

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

**INTERFAITH WORKS, INC. & AFFILIATE**

*June 30, 2013*

<b><i>Independent Auditor's Report on the Consolidated Financial Statements</i></b>	1 - 2
<b><i>Consolidated Financial Statements</i></b>	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statement of functional revenue and expense	5
Consolidated statements of cash flows	6
Notes to the consolidated financial statements	7 - 21
<b><i>Other Financial Information</i></b>	
Independent auditor's report on the other financial information	22
Consolidating statement of financial position	23
Consolidating statement of activities	24
Consolidated statement of expense, net of in-kind	25

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 financial statements of Interfaith Works, Inc. & Affiliate (the Organization), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional revenue and expense, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

## **Opinion**

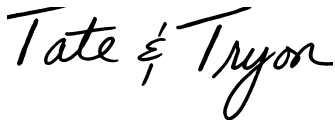
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interfaith Works, Inc. & Affiliate as of June 30, 2013, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Summarized Comparative Information**

We have previously audited the 2012 consolidated financial statements of the Organization, and our report dated October 22, 2012, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 11, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of the compliance of Interfaith Works, Inc. (IW) 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and IW's internal control over compliance.



Washington, DC  
October 11, 2013

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Financial Position

<b>June 30,</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Cash and cash equivalents - Notes B & C	\$ 774,999	\$ 925,049
Investments - Notes B & D	251,513	228,015
Accounts receivable	241,247	123,752
Promises to give - Note E	60,145	64,174
Prepaid expenses and other assets	90,098	76,382
Property and equipment - Note F	1,814,320	1,967,380
<b>Total assets</b>	<b>\$ 3,232,322</b>	<b>\$ 3,384,752</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 295,865	\$ 257,455
Tenant security deposits - Note G	7,969	8,348
Forgivable notes payable - Note H	768,318	974,486
Notes payable - Note I	970,306	1,006,334
<b>Total liabilities</b>	<b>2,042,458</b>	<b>2,246,623</b>
Commitments and contingencies - Notes O & J	-	-
<b>Net assets</b>		
Unrestricted - Notes K & L	1,081,300	1,092,954
Temporarily restricted - Note K	108,564	45,175
<b>Total net assets</b>	<b>1,189,864</b>	<b>1,138,129</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,232,322</b>	<b>\$ 3,384,752</b>

See notes to the consolidated financial statements.  
 Certain 2012 amounts have been reclassified for comparative purposes.

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Activities

<i>Year Ended June 30,</i>	<b>2013</b>	<b>2012</b>
<b>Unrestricted activities</b>		
Revenue and support		
Donated goods, facilities, and services - Note M	\$ 5,258,530	\$ 4,028,281
Federal, state, and county contracts	3,054,304	2,846,780
Contributions	802,882	759,314
Rental income - Note G	290,678	244,485
Program income	194,791	157,632
Investment income - Note D	24,181	9,098
	<b>9,625,366</b>	<b>8,045,590</b>
Special events	148,024	60,532
Less costs of direct benefits to donors	<b>(48,225)</b>	<b>(15,008)</b>
	<b>99,799</b>	<b>45,524</b>
Net assets released from restriction - Note K	<b>519,801</b>	<b>743,454</b>
Total revenue and support	<b>10,244,966</b>	<b>8,834,568</b>
Expense		
Program services		
Interfaith Clothing Centers	4,825,349	3,683,262
Homeless Services	3,990,480	3,606,894
Interfaith Housing Coalition	470,871	486,179
Congregation & Community Emergency Support	243,278	312,449
Friends in Action	179,365	159,708
Hand to Hand	101,942	74,674
Education and Advocacy	76,434	84,371
Thanksgiving in February	-	50,471
Community Development	-	42,002
Total program services	<b>9,887,719</b>	<b>8,500,010</b>
Supporting services		
Development	470,667	314,396
General and administrative	104,402	73,467
Total supporting services	<b>575,069</b>	<b>387,863</b>
Total expense	<b>10,462,788</b>	<b>8,887,873</b>
Change in unrestricted net assets from operations	<b>(217,822)</b>	<b>(53,305)</b>
Loans forgiven - Note H	<b>206,168</b>	<b>-</b>
Change in unrestricted net assets	<b>(11,654)</b>	<b>(53,305)</b>
<b>Temporarily restricted activities</b>		
Contributions	583,190	675,177
Net assets released from restriction - Note K	<b>(519,801)</b>	<b>(743,454)</b>
Change in temporarily restricted net assets	<b>63,389</b>	<b>(68,277)</b>
<b>Change in net assets</b>	<b>51,735</b>	<b>(121,582)</b>
Net assets, beginning of year	<b>1,138,129</b>	<b>1,259,711</b>
<b>Net assets, end of year</b>	<b>\$ 1,189,864</b>	<b>\$ 1,138,129</b>

See notes to the consolidated financial statements.  
 Certain 2012 amounts have been reclassified for comparative purposes.

Interfaith Works, Inc. & Affiliate

Consolidated Statement of Functional Revenue and Expense

Year Ended June 30, 2013 with 2012 Totals

	Program services							Supporting Services		2013 Total	2012 Total
	Interfaith Clothing Centers	Homeless Services	Interfaith Housing Coalition	Program services Congregation & Community	Friends in Action	Hand to Hand	Education and Advocacy	Development	General and Administrative		
<b>Revenue and support</b>											
Donated goods, facilities, and services - Note M	\$ 4,527,581	\$ 614,626	\$ 3,300	\$ 1,640	\$ 26,895	\$ -	\$ -	\$ -	\$ 84,488	\$ 5,258,530	\$ 4,028,281
Federal, state, and county contracts	62,052	2,853,659		71,393	64,200				3,000	3,054,304	2,846,780
Contributions and loans forgiven - Note H	76,166	183,475	305,762	115,950	27,855	22,050	25,000	306,722	529,260	1,592,240	1,434,491
Rental income - Note G			290,631						47	290,678	244,485
Program income	26,761	162,663		4,225		1,097			45	194,791	157,632
Investment income - Note E			10,083						14,098	24,181	9,098
	4,692,560	3,814,423	609,776	193,208	118,950	23,147	25,000	306,722	630,938	10,414,724	8,720,767
Special events								148,024		148,024	60,532
Less costs of direct benefits to donors								(48,225)		(48,225)	(15,008)
	-	-	-	-	-	-	-	99,799	-	99,799	45,524
<b>Total revenue and support</b>	4,692,560	3,814,423	609,776	193,208	118,950	23,147	25,000	406,521	630,938	10,514,523	8,766,291
<b>Expense</b>											
Donated goods and services - Note M	4,441,256	233,644	3,300	1,640	26,895				84,488	4,791,223	3,560,974
Salaries and wages	189,507	2,060,399	197,178	69,313	95,098	45,108	27,384	181,625	217,603	3,083,215	2,913,942
Taxes and related benefits - Note N	32,272	372,741	26,521	9,677	14,152	8,517	8,151	27,664	64,529	564,224	550,167
Client support	12,501	351,465	24,435	75,124	4,888	30,043				498,456	430,361
Donated facilities - Note M	86,325	380,982								467,307	467,307
Depreciation and amortization	7,577	74,273	73,006	2,362	2,775	1,174	1,921	5,407	6,607	175,102	170,168
Grants to others			20,258	54,902				73,756	(20,258)	128,658	152,646
Professional fees	5,114	19,653	693	461	693	232	21,661	63,375	1,579	113,461	75,128
Computers and furniture	3,604	84,327	2,132	1,419	2,336	713	1,419	3,274	2,783	102,007	78,730
Repairs and maintenance	8,040	54,706	997	704	1,107	312	665	3,104	1,999	71,634	72,016
Telephone and communications	4,987	35,261	4,191	1,896	3,591	948	1,895	4,507	4,726	62,002	50,366
Accounting and auditing	2,700	37,780	3,879	1,079	1,622	542	1,079	1,622	2,153	52,456	49,530
Interest	23	324	49,654	10	14	5	9	14	1,000	51,053	52,069
Rent and utilities - Note J			7,618	4,817	7,222	2,409	4,813	7,222	9,618	43,719	42,725
Personnel-related expenses	1,753	10,982	719	276	1,628	54	116	25,529	1,033	42,090	34,724
Printing and production	3,232	17,897	819	948	1,194	273	546	14,316	1,091	40,316	29,006
Homeowners association fees			34,892							34,892	34,516
Financial	2,344	17,620	4,439	481	534	239	356	739	5,123	31,875	30,204
Office and supplies	2,224	10,120	1,832	1,936	2,427	435	806	3,307	5,844	28,931	27,535
Travel and transportation	1,988	5,313	5,951	8	2,439	83	35	2,160	27	18,004	16,987
Postage and delivery	313	3,610	666	739	806	370	554	5,601	2,441	15,100	12,170
Newsletter	636	8,900	382	255	382	128	254	382	507	11,826	12,585
Other	246	497	221	14	22	7	14	13,437	216	14,674	7,763
Conferences and meetings	391	2,227	115	4,542	220	38	76	4,885	357	12,851	8,648
Property taxes and licenses	122	1,102	6,488							7,712	7,606
<b>Total expense before allocation</b>	4,807,155	3,783,823	470,386	232,603	170,045	91,630	71,754	441,926	393,466	10,462,788	8,887,873
Overhead allocation	18,194	206,657	485	10,675	9,320	10,312	4,680	28,741	(289,064)	-	-
<b>Total expense</b>	4,825,349	3,990,480	470,871	243,278	179,365	101,942	76,434	470,667	104,402	10,462,788	8,887,873
<b>Change in net assets</b>	\$ (132,789)	\$ (176,057)	\$ 138,905	\$ (50,070)	\$ (60,415)	\$ (78,795)	\$ (51,434)	\$ (64,146)	\$ 526,536	\$ 51,735	\$ (121,582)

See notes to the consolidated financial statements.  
Certain 2012 amounts have been reclassified for comparative purposes.

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Cash Flows

<b>Year Ended June 30,</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 51,735	\$ (121,582)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Net gain on investments	(14,420)	(849)
Depreciation and amortization	175,102	170,168
Forgiveness of debt	(206,168)	-
Changes in assets and liabilities		
Accounts receivable	(117,495)	108,462
Promises to give	4,029	(64,174)
Prepaid expenses and other assets	(13,716)	(5,854)
Accounts payable and accrued expenses	38,410	39,422
Tenant security deposits	(379)	2,195
<b>Total adjustments</b>	<b>(134,637)</b>	<b>249,370</b>
Net cash (used in) provided by operating activities	<b>(82,902)</b>	<b>127,788</b>
<b>Cash flows from investing activities</b>		
Purchases of investments	(9,078)	(16,106)
Purchases of property and equipment	(22,042)	(58,668)
Net cash used in investing activities	<b>(31,120)</b>	<b>(74,774)</b>
<b>Cash flows from financing activities</b>		
Issuance of forgivable notes payable	-	5,077
Principal payments on notes payable	(36,028)	(41,300)
Net cash used in financing activities	<b>(36,028)</b>	<b>(36,223)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(150,050)</b>	<b>16,791</b>
Cash and cash equivalents, beginning of year	<b>925,049</b>	<b>908,258</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 774,999</b>	<b>\$ 925,049</b>
<b>Noncash Financing Activities</b>		
Notes payable refinanced	\$ 421,313	\$ -
Debt issuance costs paid with refinancing loan proceeds	3,687	-
Noncash financing activities	<b>\$ 425,000</b>	<b>\$ -</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 51,053	\$ 52,069

See notes to the consolidated financial statements.  
 Certain 2012 amounts have been reclassified for comparative purposes.



# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

---

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

Organization: Interfaith Works, Inc. (IW), a non-profit corporation, was established in 1972 and incorporated in 1978 under the laws of the State of Maryland. IW is a non-sectarian interfaith coalition of more than 165 affiliated congregations of diverse faiths, working together to meet the needs of the poor and homeless in Montgomery County, Maryland. IW's programs shelter, clothe, and feed our neighbors in need and provide supportive services with the goal of helping them achieve self-sufficiency. IW is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation under Section 509(a)(1).

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

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

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 current and three prior years 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 due relating to state and county contracts. 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.

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.

## Notes to the Consolidated Financial Statements

---

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

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

Program services: Program services descriptions are as follows:

*Interfaith Clothing Centers:* 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 Houses 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. Interfaith Homes is a permanent supportive housing program supporting 14 to 18 disabled women and men annually. They reside in 14 apartments and, with case-worker support, work toward independence and self-sufficiency. 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.

*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.

*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.

*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.

*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.

# 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,:

	2013	2012
Undesignated cash		
Operating	\$ 651,123	\$ 800,794
Designated cash		
Board reserve	90,605	90,605
McGregor fund	20,551	20,551
Tenant security deposits	7,969	8,348
Board-designated for endowment	2,728	2,728
Advocacy fund (Dring)	2,023	2,023
Subtotal designated cash	<u>123,876</u>	<u>124,255</u>
	<u>\$ 774,999</u>	<u>\$ 925,049</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,:

	2013	2012
Mutual funds - fixed income	\$ 120,432	\$ 118,972
Mutual funds - domestic equity	109,511	90,438
Mutual funds - international equity	21,570	18,605
	<u>\$ 251,513</u>	<u>\$ 228,015</u>

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

	2013	2012
Net gain on investments	\$ 14,420	\$ 849
Interest and dividends	9,761	8,249
	<u>\$ 24,181</u>	<u>\$ 9,098</u>

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### E. PROMISES TO GIVE

Unconditional: The Organization recognizes unconditional promises to give as receivables and contribution revenue in the period in which a donor provides a commitment to make a contribution. Promises to give which will be paid over several years have been discounted to net present value using a discount rate of 3.25%. Management periodically reviews the status of all promises to give for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to loss on uncollectible promises to give (bad debt). Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for uncollectible promises to give had been recorded.

Promises to give consisted of the following at June 30,:

	2013	2012
Receivable in less than one year	\$ 42,750	\$ 37,750
Receivable in one to four years	18,315	28,050
	61,065	65,800
Less discount to net present value	(920)	(1,626)
	<u>\$ 60,145</u>	<u>\$ 64,174</u>

Conditional: Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization received a conditional promise to give totaling \$15,000. The gift was conditional because the donor specified a dollar for dollar matching gift such that the Organization must raise other funds for the purpose specified in the gift. As of June 30, 2013, the condition has not yet been satisfied.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### F. 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,:

	2013	2012
Land	\$ 666,092	\$ 666,092
Building and improvements	1,692,395	1,685,561
Leasehold improvements	474,548	474,548
Furniture and equipment	472,378	457,170
Vehicles	66,234	66,234
	<u>3,371,647</u>	<u>3,349,605</u>
Less accumulated depreciation and amortization	<u>(1,557,327)</u>	<u>(1,382,225)</u>
	<u><b>\$ 1,814,320</b></u>	<u><b>\$ 1,967,380</b></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.

### G. 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 \$290,678 and \$244,485 for the years ended June 30, 2013 and 2012, 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 \$7,969 and \$8,348 at June 30, 2013 and 2012, respectively.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

---

### H. 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 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 three forgivable notes payable, grouped by the fiscal year in which the notes are eligible to be forgiven, consisted of the following at June 30, 2013:

Year Ending June 30,	Amount
2014	\$ 179,848
2038	<u>588,470</u>
	<u><b>\$ 768,318</b></u>

Debt forgiveness: Forgivable notes payable totaling \$206,168 were either forgiven ahead of schedule or met the conditions of debt forgiveness during the year ended June 30, 2013. Therefore, loans forgiven totaling \$206,168 were recognized as unrestricted revenue during the year ended June 30, 2013.



# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### I. NOTES PAYABLE

The Organization has financed the acquisition of various housing properties through several mortgage notes 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 Organization has also financed certain building improvements through unsecured notes payable from the Montgomery County Department of Housing. The mortgages are collateralized by the related properties.

The mortgage 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, 2013:

Type of Note	Rate	Maturity	Principal
Mortgage	1.00%	2041	\$ 63,666
Mortgage	3.00%	2026	6,579
Mortgages (2)	4.00%	2026	53,040
Mortgage	4.25%	2026	102,636
Mortgage	4.61%	2023	423,903
Mortgage	5.25%	2019	320,482
			<b><u>\$ 970,306</u></b>

Refinancing: During May 2013, the Organization obtained \$425,000 in the form of a new loan from a bank as a debt obligation of IW. With the new mortgage, the Organization refinanced 10 existing mortgages which were IHC's debt obligations. The new mortgage is collateralized by the five IHC properties to which they relate and IHC is a guarantor of the IW mortgage.

Lines-of-credit: The Organization also has two unsecured lines-of-credit with a commercial bank and the total available for draw down under the lines-of-credit is \$675,000. There were no draw-downs during the years ended June 30, 2013 and 2012 and, therefore, no balance due on the lines-of-credit.

Future maturities of principal under the notes payable are as follows at June 30, 2013:

Year Ending June 30,	Amount
2014	\$ 37,814
2015	39,585
2016	41,400
2017	43,390
2018	45,431
Thereafter	762,686
	<b><u>\$ 970,306</u></b>

## Notes to the Consolidated Financial Statements

---

### J. COMMITMENTS AND CONTINGENCIES

Administrative operating leases: The Organization has an operating lease for its administrative offices with Rockville United Methodist Church (RUMC) which expired April 2013. Upon termination of the formal lease agreement, the Organization and RUMC reached a mutual understanding that the lease arrangement would continue on a month-to-month basis.

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

Rent expense relating to the RUMC and the copier leases totaled \$49,599 and \$46,571 for the years ended June 30, 2013 and 2012, respectively. Future minimum lease payments for the RUMC and the copier leases are expected to total approximately \$42,600 during the year ending June 30, 2014.

Homeless Services operating leases: The Organization also has operating leases for six houses and several apartments which are occupied by clients of the Homeless Services program. All of the Homeless Services program leases expire within one year except for two residential leases located at Shea Lane and Grandin Avenue which expire in August 2014.

Rent expense relating to the Homeless services leases is reported within client support in the consolidated statement of functional revenue and expense and totaled \$224,531 and \$143,645 for the years ended June 30, 2013 and 2012, respectively. Future minimum lease payments for the Homeless services leases total approximately \$59,900 during the year ending June 30, 2014 and approximately \$10,000 during the year ending June 30, 2015.

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.

Threatened litigation: The Organization has been named as a defendant in a discrimination lawsuit. However, the Organization believes the claim is without merit and plans to vigorously defend its position. Therefore, the accompanying consolidated financial statements do not include a potential liability related to the threatened litigation.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### K. 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,:

	2013	2012
Undesignated	\$ 713,880	\$ 749,032
Designated		
Board-designated for endowment	254,241	230,743
Board Reserve	90,605	90,605
McGregor Fund	20,551	20,551
Advocacy Fund	2,023	2,023
Subtotal designated	367,420	343,922
	<b>\$ 1,081,300</b>	<b>\$ 1,092,954</b>

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,:

	2013	2012
Program restrictions		
Interfaith Clothing Center	\$ 21,500	\$ -
Education and Advocacy	14,675	10,875
Congregation & Community Emergency Support	12,642	-
Homeless Services	7,500	-
	56,317	10,875
Time restrictions		
Promises to give - for future use	26,815	-
Computers and software	25,432	34,300
	52,247	34,300
	<b>\$ 108,564</b>	<b>\$ 45,175</b>

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### K. 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,:

	2013	2012
Satisfaction of program restrictions		
Interfaith Clothing Center	\$ 54,665	\$ 138,925
Education and Advocacy	21,200	24,410
Congregation & Community Emergency Support	103,308	145,796
Homeless Services	143,197	127,358
Interfaith Housing Coalition	132,372	183,094
Friends in Action	27,855	36,650
Hand to Hand	22,049	38,130
Thanksgiving in February	-	40,223
Subtotal program restrictions	504,646	734,586
Expiration of time restrictions		
Promises to give - for future use	6,287	-
Computers and software	8,868	8,868
Subtotal time restrictions	15,155	8,868
	<b>\$ 519,801</b>	<b>\$ 743,454</b>

Notes to the Consolidated Financial Statements

L. 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,:

	<b>2013</b>	<b>2012</b>
Endowment, beginning of year	\$ 230,743	\$ 223,403
Investment return		
Net gain on investments	14,420	849
Interest and dividends	<u>9,078</u>	<u>6,491</u>
Total investment return	<u>23,498</u>	<u>7,340</u>
Endowment, end of year	<u><b>\$ 254,241</b></u>	<u><b>\$ 230,743</b></u>

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### M. 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, 2013:

	<b>Goods</b>	<b>Facilities</b>	<b>Services</b>	<b>Total</b>
Interfaith Clothing Centers	\$ 4,441,256	\$ 86,325	\$ -	\$ 4,527,581
Homeless Services	229,044	380,982	4,600	614,626
General and administrative	31,058		53,430	84,488
Friends in Action	26,895			26,895
Interfaith Housing Coalition	3,300			3,300
Congregation & Community Emergency Support	30		1,610	1,640
	<b>\$ 4,731,583</b>	<b>\$ 467,307</b>	<b>\$ 59,640</b>	<b>\$ 5,258,530</b>

Donated goods, facilities, and services recorded in the statement of activities consisted of the following for the year ended June 30, 2012:

	<b>Goods</b>	<b>Facilities</b>	<b>Services</b>	<b>Total</b>
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
Interfaith Housing Coalition	200		2,431	2,631
Congregation & Community Emergency Support	11,954		3,035	14,989
	<b>\$ 3,505,689</b>	<b>\$ 467,307</b>	<b>\$ 55,285</b>	<b>\$ 4,028,281</b>

*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

### M. DONATED GOODS, FACILITIES, AND SERVICES – CONTINUED

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

	2013	2012
Homeless Services	\$ 661,975	\$ 603,496
Interfaith Clothing Centers	660,359	558,064
General and administrative	62,342	27,526
Congregation & Community Emergency Support	62,169	54,366
Friends in Action	35,468	57,177
Interfaith Housing Coalition	1,107	-
	<u>\$ 1,483,420</u>	<u>\$ 1,300,629</u>

### N. 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, 2013 and 2012, the Organization provided a contribution equal to 1% of participant compensation. The Organization's contributions under the plan totaled \$19,298 and \$14,970 for the years ended June 30, 2013 and 2012, respectively.

### O. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 11, 2013, which is the date the consolidated financial statements were available to be issued. The following information provides details relating to a letter of intent for real estate purchase and related financing plans which was signed after June 30, 2013.

Real estate purchase: During September 2013, the Organization signed a letter of intent to purchase real estate located in Rockville, MD. The building will be used for delivering the Organization's various program services and for its headquarters office. The purchase price of the real estate in the Letter of Intent totals \$4,100,000.

The Organization plans to make a cash down payment equal to \$332,500 and obtain a new mortgage note equal to \$3,767,500 in order to finance the real estate purchase. If Organization's offer is accepted by the seller, settlement would take place in December 2013.

T A T E



TRYON

A Professional Corporation

Certified Public

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, 2013, and have issued our report thereon dated October 11, 2013, 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 other financial information on the following pages is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. In particular, the consolidating financial statements are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, or cash flows of the individual companies. The other financial 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 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 on the following pages is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC  
October 11, 2013

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208



# Interfaith Works, Inc. & Affiliate

## Consolidating Statement of Financial Position

*June 30, 2013*

	IW	IHC	Eliminations	Consolidated
<b>Assets</b>				
Cash and cash equivalents	\$ 597,185	\$ 177,814	\$ -	\$ 774,999
Investments	251,513			251,513
Accounts receivable	241,247			241,247
Promises to give	60,145			60,145
Due from affiliate		137,430	(137,430)	-
Loan guarantee from IHC	423,903		(423,903)	-
Prepaid expenses and other assets	66,726	23,372		90,098
Property and equipment	735,729	1,078,591		1,814,320
<b>Total assets</b>	<b>\$ 2,376,448</b>	<b>\$ 1,417,207</b>	<b>\$ (561,333)</b>	<b>\$ 3,232,322</b>
<b>Liabilities and net assets</b>				
Liabilities				
Accounts payable and accrued expenses	\$ 288,119	\$ 7,746	\$ -	\$ 295,865
Due to affiliate	137,430		(137,430)	-
Loan guarantee to IW		423,903	(423,903)	-
Tenant security deposits		7,969		7,969
Forgivable notes payable	593,318	175,000		768,318
Notes payable	423,903	546,403		970,306
<b>Total liabilities</b>	<b>1,442,770</b>	<b>1,161,021</b>	<b>(561,333)</b>	<b>2,042,458</b>
Net assets				
Unrestricted	825,114	256,186		1,081,300
Temporarily restricted	108,564			108,564
<b>Total net assets</b>	<b>933,678</b>	<b>256,186</b>	<b>-</b>	<b>1,189,864</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,376,448</b>	<b>\$ 1,417,207</b>	<b>\$ (561,333)</b>	<b>\$ 3,232,322</b>

# Interfaith Works, Inc. & Affiliate

## Consolidating Statement of Activities

*Year Ended June 30, 2013*

	IW	IHC	Eliminations	Consolidated
<b>Unrestricted activities</b>				
Revenue and support				
Donated goods, facilities, and services	\$ 5,255,230	\$ 3,300	\$ -	\$ 5,258,530
Federal, state, and county contracts	3,054,304			3,054,304
Contributions	808,202		(5,320)	802,882
Rental income		290,678		290,678
Program income	194,791			194,791
Investment income	14,098	10,083		24,181
	9,326,625	304,061	(5,320)	9,625,366
Special events	148,024			148,024
Less costs of direct benefits to donors	(48,225)			(48,225)
	99,799	-	-	99,799
Net assets released from restriction	382,479	137,322		519,801
Total support and revenue	9,808,903	441,383	(5,320)	10,244,966
Expense				
Program services				
Interfaith Clothing Centers	4,825,349			4,825,349
Homeless Services	3,990,480			3,990,480
Interfaith Housing Coalition	74,596	401,595	(5,320)	470,871
Congregation & Community Emergency Support	243,278			243,278
Friends in Action	179,365			179,365
Hand to Hand	101,942			101,942
Education and Advocacy	76,434			76,434
Total program services	9,491,444	401,595	(5,320)	9,887,719
Supporting services				
Development	450,187	20,480		470,667
General and administrative	62,804	41,598		104,402
Total supporting services	512,991	62,078	-	575,069
Total expense	10,004,435	463,673	(5,320)	10,462,788
Change in unrestricted net assets from operations	(195,532)	(22,290)	-	(217,822)
Loans forgiven	32,778	173,390		206,168
Change in unrestricted net assets	(162,754)	151,100	-	(11,654)
<b>Temporarily restricted activities</b>				
Contributions	445,868	137,322		583,190
Net assets released from restriction	(382,479)	(137,322)		(519,801)
Change in temporarily restricted net assets	63,389	-	-	63,389
<b>Change in net assets</b>	(99,365)	151,100	-	51,735
Net assets, beginning of year	1,033,043	105,086	-	1,138,129
<b>Net assets, end of year</b>	\$ 933,678	\$ 256,186	\$ -	\$ 1,189,864

## Interfaith Works, Inc. & Affiliate

### Consolidated Statement of Expense, Net of In-Kind Year Ended June 30, 2013 with 2012 Totals

	2013			2012
	Expense	In-Kind	Expense Net of In-Kind	Expense Net of In-Kind
Program services				
Interfaith Clothing Centers	\$ 4,825,349	\$ (4,527,581)	\$ <b>297,768</b>	\$ 308,607
Homeless Services	3,990,480	(614,626)	<b>3,375,854</b>	3,044,283
Interfaith Housing Coalition	470,871	(3,300)	<b>467,571</b>	483,548
Congregation & Community Emergency Support	243,278	(1,640)	<b>241,638</b>	297,460
Friends in Action	179,365	(26,895)	<b>152,470</b>	139,698
Hand to Hand	101,942		<b>101,942</b>	74,674
Education and Advocacy	76,434		<b>76,434</b>	84,371
Thanksgiving in February			-	50,471
Community Development			-	42,002
Total program services	9,887,719	(5,174,042)	<b>4,713,677</b>	4,525,114
Supporting services				
Development	470,667		<b>470,667</b>	314,396
General and administrative	104,402	(84,488)	<b>19,914</b>	20,082
Total supporting services	575,069	(84,488)	<b>490,581</b>	334,478
Total expense	\$ 10,462,788	\$ (5,258,530)	<b>\$ 5,204,258</b>	\$ 4,859,592