Total expense before allocation	6,445,021	5,433,825	380,290	222,824	211,784	129,249	76,553	3,300	449,224	623,402	13,975,472	12,874,955
Overhead allocation	37,610	370,926	13	20,922	19,673	9,751	7,371	318	43,254	(509,838)	-	-
Total expense	6,482,631	5,804,751	380,303	243,746	231,457	139,000	83,924	3,618	492,478	113,564	13,975,472	12,874,955
<b>Change in net assets</b>	\$ (128,304)	\$ (313,050)	\$ (10,756)	\$ (84,456)	\$ (90,422)	\$ (19,010)	\$ (54,929)	\$ (3,618)	\$ (197,031)	\$ 608,197	\$ (293,379)	\$ (328,111)

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Cash Flows

<i>Year Ended June 30,</i>	2017	2016
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (293,379)	\$ (328,111)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net (gain) loss on investments	(22,591)	4,283
Bad debt	3,473	9,957
Depreciation and amortization	157,365	161,640
Changes in assets and liabilities		
Receivables	(142,632)	7,541
Prepaid expenses and other assets	4,805	(5,234)
Accounts payable and accrued expenses	(113,871)	78,038
Total adjustments	(113,451)	256,225
Net cash used in operating activities	(406,830)	(71,886)
<b>Cash flows from investing activities</b>		
Purchases of investments	(6,870)	(11,085)
Purchases of property and equipment	(115,933)	(63,039)
Net cash used in investing activities	(122,803)	(74,124)
<b>Cash flows from financing activities</b>		
Borrowings on notes payable	585,000	320,000
Principal payments on notes payable	(191,814)	(289,502)
Net cash provided by financing activities	393,186	30,498
<b>Net decrease in cash and cash equivalents</b>	<b>(136,447)</b>	<b>(115,512)</b>
Cash and cash equivalents, beginning of year	508,862	624,374
<b>Cash and cash equivalents, end of year</b>	<b>\$ 372,415</b>	<b>\$ 508,862</b>
<b>Supplemental disclosures of cash flow information</b>		
Donated stock liquidated to cash	\$ 96,268	\$ 4,113
Gift card donations	\$ 5,602	\$ 563
Cash paid during the year for interest	\$ 53,488	\$ 42,955

See notes to the consolidated financial statements.



# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

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### 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

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### 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 Center:* Interfaith Clothing Center provides free clothing and household goods, provides new infant supplies to expectant parents, offers books to children, distributes school supplies for low-income families, and links families with available resources through Project INFORM. The Center serves over 13,000 income-qualified residents each year, including nearly 6,000 children.

*Homeless Services:* Interfaith Works Women's Center (formerly 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. The Center serves as an intake and assessment center for all single adult homeless women in Montgomery County.

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 oversight and intensive 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 supporting housing program using the Housing First approach to provide housing for 31 chronically homeless or vulnerable disabled women and men annually. They reside in 31 scattered-site units and, with case-worker and medical support, work to stabilize and maintain housing.

Interfaith Works Empowerment Center (formerly Community Vision), on an annual basis, engages approximately 800 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. The Center also provides seasonal night shelter for hypothermia and hyperthermia, serving approximately 350 homeless adults annually.

*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 families. Each family is engaged in intensive case-management and works towards customized family action plan goals aimed at progressing to greater independence.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

*Congregation & Community Emergency Support:* The Congregation & Community Emergency Support (CCES) program provides counseling, referrals, grants, and loans to help 3,500 individuals avoid eviction, foreclosure, and utility cut-offs and pay for other essential expenses. The CCES program also facilitates multi-agency collaboration through Montgomery County's Emergency Assistance Coalition, and offers support to congregations through counseling, referrals, and training.

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

*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, such as the Empty Bowls Event and Business Breakfast.

*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.

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. Amounts reported within program services expense in the June 30, 2016 financial statements were reclassified as follows:

	Previously Reported	Reclassification	Currently Reported
Homeless services	\$ 5,261,284	\$ (112,296)	\$ 5,148,988
Vocational services	-	112,296	112,296
	<u>\$ 5,261,284</u>	<u>\$ -</u>	<u>\$ 5,261,284</u>

# Interfaith Works, Inc. & Affiliate

## 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,:

	2017	2016
Mutual funds		
Fixed income	\$ 160,889	\$ 158,476
Domestic equity	147,538	125,155
International equity	28,073	23,408
	<u>\$ 336,500</u>	<u>\$ 307,039</u>

# 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,:

	2017	2016
Net gain (loss) on investments	\$ 22,591	\$ (4,283)
Interest and dividends	7,896	12,272
	<u>\$ 30,487</u>	<u>\$ 7,989</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 \$3,473 and \$9,957 for the years ended June 30, 2017 and 2016, respectively.

Receivables consisted of the following at June 30,:

	2017	2016
Contracts receivable	\$ 420,418	\$ 309,612
Promises to give	25,000	20,000
Other receivables	29,177	5,824
	<u>\$ 474,595</u>	<u>\$ 335,436</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,:

	2017	2016
Land	\$ 666,092	\$ 666,092
Building and improvements	1,768,073	1,744,834
Leasehold improvements	511,140	486,421
Furniture and equipment	613,071	545,096
Vehicles	60,396	60,396
	<u>3,618,772</u>	<u>3,502,839</u>
Less accumulated depreciation and amortization	<u>(2,200,749)</u>	<u>(2,043,384)</u>
	<u><b>\$ 1,418,023</b></u>	<u><b>\$ 1,459,455</b></u>

Donated facilities: The Organization receives 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 K).

### 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 \$310,728 and \$257,203 for the years ended June 30, 2017 and 2016, 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 \$13,944 and \$10,997 at June 30, 2017 and 2016, 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

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### 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, 2017 and 2016. 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 years ended June 30, 2017 and 2016.

### 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, 2017 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 \$367,606 at June 30, 2017.

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. Throughout 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 was included in the consolidated statement of financial position as of June 30, 2017. Throughout the year ended June 30, 2017, a total of \$585,000 was drawn and \$150,000 was repaid on the lines of credit. Therefore, a balance due of \$505,000 is included in the consolidated statement of financial position as of June 30, 2017.

# 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, 2017:

Type of Note	Rate	Maturity	Principal
Mortgage	1.00%	2041	\$ 63,666
Mortgage	3.00%	2026	4,257
Line-of-credit	4.00%	2017	265,000
Mortgages (2)	4.00%	2026	39,527
Mortgage	4.25%	2026	76,198
Mortgage	4.61%	2023	367,606
Line-of-credit	5.00%	2017	240,000
Mortgage	5.25%	2019	264,313
			<b>\$ 1,320,567</b>

Exclusive of the forbearance and modification agreement described in Note N, future maturities of principal under the notes payable and lines-of-credit are as follows at June 30, 2017:

Year Ending June 30,	Amount
2018	\$ 550,431
2019	278,816
2020	31,920
2021	33,300
2022	34,742
Thereafter	391,358
	<b>\$ 1,320,567</b>



# 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,:

	2017	2016
Undesignated	\$ (64,726)	\$ 278,534
Designated		
Board-designated for endowment	339,119	308,838
Board reserve	90,605	90,605
Education and Advocacy		
McGregor Fund	19,651	19,651
Advocacy Fund (Dring)	2,023	2,023
Subtotal designated	<u>451,398</u>	<u>421,117</u>
	<u>\$ 386,672</u>	<u>\$ 699,651</u>

As indicated in the preceding chart, the Organization has a deficit in undesignated net assets totaling \$64,726 at June 30, 2017. The deficit is due to over-designations of unrestricted net assets. Designated net assets have no donor restrictions and, therefore, designated balances could be undesignated through a motion of the Organization's Board of Directors in order to remove the deficit.

Losses from operations: The Organization has reported losses from operations averaging approximately \$300,000 annually for three consecutive years (2017, 2016, and 2015). This trend of recurring losses from operations suggests the need to reevaluate the alignment of programs with fund raising efforts to ensure contributions are sufficient to provide fiscal support for program and related supporting services expenses. The consolidated financial statements do not include any adjustments that might be necessary in the event that the Organization is unable to continue at its current level of operations.

The Organization is in the process of finalizing a plan, which includes sales of assets and fundraising for additional unrestricted contributions in addition to certain administrative and programmatic expense reductions. While management's plan is no guarantee of future success, it evidences efforts to contain the trend of losses and return the Organization to a sustainable level of operations.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### I. NET ASSETS – CONTINUED

*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,:

	<b>2017</b>	<b>2016</b>
Program restrictions		
Interfaith Clothing Center	\$ 30,000	\$ -
Education and Advocacy	5,576	8,876
Homeless Services	-	10,000
	35,576	18,876
Time restrictions		
Interfaith Clothing Center	20,000	20,000
Homeless Services	10,775	7,875
	30,775	27,875
	<b>\$ 66,351</b>	<b>\$ 46,751</b>

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,:

	<b>2017</b>	<b>2016</b>
Satisfaction of program restrictions		
Interfaith Clothing Center	\$ 84,715	\$ 21,341
Congregation & Community Emergency Support	77,794	82,989
Homeless Services	65,635	86,862
Vocational Services	49,082	21,800
Friends in Action	26,683	31,261
Interfaith Housing Coalition	16,485	67,427
Hand to Hand	8,575	9,644
Education and Advocacy	3,300	4,300
Subtotal program restrictions	332,269	325,624
Expiration of time restrictions		
Interfaith Clothing Center	40,000	37,500
Homeless Services	2,100	5,100
Development	-	15,754
Computers and software	-	7,696
Promises to give - for future use	-	3,500
Subtotal time restrictions	42,100	69,550
	<b>\$ 374,369</b>	<b>\$ 395,174</b>

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,:

	<b>2017</b>	<b>2016</b>
Endowment, beginning of year	\$ 308,838	\$ 301,028
Investment return		
Net gain (loss) on investments	22,591	(4,283)
Interest and dividends	7,690	12,093
Total investment return	<u>30,281</u>	<u>7,810</u>
Endowment, end of year	<u><b>\$ 339,119</b></u>	<u><b>\$ 308,838</b></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, 2017:

	<b>Goods</b>	<b>Facilities</b>	<b>Services</b>	<b>Total</b>
Interfaith Clothing Center	\$ 5,782,224	\$ 272,190	\$ -	\$ 6,054,414
Homeless Services	667,099	907,317	7,050	1,581,466
Interfaith Housing Coalition	810	6,667	1,654	9,131
Congregation & Community				
Emergency Support	800	900	3,835	5,535
Vocational Services	2,400	5,067		7,467
Friends in Action	21,315	6,667		27,982
General and administrative	13,850	760	44,636	59,246
	<b>\$ 6,488,498</b>	<b>\$ 1,199,568</b>	<b>\$ 57,175</b>	<b>\$ 7,745,241</b>

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

	<b>Goods</b>	<b>Facilities</b>	<b>Services</b>	<b>Total</b>
Interfaith Clothing Center	\$ 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
	<b>\$ 6,086,279</b>	<b>\$ 467,307</b>	<b>\$ 90,772</b>	<b>\$ 6,644,358</b>

# 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,:

	2017	2016
Interfaith Clothing Center	\$ 552,571	\$ 558,321
Homeless Services	906,862	917,991
Congregation & Community Emergency Support	32,469	92,614
Vocational Services	66,281	-
Friends in Action	75,387	66,227
General and administrative	44,177	49,311
	<u>\$ 1,677,747</u>	<u>\$ 1,684,464</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 \$29,236 and \$30,699 for the years ended June 30, 2017 and 2016, 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 \$69,503 and \$48,541 for the years ended June 30, 2017 and 2016, 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 \$19,421 and \$18,898 for the years ended June 30, 2017 and 2016, respectively.

**Notes to the Consolidated Financial Statements**

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**M. COMMITMENTS AND CONTINGENCIES – CONTINUED**

Homeless Services operating leases: 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 a new operating lease for space that supports several programs. The lease commenced in December 2016 and expires in June 2018, with one option to extend for an additional five years. The initial base monthly rental is approximately \$3,200, with an annual escalation of 3%. The Organization also pays its proportionate share of operating expenses and real estate taxes.

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 \$455,016 and \$596,626 for the years ended June 30, 2017 and 2016, respectively.

A summary of the future minimum lease payments related to the aforementioned long-term operating leases is as follows at June 30, 2017:

Year Ending June 30,	Amount
2018	\$ 53,511
2019	<u>7,140</u>
	<u>\$ 60,651</u>

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. Total federal expenditures were less than \$750,000 for the year ended June 30, 2017. 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.

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.

Notes to the Consolidated Financial Statements

**N. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 14, 2018, which is the date the consolidated financial statements were available to be issued. The following subsequent events could have a significant impact on the Organization's consolidated financial statements.

Bucknell Apartments, LLC: The Organization, through IHC, owns 1% of Bucknell Apartments, LLC. The Organization's interest in the LLC has not been recorded in the consolidated financial statements due to the deficit in owners' equity that has consistently been reported in the LLC's financial statements for several years. At the October 2017 Executive Committee meeting, the Organization acknowledged that the Bucknell Apartment building would be sold and that a buyer had been identified. Management expects sale to be completed by March 2018. In conjunction with the sale, Organization will receive its proportionate share of the cash proceeds by June 30, 2018.

Maplewood: At the October 2017 Executive Committee meeting, a motion was approved to sell the Maplewood property immediately without making any improvements prior to the sale. The book value of the property was approximately \$135,000 at June 30, 2017. Management expects to complete the sale by March 2018.

Line-of-credit forbearance and modification: Effective February 14, 2018, the Organization signed a forbearance and modification agreement with the bank in relation to the line-of-credit that had an interest rate of 5% and a balance due of \$240,000 at June 30, 2017. The agreement converts the line-of-credit to a revised debt instrument with an interest rate of 5.5% and maturity date of July 1, 2019. The outstanding balance on the date of the agreement was \$230,000 but the Organization was also required to pay legal fees, accrued interest, and other costs totaling \$13,315 during the year ending June 30, 2018. Monthly payments of principal and interest are due over the term of the note payable as stipulated in the agreement. In accordance with the agreement, future minimum principal payments will be as follows:

Year Ending June 30,	Amount
2018	\$ 23,000
2019	27,500
2020	179,500
	<u>\$ 230,000</u>

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, 2017, and have issued our report thereon dated February 14, 2018, 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 financial statements and the consolidated statement of expense, net of in-kind, presented on the following pages are included 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  
February 14, 2018

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# Interfaith Works, Inc. & Affiliate

## Consolidating Statement of Financial Position

*June 30, 2017*

	IW	IHC	Eliminations	Consolidated
<b>Assets</b>				
Cash and cash equivalents	\$ 339,086	\$ 33,329	\$ -	\$ 372,415
Investments	336,500			336,500
Receivables	474,160	435		474,595
Due from affiliate		108,772	(108,772)	-
Loan guarantee from IHC	367,606		(367,606)	-
Prepaid expenses and other assets	47,262	29,938		77,200
Property and equipment	547,888	870,135		1,418,023
<b>Total assets</b>	<b>\$ 2,112,502</b>	<b>\$ 1,042,609</b>	<b>\$ (476,378)</b>	<b>\$ 2,678,733</b>
<b>Liabilities and net assets</b>				
Liabilities				
Accounts payable and accrued expenses	\$ 286,860	\$ 29,813	\$ -	\$ 316,673
Due to affiliate	108,772		(108,772)	-
Loan guarantee to IW		367,606	(367,606)	-
Forgivable notes payable	588,470			588,470
Notes payable	872,606	447,961		1,320,567
<b>Total liabilities</b>	<b>1,856,708</b>	<b>845,380</b>	<b>(476,378)</b>	<b>2,225,710</b>
Net assets				
Unrestricted	189,443	197,229		386,672
Temporarily restricted	66,351			66,351
<b>Total net assets</b>	<b>255,794</b>	<b>197,229</b>	<b>-</b>	<b>453,023</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,112,502</b>	<b>\$ 1,042,609</b>	<b>\$ (476,378)</b>	<b>\$ 2,678,733</b>

# Interfaith Works, Inc. & Affiliate

## Consolidating Statement of Activities

*Year Ended June 30, 2017*

	IW	IHC	Eliminations	Consolidated
<b>Unrestricted activities</b>				
Revenue and support				
Donated goods, facilities, and services	\$ 7,736,110	\$ 9,131	\$ -	\$ 7,745,241
Federal, state, and county contracts	4,223,394			4,223,394
Contributions	727,751		(17,570)	710,181
Program income	178,334	20,200		198,534
Rental income		310,728		310,728
Investment income	17,484	13,003		30,487
	12,883,073	353,062	(17,570)	13,218,565
Special events	90,006			90,006
Less costs of direct benefits to donors	(20,447)			(20,447)
	69,559	-	-	69,559
Net assets released from restriction	357,884	16,485		374,369
Total support and revenue	13,310,516	369,547	(17,570)	13,662,493
Expense				
Program services				
Interfaith Clothing Center	6,482,631			6,482,631
Homeless Services	5,804,751			5,804,751
Interfaith Housing Coalition	37,936	359,937	(17,570)	380,303
Congregation & Community Emergency Support	243,746			243,746
Vocational Services	231,457			231,457
Friends in Action	139,000			139,000
Hand to Hand	83,924			83,924
Education and Advocacy	3,618			3,618
Total program services	13,027,063	359,937	(17,570)	13,369,430
Supporting services				
Development	492,478			492,478
General and administrative	75,781	37,783		113,564
Total supporting services	568,259	37,783	-	606,042
Total expense	13,595,322	397,720	(17,570)	13,975,472
Change in unrestricted net assets	(284,806)	(28,173)	-	(312,979)
<b>Temporarily restricted activities</b>				
Contributions	377,484	16,485		393,969
Net assets released from restriction	(357,884)	(16,485)		(374,369)
Change in temporarily restricted net assets	19,600	-	-	19,600
<b>Change in net assets</b>	(265,206)	(28,173)	-	(293,379)
Net assets, July 1, 2016	521,000	225,402	-	746,402
<b>Net assets, June 30, 2017</b>	\$ 255,794	\$ 197,229	\$ -	\$ 453,023

## Interfaith Works, Inc. & Affiliate

### Consolidated Statement of Expense, Net of In-Kind Year Ended June 30, 2017 with 2016 Totals

	2017			2016
	Expense	In-Kind	Expense Net of In-Kind	Expense Net of In-Kind
Program services				
Interfaith Clothing Center	\$ 6,482,631	\$ (6,054,414)	<b>\$ 428,217</b>	\$ 330,891
Homeless Services	5,804,751	(1,581,466)	<b>4,223,285</b>	4,383,325
Interfaith Housing Coalition	380,303	(9,131)	<b>371,172</b>	406,408
Congregation & Community Emergency Support	243,746	(5,535)	<b>238,211</b>	248,721
Vocational Services	231,457	(7,467)	<b>223,990</b>	112,296
Friends in Action	139,000	(27,982)	<b>111,018</b>	110,089
Hand to Hand	83,924		<b>83,924</b>	85,885
Education and Advocacy	3,618		<b>3,618</b>	4,715
Total program services	13,369,430	(7,685,995)	<b>5,683,435</b>	5,682,330
Supporting services				
Development	492,478		<b>492,478</b>	495,430
General and administrative	113,564	(59,246)	<b>54,318</b>	52,837
Total supporting services	606,042	(59,246)	<b>546,796</b>	548,267
Total expense	\$ 13,975,472	\$ (7,745,241)	<b>\$ 6,230,231</b>	\$ 6,230,597