

**Audited Consolidated Financial Statements
and Other Financial Information**

INTERFAITH WORKS, INC. & AFFILIATE

June 30, 2012

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T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Consolidated Financial Statements

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

We have audited the accompanying consolidated statement of financial position of Interfaith Works, Inc. & Affiliate (the Organization) as of June 30, 2012, and the related consolidated statements of activities, functional revenue and expense, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2011 consolidated financial statements and, in our report dated October 6, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, with respect to Interfaith Works, Inc. (IW), 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Interfaith Works, Inc. & Affiliate as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 22, 2012, on our consideration of IW's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2012 audit.

Washington, DC
October 22, 2012

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

Interfaith Works, Inc. & Affiliate

Consolidated Statements of Financial Position

June 30,	2012	2011
Assets		
Cash and cash equivalents - Notes B & C	\$ 925,049	\$ 908,258
Investments - Notes B & D	228,015	211,060
Accounts receivable	187,926	232,214
Prepaid expenses and other assets	76,382	70,528
Property and equipment - Note E	1,967,380	2,078,880
Total assets	\$ 3,384,752	\$ 3,500,940
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 257,455	\$ 218,033
Tenant security deposits - Note F	8,348	6,153
Forgivable notes payable - Note G	974,486	969,409
Notes payable - Note H	1,006,334	1,047,634
Total liabilities	2,246,623	2,241,229
Commitments and contingencies - Note I	-	-
Net assets		
Unrestricted - Note J & K	1,092,954	1,146,259
Temporarily restricted - Note J	45,175	113,452
Total net assets	1,138,129	1,259,711
Total liabilities and net assets	\$ 3,384,752	\$ 3,500,940

See notes to the consolidated financial statements.

Interfaith Works, Inc. & Affiliate

Consolidated Statements of Activities

Year Ended June 30,	2012	2011
Unrestricted activities		
Revenue and support		
Donated goods, facilities, and services - Note L	\$ 4,028,281	\$ 4,341,657
Federal, state, and county contracts	2,846,780	2,890,284
Contributions	759,314	774,915
Rental income - Note F	244,485	292,091
Program income	157,002	156,443
Investment income - Note D	9,098	31,348
Other income	630	562
	8,045,590	8,487,300
Special events	60,532	69,455
Less costs of direct benefits to donors	(15,008)	(17,677)
	45,524	51,778
Net assets released from restriction - Note J	743,454	842,583
Total revenue and support	8,834,568	9,381,661
Expense		
Program services		
Interfaith Clothing Centers	3,683,262	3,796,425
Homeless Services	3,606,894	3,720,906
Interfaith Housing Coalition	486,179	406,145
Congregation & Community Emergency Support	312,449	361,382
Friends in Action	159,708	167,760
Education and Advocacy	84,371	106,766
Hand to Hand	74,674	81,435
Thanksgiving in February	50,471	57,837
Community Development	42,002	34,109
Total program services	8,500,010	8,732,765
Supporting services		
Development	314,396	269,850
General and administrative	73,467	189,202
Total supporting services	387,863	459,052
Total expense	8,887,873	9,191,817
Change in unrestricted net assets from operations	(53,305)	189,844
Loans forgiven - Note G	-	400,485
Change in unrestricted net assets	(53,305)	590,329
Temporarily restricted activities		
Contributions	675,177	818,360
Net assets released from restriction - Note J	(743,454)	(842,583)
Change in temporarily restricted net assets	(68,277)	(24,223)
Change in net assets	(121,582)	566,106
Net assets, beginning of year	2,416,146	693,605
Net assets, end of year	\$ 2,119,677	\$ 2,416,146

See notes to the consolidated financial statements.
 Certain 2011 amounts have been reclassified for comparative purposes.

Interfaith Works, Inc. & Affiliate

Consolidated Statement of Functional Revenue and Expense

Year Ended June 30, 2012 with 2011 Totals

	Program services							Supporting Services		2012 Total	2011 Total	
	Interfaith Clothing Centers	Homeless Services	Interfaith Housing Coalition	Congregation & Community	Friends in Action	Education and Advocacy	Hand to Hand	Thanksgiving in February	Community Development			General and Administrative
Revenue and support												
Donated goods, facilities, and services - Note L	\$ 3,374,655	\$ 562,611	\$ 2,631	\$ 14,989	\$ 20,010	\$ -	\$ -	\$ -	\$ -	\$ 53,385	\$ 4,028,281	\$ 4,341,657
Federal, state, and county contracts	61,492	2,633,643	-	78,745	62,900					10,000	2,846,780	2,890,284
Contributions - Note G	138,925	127,358	183,094	145,796	36,650		18,643	24,711		258,736	1,434,491	1,993,760
Rental income - Note F	-	-	244,485	-	-						244,485	292,091
Program income	21,663	127,815	-	5,297	-		1,777			450	157,002	156,443
Investment income - Note D	-	-	3,264	-	-					5,834	9,098	31,348
Other income	-	150	130	-	-					350	630	562
	3,596,735	3,451,577	433,604	244,827	119,560	-	20,420	24,711	-	258,736	570,597	8,720,767
Special events										60,532		60,532
Less costs of direct benefits to donors										(15,008)		(15,008)
	-	-	-	-	-	-	-	-	-	45,524	-	45,524
Total revenue and support	3,596,735	3,451,577	433,604	244,827	119,560	-	20,420	24,711	-	304,260	570,597	8,766,291
Expense												
Donated goods and services - Note L	3,288,330	181,629	2,631	14,989	20,010						53,385	3,560,974
Salaries and wages	187,884	1,914,458	186,947	74,699	93,545	49,419	40,342	19,309	26,019	145,771	175,549	2,913,942
Taxes and related benefits - Note M	30,520	348,536	38,952	13,421	13,940	9,360	7,161	5,265	4,733	19,241	59,038	550,167
Donated facilities - Note L	86,325	380,982										467,307
Client support	32,376	268,427	17,975	90,208	2,703		15,785			2,887		430,361
Depreciation and amortization	7,458	72,153	71,187	2,280	2,695	1,866	1,044		415	5,042	6,028	170,168
Grants to others			26,870	80,221				18,083		27,472		152,646
Computers and furniture	4,813	48,532	4,115	1,966	2,356	1,583	953	1,032	335	6,547	6,498	78,730
Professional fees	2,877	20,308	957	1,121	537	5,172	226	350	80	40,192	3,308	75,128
Repairs and maintenance	2,910	60,485	1,550	806	985	691	351		114	1,636	2,488	72,016
Interest			51,261								808	52,069
Telephone and communications	4,483	29,694	2,964	977	1,459	1,890	494		161	3,071	5,173	50,366
Accounting and auditing	3,007	29,619	9,000	936	1,106	762	467		170	1,993	2,470	49,530
Rent and utilities - Note I			12,008	3,673	4,514	2,358	1,676		598	6,743	11,155	42,725
Personnel-related expenses	1,177	11,437	582	746	1,487	4,165	104		9	8,004	7,013	34,724
Homeowners association fees			34,516									34,516
Financial	2,034	12,155	7,370	600	300	200	60		44	804	6,637	30,204
Printing and production	3,272	11,483	687	366	616	239	147	3,236	48	7,894	1,018	29,006
Office and supplies	3,422	10,571	1,499	1,925	1,723	498	559		232	2,762	4,344	27,535
Travel and transportation	1,773	5,522	5,784	257	1,869	278	31		10	1,177	286	16,987
Newsletter	452	4,369	301	126	163	126	63		6,277	331	377	12,585
Postage and delivery	115	1,435	1,070	510	809	390	463		90	5,484	1,804	12,170
Conferences and meetings	369	218		3,668						1,973	2,420	8,648
Other	123	1,222	435	118	45	31	19		7	5,463	300	7,763
Property taxes and licenses		882	6,344								380	7,606
Bad debt												1,870
Total expense before allocation	3,663,720	3,414,117	485,005	293,613	150,862	79,028	69,945	47,275	39,342	294,487	350,479	8,887,873
Overhead allocation	19,542	192,777	1,174	18,836	8,846	5,343	4,729	3,196	2,660	19,909	(277,012)	-
Total expense	3,683,262	3,606,894	486,179	312,449	159,708	84,371	74,674	50,471	42,002	314,396	73,467	8,887,873
Change in net assets	\$ (86,527)	\$ (155,317)	\$ (52,575)	\$ (67,622)	\$ (40,148)	\$ (84,371)	\$ (54,254)	\$ (25,760)	\$ (42,002)	\$ (10,136)	\$ 497,130	\$ (121,582)

See notes to the consolidated financial statements.

Interfaith Works, Inc. & Affiliate

Consolidated Statements of Cash Flows

Year Ended June 30,	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (121,582)	\$ 566,106
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net gain on investments	(849)	(17,894)
Depreciation and amortization	170,168	158,064
Forgiveness of debt	-	(400,485)
Changes in assets and liabilities		
Accounts receivable	44,288	150,233
Prepaid expenses and other assets	(5,854)	(2,170)
Accounts payable and accrued expenses	39,422	(25,710)
Tenant security deposits	2,195	1,715
Total adjustments	249,370	(136,247)
Net cash provided by operating activities	127,788	429,859
Cash flows from investing activities		
Proceeds from sales of investments	-	16,965
Purchases of investments	(16,106)	(40,365)
Purchases of property and equipment	(58,668)	(108,873)
Net cash used in investing activities	(74,774)	(132,273)
Cash flows from financing activities		
Issuance of forgivable notes payable	5,077	32,549
Principal payments on notes payable	(41,300)	(34,486)
Net cash used in financing activities	(36,223)	(1,937)
Net increase in cash and cash equivalents	16,791	295,649
Cash and cash equivalents, beginning of year	908,258	612,609
Cash and cash equivalents, end of year	\$ 925,049	\$ 908,258
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 52,069	\$ 54,300

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 an interfaith organization of 141 member congregations that provide services to and advocate for the needy within Montgomery County, Maryland. 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 is dedicated to providing affordable transitional housing and tenant-support services to low-income individuals and families. 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).

Community Ministry Micro-Enterprise, LLC (CMM-E) was a single-member limited liability company owned entirely by IW. CMM-E was formed in 2001 to provide small loans and business mentoring to minority, immigrant, low-income, and credit-challenged individuals to expand or begin their small businesses. During 2008, the Board of Directors approved a resolution to cease operations and dissolve CMM-E after its debts are paid. During 2012, all debts were paid and CMM-E was formally dissolved effective May 29, 2012.

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.

Uncertainty in income taxes: The Organization believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. Generally, tax returns related to the years ended June 30, 2009 through 2012 remain open for examination by taxing authorities.

Basis of accounting: The Organization prepares its 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 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: For financial statement purposes, the Organization considers demand deposits and money market accounts to be cash and cash equivalents.

Accounts receivable: Accounts receivable consists primarily of amounts relating to county and local government contracts, client loans, and contributions receivable. Accounts receivable are presented at the gross amount due to the Organization. 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.

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 statement 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.

Costs of direct benefits to donors: Costs of direct benefits to donors include the meal in the case of a breakfast and the greens fees in the case of a golf tournament.

Program services: Program services descriptions are as follows:

Interfaith Clothing Centers: The Interfaith Clothing Center gives away clothing and household goods, provides new infant supplies to expectant parents, offers books to children, and distributes school supplies for low-income families. The Hans Rosenfeld Upcounty Clothing Center closed effective July 1, 2010, and The Interfaith Clothing Center expanded its client service hours to meet increased client needs resulting from this closure.

Homeless Services: Annually, Wilkins Avenue Women's Assessment Center and Shelter works with approximately 300 homeless women who are committed to addressing the issues causing their homelessness and provides access to mental health treatment, addictions counseling, and job skills training. Horizon House is a permanent supportive housing program serving approximately 32 homeless disabled women and men annually. They reside in five shared group homes and, with case-worker support, work toward independence and self-sufficiency. Carroll House Men's Transitional Shelter works with approximately 70 homeless men annually, providing case management support to address issues causing their homelessness and access to resources in the community. Becky's House provides supportive housing for approximately eight elderly, homeless, disabled women, up to 10 women in a year. Full-time staff provides services for the residents. Watkins Mill is a transitional housing program that serves approximately 15 mentally disabled women annually. On a daily basis, Community Vision provides services for 70 to 100 homeless adults. Clients access mental health services; addictions treatment support; life skills development; resource referral; vocational services; and employment training, meals, laundry, and showers. Community Vision also provides seasonal night shelter for hypothermia and hyperthermia, serving approximately 300 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 (IHC) purchases and maintains homes to be used as permanent supportive housing for 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) function provides resources and technical assistance to IW congregations and non-profit agencies; administers grants to prevent evictions/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 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.

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.

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.

Thanksgiving in February: The Thanksgiving in February function provides Montgomery County restaurants an opportunity to contribute a portion of their daily receipts in February to Montgomery County hunger relief organizations.

Community Development: The Community Development function engages congregations, service organizations, governments, and the business community in the work of IW. Presentations and written materials serve to educate Montgomery County about the issues of poverty in the county and create specific ways for each community stakeholder to become involved with the work of IW.

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, Business Breakfast, and other events.

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 statement 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.

Subsequent events: Subsequent events have been evaluated through October 22, 2012, which is the date the consolidated financial statements were available to be issued.

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 professionally managed 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. CASH AND CASH EQUIVALENTS

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

	2012	2011
Undesignated cash		
Operating	\$ 800,794	\$ 776,583
Designated cash		
Board reserve	90,605	90,605
McGregor fund	20,551	20,551
Tenant security deposits	8,348	6,153
Board-designated for endowment	2,728	12,343
Advocacy fund (Dring)	2,023	2,023
Subtotal designated cash	124,255	131,675
	<u>\$ 925,049</u>	<u>\$ 908,258</u>

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

D. INVESTMENTS

Investments relate to the Organization's board-designated endowment.

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.

Mutual funds were valued based on quoted prices in active markets. Therefore, the Organization used Level 1 inputs to determine the fair value, measured on a recurring basis, of the following investments at June 30,:

	2012	2011
Mutual funds - fixed income	\$ 118,972	\$ 113,663
Mutual funds - domestic equity	90,438	82,723
Mutual funds - international equity	<u>18,605</u>	<u>14,674</u>
	<u>\$ 228,015</u>	<u>\$ 211,060</u>

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

	2012	2011
Interest and dividends	\$ 8,249	\$ 13,454
Net gain on investments	<u>849</u>	<u>17,894</u>
	<u>\$ 9,098</u>	<u>\$ 31,348</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,:

	2012	2011
Land	\$ 666,092	\$ 666,092
Building and improvements	1,685,561	1,685,561
Leasehold improvements	474,548	458,212
Furniture and equipment	457,170	414,838
Vehicles	66,234	66,234
	<u>3,349,605</u>	<u>3,290,937</u>
Less accumulated depreciation and amortization	<u>(1,382,225)</u>	<u>(1,212,057)</u>
	<u>\$ 1,967,380</u>	<u>\$ 2,078,880</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.

F. TENANT LEASES

The Organization has approximately 25 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 \$244,485 and \$292,091 for the years ended June 30, 2012 and 2011, 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 held by the Organization as security deposits amounted to \$8,348 and \$6,153 at June 30, 2012 and 2011, respectively.

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

G. FORGIVABLE NOTES PAYABLE

Montgomery County provides funding to the Organization in the form of promissory notes that will be forgiven if certain conditions are met, some of which are as simple as the passage of time. The Organization's five forgivable notes payable are included in liabilities until the conditions of debt forgiveness have been met.

Management believes the conditions of debt forgiveness will be met. However, if the stipulated conditions of debt forgiveness are not met, the notes payable will be repaid in accordance with the promissory notes.

The Organization's forgivable notes payable, grouped by the fiscal year in which the notes are eligible to be forgiven, consisted of the following at June 30, 2012:

Year Ending June 30,	Amount
2013	\$ 381,168
2014	4,848
2038	<u>588,470</u>
	<u>\$ 974,486</u>

Debt forgiveness: The Organization's forgivable notes payable include a loan with a balance of \$32,549 at June 30, 2012 which was scheduled for forgiveness on June 8, 2012. The Organization completed the debt forgiveness process and received formal notification of forgiveness on September 21, 2012. The balance due at the date of forgiveness totaled \$32,778, an amount which will be recognized as a loan forgiven during the year ending June 30, 2013.

Forgivable notes payable totaling \$400,485 were either forgiven ahead of schedule or met the conditions of debt forgiveness during the year ended June 30, 2011. Therefore, loans forgiven totaling \$400,485 were recognized during the year ended June 30, 2011.

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

H. NOTES PAYABLE

The Organization has financed the acquisition of various housing properties through several mortgages payable from various lenders such as financial institutions, the State of Maryland Department of Housing and Community Development, and the Montgomery County Department of Housing. The mortgages are collateralized by the related properties. The Organization has financed certain building improvements through unsecured notes payable from the Montgomery County Department of Housing.

The Organization renewed its unsecured line-of-credit with a commercial bank and has made draw-downs during the year ended June 30, 2012. The total available for draw down under the line-of-credit is \$400,000.

The notes payable have no restrictive debt covenants, have various interest rates and maturities, and consisted of the following, grouped by interest rate, at June 30, 2012:

Type of Note	Rate	Maturity	Principal
Mortgage (1)	1.00%	2041	\$ 63,666
Mortgages (2)	3.00%	2026-2029	24,095
Line-of-credit (1)	5.00%	2014	5,589
Mortgages (6)	4.00%	2026-2033	107,148
Mortgage (1)	4.25%	2026	108,379
Mortgage (1)	5.25%	2019	332,770
Mortgages (5)	6.50%	2029-2033	364,687
			\$ 1,006,334

Future maturities of principal under the notes payable are as follows at June 30, 2012:

Year Ending June 30,	Amount
2013	\$ 41,550
2014	37,807
2015	39,784
2016	41,817
2017	44,052
Thereafter	801,324
	\$ 1,006,334

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

I. COMMITMENTS AND CONTINGENCIES

Operating leases: The Organization has operating leases for six houses 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 which are located at Shea Lane and Grandin Avenue. The operating leases expire at various dates through August 2014.

The Organization has an operating lease for its administrative offices with Rockville United Methodist Church (RUMC) which expires April 2013.

The Organization has an operating lease for its copier equipment which expires May 2014.

Rent expense, excluding donated facilities, under the various leases was \$46,571 and \$54,199 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments under the operating leases are as follows:

Year Ending June 30,	Amount
2013	\$ 100,340
2014	72,520
2015	9,990
	<hr/>
	\$ 182,850

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.

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

J. 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.

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

	2012	2011
Undesignated	\$ 749,032	\$ 809,677
Designated		
Board-designated for endowment	230,743	223,403
Board Reserve	90,605	90,605
McGregor Fund	20,551	20,551
Advocacy Fund	2,023	2,023
Subtotal designated	<u>343,922</u>	<u>336,582</u>
	<u>\$ 1,092,954</u>	<u>\$ 1,146,259</u>

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,:

	2012	2011
Computers and software	\$ 34,300	\$ 43,168
Education and Advocacy	10,875	35,285
Hand to Hand	-	19,487
Thanksgiving in February	-	15,512
	<u>\$ 45,175</u>	<u>\$ 113,452</u>

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

J. 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,:

	2012	2011
Satisfaction of program restrictions		
Interfaith Housing Coalition	\$ 183,094	\$ 215,394
Congregation & Community	145,796	172,122
Interfaith Clothing Centers	138,925	105,452
Homeless Services	127,358	103,707
Thanksgiving in February	40,223	53,177
Hand to Hand	38,130	74,875
Friends in Action	36,650	25,088
Education and Advocacy	24,410	60,089
Computers and software	-	30,445
Subtotal program restrictions	<u>734,586</u>	<u>840,349</u>
Expiration of time restrictions		
Computers and software	<u>8,868</u>	<u>2,234</u>
Subtotal time restrictions	<u>8,868</u>	<u>2,234</u>
	<u>\$ 743,454</u>	<u>\$ 842,583</u>

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

K. 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 securities, and equity securities. 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 endowments. 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,:

	2012	2011
Endowment, beginning of year	\$ 223,403	\$ 195,206
Investment return		
Interest and dividends	6,491	10,303
Net gain on investments	849	17,894
Total investment return	<u>7,340</u>	<u>28,197</u>
Endowment, end of year	<u>\$ 230,743</u>	<u>\$ 223,403</u>

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

L. 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 at yard-sale value using guidance from IRS Publication 561, *Determining the Value of Donated Property*. 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 statement of activities consisted of the following for the year ended June 30, 2012:

	Goods	Facilities	Services	Total
Interfaith Clothing Centers	\$ 3,288,330	\$ 86,325	\$ -	\$ 3,374,655
Homeless Services	176,995	380,982	4,634	562,611
General and administrative	8,200		45,185	53,385
Friends in Action	20,010			20,010
Congregation & Community				
Emergency Support	11,954		3,035	14,989
Interfaith Housing Coalition	200		2,431	2,631
	\$ 3,505,689	\$ 467,307	\$ 55,285	\$ 4,028,281

Donated goods, facilities, and services recorded in the statement of activities consisted of the following for the year ended June 30, 2011:

	Goods	Facilities	Services	Total
Interfaith Clothing Centers	\$ 3,460,460	\$ 86,325	\$ -	\$ 3,546,785
Homeless Services	239,350	380,982	8,634	628,966
General and administrative	8,506		107,180	115,686
Friends in Action	26,370			26,370
Congregation & Community				
Emergency Support	12,465		3,399	15,864
Interfaith Housing Coalition			7,986	7,986
	\$ 3,747,151	\$ 467,307	\$ 127,199	\$ 4,341,657

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 statement of activities.

Interfaith Works, Inc. & Affiliate

Notes to the Consolidated Financial Statements

L. DONATED GOODS, FACILITIES, AND SERVICES – CONTINUED

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

	2012	2011
Homeless Services	\$ 603,496	\$ 524,623
Interfaith Clothing Centers	558,064	556,962
Friends in Action	57,177	52,417
Congregation & Community Emergency Support	54,366	136,095
General and administrative	27,526	37,316
	<u>\$ 1,300,629</u>	<u>\$ 1,307,413</u>

M. 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. During the years ended June 30, 2012 and 2011, the Organization provided a contribution of 1% of participant compensation. The Organization's contributions under the plan amounted to \$14,970 and \$13,754 for the years ended June 30, 2012 and 2011, respectively.

T A T E



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Accountants

and Consultants

Independent Auditor's Report on the Other Financial 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, 2012, and our report thereon dated October 22, 2012, which expressed an unqualified opinion on those consolidated financial statements, appears on page one. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole.

The other financial information on the following pages is presented for purposes of additional analysis of the consolidated financial statements and is not a required part of the consolidated financial statements. In particular, the consolidating financial statements included with the other financial information are presented for 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. The other financial information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements.

The other financial 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 other financial information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC
October 22, 2012

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE
202/293-2200

FACSIMILE
202/293-2208

WWW.TATETRYON.COM

Interfaith Works, Inc. & Affiliate

Consolidating Statement of Financial Position

June 30, 2012

	IW	IHC	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 727,954	\$ 197,095	\$ -	\$ 925,049
Investments	228,015			228,015
Accounts receivable	187,926			187,926
Due from affiliate	21,749	137,710	(159,459)	-
Prepaid expenses and other assets	64,279	12,103		76,382
Property and equipment	827,632	1,139,748		1,967,380
Total assets	\$ 2,057,555	\$ 1,486,656	\$ (159,459)	\$ 3,384,752
Liabilities and net assets				
Liabilities				
Accounts payable and accrued expenses	\$ 255,117	\$ 2,338	\$ -	\$ 257,455
Due to affiliate	137,710	21,749	(159,459)	-
Tenant security deposits		8,348		8,348
Forgivable notes payable	626,096	348,390		974,486
Notes payable	5,589	1,000,745		1,006,334
Total liabilities	1,024,512	1,381,570	(159,459)	2,246,623
Net assets				
Unrestricted	987,868	105,086		1,092,954
Temporarily restricted	45,175			45,175
Total net assets	1,033,043	105,086	-	1,138,129
Total liabilities and net assets	\$ 2,057,555	\$ 1,486,656	\$ (159,459)	\$ 3,384,752

Interfaith Works, Inc. & Affiliate

Consolidating Statement of Activities

Year Ended June 30, 2012

	IW	IHC	Eliminations	Consolidated
Unrestricted activities				
Revenue and support				
Donated goods, facilities, and services	\$ 4,025,650	\$ 2,631	\$ -	\$ 4,028,281
Federal, state, and county contracts	2,846,780	13,735	(13,735)	2,846,780
Contributions	759,314			759,314
Rental income		244,485		244,485
Program income	157,002			157,002
Investment income	5,834	3,264		9,098
Other income	500	130		630
	7,795,080	264,245	(13,735)	8,045,590
Special events	60,532			60,532
Less: costs of direct benefits to donors	(15,008)			(15,008)
	45,524	-	-	45,524
Net assets released from restriction	579,964	163,490		743,454
Total support and revenue	8,420,568	427,735	(13,735)	8,834,568
Expense				
Program services				
Interfaith Clothing Centers	3,683,262			3,683,262
Homeless Services	3,606,894			3,606,894
Interfaith Housing Coalition	88,838	411,076	(13,735)	486,179
Congregation & Community Emergency Support	312,449			312,449
Friends in Action	159,708			159,708
Education and Advocacy	84,371			84,371
Hand to Hand	74,674			74,674
Community Development	42,002			42,002
Thanksgiving in February	50,471			50,471
Total program services	8,102,669	411,076	(13,735)	8,500,010
Supporting services				
Development	287,246	27,150		314,396
General and administrative	30,313	43,154		73,467
Total supporting services	317,559	70,304	-	387,863
Total expense	8,420,228	481,380	(13,735)	8,887,873
Change in unrestricted net assets	340	(53,645)	-	(53,305)
Temporarily restricted activities				
Contributions	511,687	163,490		675,177
Net assets released from restriction	(579,964)	(163,490)		(743,454)
Change in temporarily restricted net assets	(68,277)	-	-	(68,277)
Change in net assets				
Net assets, beginning of year	(67,937)	(53,645)	-	(121,582)
Net assets, beginning of year	1,100,980	158,731	-	1,259,711
Net assets, end of year	\$ 1,033,043	\$ 105,086	\$ -	\$ 1,138,129

Interfaith Works, Inc. & Affiliate

Consolidated Statement of Expense Net of In-Kind Year Ended June 30, 2012 with 2011 Totals

	2012			2011
	Expense	In-Kind	Expense Net of In-Kind	Expense Net of In-Kind
Program services				
Interfaith Clothing Centers	\$ 3,683,262	\$ (3,374,655)	\$ 308,607	\$ 249,640
Homeless Services	3,606,894	(562,611)	3,044,283	3,091,940
Interfaith Housing Coalition	486,179	(2,631)	483,548	398,159
Congregation & Community Emergency Support	312,449	(14,989)	297,460	345,518
Friends in Action	159,708	(20,010)	139,698	141,390
Education and Advocacy	84,371		84,371	106,766
Hand to Hand	74,674		74,674	81,435
Thanksgiving in February	50,471		50,471	57,837
Community Development	42,002		42,002	34,109
Total program services	8,500,010	(3,974,896)	4,525,114	4,506,794
Supporting services				
Development	314,396		314,396	269,850
General and administrative	73,467	(53,385)	20,082	73,516
Total supporting services	387,863	(53,385)	334,478	343,366
Total expense	\$ 8,887,873	\$ (4,028,281)	\$ 4,859,592	\$ 4,850,160