Habitat for Humanity®
of Washington, D.C.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR 2019)

HABITAT FOR HUMANITY OF WASHINGTON, D.C., INC.

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Habitat for Humanity of Washington, D.C., Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Washington, D.C., Inc. (HFH WDC), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

MARCUMGROUP
MEMBER

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Opinion

In our opinion, the 2020 financial statements referred to above present fairly, in all material respects, the financial position of HFH WDC as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited HFH WDC's 2019 financial statements, and in our report dated January 9, 2020, we expressed an unmodified opinion on those audited statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
February 5, 2021

HABITAT FOR HUMANITY OF WASHINGTON, D.C., INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2019)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents – unrestricted	$ 157,625	$ 219,378
Cash and cash equivalents – restricted	282,416	1,157,358
Accounts receivable and other current assets	111,008	937,287
Grants and pledges receivable	155,000	189,392
Mortgages receivable, current portion	282,878	305,747
Accrued interest on note receivable	142,281	105,954
Construction in progress	5,781,089	5,271,143
Total Current Assets	6,912,297	8,186,259
Mortgages receivable, net of current portion	2,362,356	2,609,892
Note receivable	593,000	593,000
Property and equipment, net	27,663	41,568
Investment in joint venture	278,163	214,128
Total Assets	$ 10,173,479	$ 11,644,847
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 142,659	$ 215,106
Line of credit	1,045,000	1,295,000
Deposits and escrows payable	220,736	208,434
Other current liabilities	73,198	64,341
Notes payable, current portion	1,217,729	495,279
Total Current Liabilities	2,699,322	2,278,160
Notes payable, net of current portion	5,657,342	5,681,016
Total Liabilities	8,356,664	7,959,176
Net Assets		
Net assets without donor restrictions	1,265,412	2,327,761
Net assets with donor restrictions	551,403	1,357,910
Total Net Assets	1,816,815	3,685,671
Total Liabilities and Net Assets	$ 10,173,479	$ 11,644,847

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF WASHINGTON, D.C., INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support				
Sale of homes	$ 555,733	$ --	$ 555,733	$ 2,906,475
Home repair programs	138,452	--	138,452	178,774
Contributions	1,192,243	--	1,192,243	1,892,838
Grants	317,000	260,000	577,000	1,067,904
In-kind contributions	151,576	--	151,576	151,576
Other income	174,634	--	174,634	214,175
Net assets released from restrictions:				
Satifaction of program restrictions	41,007	(41,007)	--	--
Satisfaction of time restrictions	210,500	(210,500)	--	--
Total Revenue and Support	2,781,145	8,493	2,789,638	6,411,742
Expenses				
Program Services:				
Construction	1,903,848	--	1,903,848	4,238,069
Non construction	578,378	--	578,378	700,271
Total Program Services	2,482,226	--	2,482,226	4,938,340
Supporting Services:				
Fundraising	564,815	--	564,815	464,748
General and administrative	796,453	--	796,453	463,245
Total Supporting Services	1,361,268	--	1,361,268	927,993
Total Expenses	3,843,494	--	3,843,494	5,866,333
Change in Net Assets from Operations	(1,062,349)	8,493	(1,053,856)	545,409
Loss on Uncollectible Pledge	--	(815,000)	(815,000)	--
Change in Net Assets	(1,062,349)	(806,507)	(1,868,856)	545,409
Net Assets – Beginning	2,327,761	1,357,910	3,685,671	3,140,262
Net Assets – Ending	$ 1,265,412	$ 551,403	$ 1,816,815	$ 3,685,671

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF WASHINGTON, D.C., INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	2020							
	Program Services			Supporting Services				
	Construction	Non Construction	Total	Fundraising	General and Administrative	Total	2020 Total	2019 Total
Salaries and employee benefits	$ 546,705	$ 416,028	$ 962,733	$ 192,067	$ 137,461	$ 329,528	$ 1,292,261	$ 1,456,657
Cost of home sales – construction costs	723,868	--	723,868	--	--	--	723,868	3,145,241
Office	49,400	11,243	60,643	145,828	360,692	506,520	567,163	216,337
Contract services	19,290	57,113	76,403	194,376	276,761	471,137	547,540	360,827
Interest	185,193	--	185,193	--	--	--	185,193	173,191
Professional fees	151,623	--	151,623	--	--	--	151,623	177,826
Office and warehouse rent	78,895	34,475	113,370	14,167	9,445	23,612	136,982	129,884
Insurance	66,647	34,020	100,667	16,635	10,187	26,822	127,489	82,938
Amortization of debt issuance costs	75,960	--	75,960	--	--	--	75,960	75,960
Tithe to HFHI and other affiliates	--	20,835	20,835	--	--	--	20,835	28,000
Depreciation and amortization	6,267	4,664	10,931	1,742	1,907	3,649	14,580	19,472
Total Expenses	$ 1,903,848	$ 578,378	$ 2,482,226	$ 564,815	$ 796,453	$ 1,361,268	$ 3,843,494	$ 5,866,333

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF WASHINGTON, D.C., INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	$ (1,868,856)	$ 545,409
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of discount on mortgages receivable	(171,505)	(197,156)
Depreciation and amortization	14,580	19,472
Equity in earnings of joint venture	(64,035)	(81,461)
Amortization of debt issuance costs	75,959	75,959
Loss on uncollectible pledge	815,000	--
Changes in assets and liabilities:		
Accounts receivable and other current assets	11,279	(778,667)
Grants and pledges receivable	34,392	(130,392)
Mortgages receivable	441,911	375,065
Construction in progress	(509,946)	1,524,942
Accounts payable and accrued expenses	(72,447)	(321,115)
Deposits and escrows payable	12,302	6,379
Other current liabilities	8,857	(39,250)
Total Adjustments	596,347	453,776
Net Cash Provided by (Used in) Operating Activities	(1,272,509)	999,185
Cash Flows From Investing Activities		
Accrued interest on mortgages receivable	(36,327)	(36,327)
Purchases of property and equipment	(675)	--
Net Cash Used in Investing Activities	(37,002)	(36,327)
Cash Flows From Financing Activities		
Proceeds from line-of-credit	100,000	395,000
Payments on line-of-credit	(350,000)	--
Proceeds from issuance of notes payable	782,849	690,471
Principal payments on notes payable	(160,033)	(2,009,046)
Net Cash Provided by (Used in) Financing Activities	372,816	(923,575)
Net Increase (Decrease) in Cash and Cash Equivalents	(936,695)	39,283
Cash and Cash Equivalents – Beginning	1,376,736	1,337,453
Cash and Cash Equivalents – Ending	$ 440,041	$ 1,376,736
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 185,193	$ 173,191
Cash and cash equivalents, unrestricted	$ 157,625	$ 219,378
Cash and cash equivalents, restricted	282,416	1,157,358
Total	$ 440,041	$ 1,376,736

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Habitat for Humanity of Washington, D.C., Inc. (HFH WDC) was incorporated in 1990 in the District of Columbia as a non-profit organization. HFH WDC is committed to eliminating poverty housing and homelessness in the nation's capital by building affordable, energy and resource-efficient homes for people in need.

HFH WDC sells all the homes it builds to eligible low to moderate income (LMI) households and may finance the home purchase by offering zero-interest mortgages, or assist the prospective homebuyer families in obtaining conventional mortgage financing. Prospective homebuyers make a $500 down payment and contribute 300 hours of sweat equity towards the construction of their future home. Mortgage payments on HFH WDC originated loans are reinvested in a revolving fund to finance further construction and the acquisition of additional properties and building materials. In essence, HFH WDC is a developer, a construction company, a mortgage company, and a social service agency. Providing decent, affordable housing in the nation's capitol requires several partners and generous funding from corporations, foundations, local government agencies, and individuals.

HFH WDC is affiliated with, but is not controlled by, Habitat for Humanity International, Inc. (the international affiliate), which is headquartered in Americus, GA. The international affiliate conducts projects worldwide and is a resource center for local affiliates such as HFH WDC. HFH WDC pays an annual tithe to the international affiliate and a sustainability fee of $28,000.

INCOME TAXES

HFH WDC is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation within the meaning of Section 509(a)(1) of the IRC.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expense when incurred.

CASH AND CASH EQUIVALENTS

HFH WDC classifies all highly liquid investments with original maturities of less than 90 days as cash equivalents. Cash and cash equivalents include demand deposits and money market funds. Restricted cash includes a loan reserve established for payment of the servicing fee in compliance with the notes payable agreements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE

Accounts receivable primarily consisted of 1) miscellaneous receivables such as refunds due from vendors; or 2) amounts due in relation to home sales. HFH WDC's management periodically reviews the status of all balances for collectability. Management determines the allowance for doubtful accounts by reviewing all outstanding receivables for possible uncollectibility. Accounts are charged to the allowance account when deemed uncollectible. Accounts receivable balances were deemed to be collectible and no bad debt expense was recorded as of and for the year ended June 30, 2020.

GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consist of unconditional promises to give to HFH WDC. Unconditional promises to give are recorded at their present net realizable value. For those due in more than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk-free returns. Management determines the allowance for doubtful grants and pledges by reviewing all outstanding pledges for possible uncollectibility. Pledges are charged to the allowance account when deemed uncollectible.

PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION

Acquisitions of property and equipment greater than $2,500 and with estimated useful life greater than one year and all expenditures for repairs, maintenance and betterments that materially prolong the useful lives of assets are capitalized. Donated property is valued at fair value at the date of the gift. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets: furniture and equipment – 3 to 5 years; software – 5 years; and vehicles – 3 to 7 years. Amortization of leasehold improvements is calculated using the straight-line method over the lesser of the remaining term of the office lease or the estimated useful life of the improvements.

IMPAIRMENT OF LONG-LIVED ASSETS

HFH WDC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended June 30, 2020.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HOME SALES AND COST OF HOME SALES

When home sales occur, the revenue is recorded and the related previously capitalized construction in progress is recognized as cost of home sales expense in the year of the sale. In general, home sales revenue is lower than cost of home sales expense and, therefore, HFH WDC subsidizes this difference through grants and contributions. Home sales revenue also includes the proceeds from the sale of homes if a home buyer has a mortgage with HFH WDC. Cost of home sales consists mostly of capitalized home construction costs, including certain costs related to the sale of homes.

CONTRIBUTIONS AND GRANTS

Unconditional contributions and grants are recognized when promised to or received by HFH WDC. Unconditional contributions and grants are recorded as with or without donor restrictions depending upon the existence and/or nature of any donor restrictions. Specifically, unconditional gifts of cash for the acquisition of long-lived assets are recorded as with donor restrictions and unconditional promises to give are recorded as with donor restrictions due to implied time restrictions. Within net assets with donor restrictions, amounts are reclassified to net assets without donor restrictions when the time restrictions expire or when the purpose restrictions are met.

In-kind contributions are recognized at their estimated fair value when received. Donated services are recognized if the services received create or enhance nonfinancial assets, or if the services require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

CLASSIFICATION OF NET ASSETS

HFH WDC's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of HFH WDC at the discretion of HFH WDC's management and the Board of Directors.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of HFH WDC or by the passage of time.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area of HFH WDC are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas, such as salaries and employee benefits, rent and depreciation and amortization, have been allocated among the various functional areas based on direct salaries.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, (Financial Accounting Standards Board) FASB issued Accounting Standards Updated (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In May 2020, FASB extended by one year the effective date of ASU 2014-09, and HFH WDC elected to defer the adoption of ASU 2014-09.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard did not have an impact on the statement of cash flows presentation.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, subject to other guidance, and determining whether a contribution is conditional. HFH WDC adopted ASU 2018-08 on July 1, 2019, using the modified prospective basis and the adoption of the standard did not result in a material change to the financial statements or the timing of revenue recognition for HFH WDC's grants and contributions.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30, 2020:

Cash – undesignated	$ 157,625
Cash – restricted for New Market Tax Credit (NMTC) programs	21,927
Certificates of deposit – required balance of line of credit	260,489
Total Cash and Cash Equivalents	$ 440,041

NOTE 3 – MORTGAGES RECEIVABLE

Mortgages receivable consist of non-interest bearing promissory notes ranging in amounts from $5,000 to $143,000. HFH WDC outsources the administration, servicing and collection of its mortgage receivables to a third-party service organization. Monthly mortgage payments range from $42 to $476, and maturities range from 2020 to 2029. The discount on mortgages receivable is determined using imputed interest rates (discount rates range from 6% to 9%). Amortization of the discount totaled $171,505 for the year ended June 30, 2020. Management believes that the mortgages receivable are fully collectible.

Net mortgages receivable consisted of the following at June 30, 2020:

Mortgages receivable, current	$ 282,878
Mortgages receivable, non-current	3,521,095
Mortgages receivable	3,803,973
Less: Unamortized discount to net present value	(1,158,739)
Net Present Value of Mortgage Receivable	$ 2,645,234

In previous years, HFH WDC entered into an agreement in which it used non-interest-bearing mortgage receivable as security to obtain an operating loan. The details of this loan is shown in Note 7. The mortgage receivable used as security remain as assets in the statement of financial position with a corresponding liability in the form of secured obligations. The terms and payment schedules of the secured obligations are coincident with those of the underlying mortgage receivable. At June 30, 2020, the book value of these secured obligations, net of unamortized discount and deferred finance fees, was $877,979.

NOTE 3 – MORTGAGES RECEIVABLE (CONTINUED)

Collections of payments on mortgages receivable are expected to be as follows:

For the Year Ending June 30,	
2021	$ 282,878
2022	298,745
2023	264,119
2024	258,886
2025	255,032
Thereafter	2,444,313
	$ 3,803,973

NOTE 4 – CONSTRUCTION IN PROGRESS AND PROPERTY AND EQUIPMENT

CONSTRUCTION IN PROGRESS

Costs associated with the acquisition, development and construction of a project are capitalized. Such costs may include (1) pre-acquisition costs such as land acquisition or improvement; (2) infrastructure development or construction costs such as equipment rental, construction materials, or subcontractors; and (3) other costs such as interest, insurance, or construction benefits. While construction projects may span several years, most of the individual units included in a project within construction in progress are expected to be completed and sold in future years.

Construction in progress consisted of the following at June 30, 2020:

28th Place	$ 3,801,536
55th Place	1,269,761
Skyland Terrace	249,464
Donated inventory	17,387
Central Place - IZ	10,328
J Street Project	432,613
	$ 5,781,089

NOTE 4 – CONSTRUCTION IN PROGRESS AND PROPERTY AND EQUIPMENT (CONTINUED)

PROPERTY AND EQUIPMENT

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

Furniture and equipment	$ 115,184
Leasehold improvements	45,728
Less: Accumulated Depreciation and Amortization	(133,249)
Property and Equipment, Net	$ 27,663

Depreciation and amortization expense was $14,580 for the year ended June 30, 2020.

NOTE 5 – INVESTMENT IN JOINT VENTURE

HFH WDC participates in New Markets Tax Credit (NMTC) programs. NMTC programs were originally established as part of the Community Renewal Tax Relief Act of 2000 and the law covering NMTC programs was most recently extended until December 2019. The goal of NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in certified community development entities. The tax credit for investors equals 39% of the investment, and investors receive the tax credit over a seven-year period. A community development entity (CDE) is required to participate and has the primary mission of providing financing for revitalization projects in low-income communities. NMTC financing allows organizations to receive low-interest loans or investment capital from CDEs, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in NMTC programs, HFH WDC obtained the low-interest loans described in Note 7.

MANNITAT LEVERAGE LENDER, LLC (MANNITAT)

During the year ended June 30, 2017, HFH WDC and Manna, Inc. formed Mannitat Leverage Lender, LLC (Mannitat). As part of the agreement, HFH WDC contributed cash of $500 such that HFH WDC owns 50% of Mannitat. Because HFH WDC does not have effective control over Mannitat, management determined that consolidated financial statements including both HFH WDC and Mannitat are not required to be presented, which is in accordance with GAAP. HFH WDC recorded its investment in Mannitat using the equity method.

NOTE 5 – INVESTMENT IN JOINT VENTURE (CONTINUED)

Investment in joint venture consisted of the following as of and for the year ended June 30, 2020:

Investment in joint venture, beginning of year	$ 214,128
Equity in earnings of Mannitat	64,035
Investment in Joint Venture, End of Year	$ 278,163

NOTE 6 – NOTE RECEIVABLE

In conjunction with the New Markets Tax Credits (NMTC) loans described in Note 7, HFH WDC provided cash of $593,000 to Mannitat in return for a promissory note in the same amount. The promissory note matures in June 2025 when the balance will be payable in full. The note receivable accrues interest at an annual rate of 6.13%. In accordance with the terms of the promissory note, no principal payments are due until maturity and only monthly interest payments of $3,027 have been accrued. As a result, accrued interest on the note receivable totaled $142,281 at June 30, 2020.

NOTE 7 – NOTES PAYABLE

HFH WDC has financed the acquisition or construction of various housing properties through several notes payable from various lenders such as financial institutions, the international affiliate, and local government.

NEW MARKETS TAX CREDITS (NMTC) LOANS

HFH WDC had four NMTC loans totaling $6,000,000 from Jubilee Manna Sub-CDE I, LLC, which is a certified community development entity. The loan proceeds were to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. In accordance with the original terms of the loans, monthly payments of principal and interest were required for the first seven years. During the year ended June 30, 2018, HFH WDC paid the outstanding balance due on two of the four NMTC loans (Note A and Note B). In addition, HFH WDC amended the terms of the remaining two loans (Note C and Note D). For Note C, payments of interest only are required until June 15, 2025 and for Note D, payments of interest only are required until August 15, 2023. Interest on the loans accrues at an annual rate of 5.13%. HFH WDC was in compliance with the financial loan covenants of the NMTC loans.

NOTE 7 – NOTES PAYABLE (CONTINUED)

NEW MARKETS TAX CREDITS (NMTC) LOANS (CONTINUED)

The following table summarizes the maturity dates and outstanding balances due at June 30, 2020 for the two NMTC loans in accordance with the terms of the loans:

Note C (June 30, 2025)	$ 2,648,350
Note D (July 13, 2046)	1,260,924
	$ 3,909,274

Debt issuance costs, net of accumulated amortization, totaled $250,646 at June 30, 2020, and have been presented as a reduction of notes payable.

PENTAGON FEDERAL CREDIT UNION (PEN FED)

HFH WDC has an acquisition loan from Pen Fed with a maximum draw of $1,302,720 which is secured by the related acquired properties. The loan was used for the acquisition of properties. Advances under the acquisition loan accrue interest at a variable rate equal to the Wall Street Journal prime rate plus 1% and monthly interest only payments are required until September 2025, the maturity date of the loan. The interest rate at June 30, 2020 is 6.5%. The outstanding balance due on the Pen Fed loan was $1,210,100 at June 30, 2020.

INTERNATIONAL AFFILIATE

HFH WDC had two loans from the international affiliate (one loan accrued interest at an annual rate of 4.75% and the other loan was a zero-interest loan). The maturity dates of the two loans were December 31, 2024 and September 30, 2025, respectively and both of the loans were secured by mortgages receivable. On June 8, 2018, the loans were refinanced, and HFH WDC obtained a new loan totaling $1,054,861 which matures June 8, 2028. In accordance with the terms of the refinanced loan, interest accrues at 4.75% for the first 5 years and then 4.5% for the remaining 5 years. In accordance with the terms of the refinanced loan, HFH WDC is required to prepay at least $300,000 of the principal balance due on the note within 24 months of closing, unless the international affiliate agrees to release HFH WDC from the pre-payment requirement. In September 2020, the loan was amended to remove this requirement. In addition to this amendment, in July 2020, the payment schedule was amended, resulting in HFH WDC receiving a refund of $22,937, which will be due at a later date. HFH WDC was in compliance with the international affiliate loan financial covenants at June 30, 2020. The outstanding balance due on the international affiliate loans was $877,979 at June 30, 2020.

NOTE 7 – NOTES PAYABLE (CONTINUED)

DC DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (DHCD)

HFH WDC has a forgivable loan from DHCD with a maximum draw of $400,000. The loan was used to finance the construction of homes for families in Washington, D.C. in accordance with the Housing Protection Trust Fund (HPTF) program. As homes sales occur, portions of the loan will be forgiven through a prorated assumption of the loan by the buyers of the completed homes. Home buyers will assume portions of the loan in accordance with the terms of their home sale. No amounts have been forgiven during the year ended June 30, 2020 and the balance due on the forgivable loan was $360,000 at June 30, 2020.

PROSPERITY HOME MORTGAGE LOAN

On June 26, 2020, HFH WDC entered in a loan agreement for $300,000 with an annual interest rate of 1% due quarterly. The loan matures on March 31, 2021. The full outstanding principal and unpaid interest is due at maturity. The outstanding balance due on the loan was $300,000 at June 30, 2020.

PAYROLL PROTECTION PROGRAM LOAN

In April 2020, the HFH WDC entered into a Small Business Administration loan with its financial institution under the Payroll Protection Program for the amount of $229,100. The loan will mature in April 2022, with a fixed interest rate of 1% per annum. Monthly payments of principal and interest will commence in November 2020 and continue through the maturity date. The loan amount, or some portion thereof, may be eligible for forgiveness pursuant to the grant provisions of the PPP. The outstanding balance due on the loan was $229,100 at June 30, 2020.

FEDERAL SBA LOAN

In June 2020, the HFH WDC entered into a Small Business Administration loan with its financial institution under the Economic Injury Disaster Loan program funding for the amount of $150,000, which came with a $10,000 grant. The balance of principal and interest will be payable for thirty (30) years from the date of the Promissory Note with a fixed interest rate of 2.75% per annum. Installment payments, including principal and interest will begin twelve (12) months from the date of the Promissory Note. The outstanding balance due on the loan was $150,000 at June 30, 2020.

NOTE 7 – NOTES PAYABLE (CONTINUED)

FHL BANK ATLANTA LOAN

In relation to the loan agreement signed with DHCD on October 25, 2018, HFH WDC received a subsidy of $75,000 to be used for the construction of six multifamily homes in 28th Place, Washington, D.C. The subsidized advance may not be longer than the term of the DHCD loan. At least once every 12-month period, from the date the advance is funded, HFH WDC will make repayments equal to the amount scheduled to be repaid on the DHCD loan. There is no interest and the subsidy will be used as down-payment assistance on the properties' mortgages. The outstanding balance due on the loan was $73,568 at June 30, 2020.

ALLY FINANCIAL

During the year ended June 30, 2018, HFH WDC financed the purchase of a van that will be used in its home repairs program. The purchase price, including applicable taxes and fees, was $20,669. The auto loan matures on April 22, 2022 and interest accrues at an annual rate of 7.54%. Payments of principal and interest of $502 are due monthly. The outstanding balance due on the auto loan was $10,270 at June 30, 2020.

DC RECOVERY PROGRAM

In May 2020, the HFH WDC entered into a loan with its financial institution under the DC Recovery program funding for the amount of $5,426. These funds were utilized for COVID-19 emergency expenditures. As of June 30, 2020, the full amount has been expended and the report submitted to the grantor as per agreement.

ENTERPRISE COMMUNITY PARTNERS

HFH WDC entered into a loan with Enterprise Community Partners on June 26, 2020 in the amount up to $250,000 for the construction and development of homes at 28th Place SE Washington, DC. In accordance with the terms of the loan, interest accrues at 3.00% per annum and due quarterly. The loan will mature the earlier of December 26, 2020 or the closing on permanent financing for the project. Advances of loan funds are subject to the approval of the lender of various construction documents. There were no balances outstanding as of June 30, 2020, with $250,000 being received subsequent to year end.

NOTE 7 – NOTES PAYABLE (CONTINUED)

Notes payable, grouped by lender, consisted of the following at June 30, 2020:

New Markets Tax Credits (NMTC) loans	$ 3,909,274
Pentagon Federal Credit Union	1,210,100
International affiliate	877,979
DHCD	360,000
Prosperity Home Mortgage loan	300,000
Payroll protection program loan	229,100
Federal SBA loan	150,000
FHL Bank Atlanta loan	73,568
Ally Financial	10,270
DC Recovery program	5,426
Total	7,125,717
Less: Debt issuance costs, net	(250,646)
	$ 6,875,071

Future maturities of notes payable are as follows:

Year Ending June 30,	
2021	$ 1,217,729
2022	102,650
2023	102,522
2024	106,949
2025	111,568
Thereafter	5,484,299
	$ 7,125,717

NOTE 8 – LINE-OF-CREDIT

HFH WDC has a $1,500,000 line-of-credit available from Sandy Spring Bank which terminates in August 2021. Under the line-of-credit, HFH WDC is required to maintain a $250,000 certificate of deposit as partial collateral for the outstanding balance. As described in the terms of the line-of-credit agreement, certain other assets of HFH WDC have also been identified as collateral. As of June 30, 2020, the interest rate was 4.0%. Drawdowns on the line-of-credit totaled $100,000 and repayments totaled $350,000 during the year ended June 30, 2020. The balance due on the line-of-credit was $1,045,000 at June 30, 2020.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020, HFH WDC's net assets with donor restrictions were restricted for specific purposes or time periods as follows:

Subject to expenditure for specified purpose:

Skyland Construction Project	$ 191,403
Safe at Home Program	135,000
HomeSmart Program	225,000
Total Net Assets With Donor Restrictions	$ 551,403

NOTE 10 – IN-KIND CONTRIBUTIONS

RECORDED AMOUNTS

Donated services are recognized as contributions and expense in accordance with generally accepted accounting principles, 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 HFH WDC. Donated services consisted of legal services of 151,576 for the year ended June 30, 2020.

Gifts of land, buildings, equipment, or construction materials are capitalized and reported as unrestricted in-kind contributions unless use of the assets are limited by donor-imposed restrictions. From time to time, donors provide in-kind contributions of land but these donated assets are not recorded by HFH WDC until all environmental and feasibility studies have occurred and all right of use issues have been resolved.

UNRECORDED AMOUNTS

HFH WDC relies on contributions of both time and expertise from its pool of volunteers who donate thousands of hours of service, the total value of which cannot be easily calculated or estimated, yet these volunteers contribute significantly to the work, impact, and success of HFH WDC. These volunteer services have not been reflected in the accompanying financial statements because the volunteer services provided do not meet the criteria necessary for recognition under generally accepted accounting principles.

NOTE 11 – RETIREMENT PLAN

HFH WDC sponsors a defined contribution 401(k) plan for participants who meet age and length of service requirements. The Plan allows for elective deferrals which may be limited by the Internal Revenue Code. HFH WDC contributes a matching amount to the Plan which is equal to participant salary deferrals. HFH WDC's contributions to the Plan totaled $54,198 for the year ended June 30, 2020.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

CONCENTRATION OF CREDIT RISK

HFH WDC maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balances may exceed, at times, the Federal Deposit Insurance Corporation (FDIC) insured limit of $250,000 per depositor per institution. As of June 30, 2020, HFH WDC had approximately $631,000 of demand deposits, which exceeded the maximum limit insured by the FDIC by approximately $35,000. HFH WDC monitors the creditworthiness of these institutions and has not experienced any historical credit losses on its cash and cash equivalents.

OPERATING LEASES

HFH WDC leases office space at 2115 Ward Court under an operating lease which expired December 2019. HFH extended the term of the lease for another five years, commencing on January 1, 2020, with a monthly rate of 8,465. HFH WDC also leases warehouse space which expires January 2021. Monthly base is $3,825 and requires escalation of 3% each year. Rent expense relating to the operating leases for office space and warehouse space totaled $136,731 for the year ended June 30, 2020.

Future minimum operating lease payments are as follows:

	Office	Warehouse	Total
Year Ending June 30,			
2021	$ 101,580	$ 28,765	$ 130,345
2022	101,580	-	101,580
2023	101,580	-	101,580
2024	50,790	-	50,790
	$ 355,530	$ 28,765	$ 384,295

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONSTRUCTION CONTRACTS

HFH WDC has committed to several construction contracts relating to various home building projects. The estimated combined total commitment under the construction contracts totaled $2,140,992. In relation to these construction contracts, HFH WDC has already paid and, therefore, had recorded construction in progress totaling $1,865,693 at June 30, 2020. Therefore, the remaining unpaid commitment on the construction contracts approximates $275,299 at June 30, 2020.

NOTE 13 – AVAILABILITY OF RESOURCES AND LIQUIDITY

HFH WDC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. HFH WDC's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2020, were as follows:

Cash and cash equivalents – not restricted	$ 157,625
Accounts receivable	22,414
Grants and pledges receivable	155,000
Mortgages receivable, current portion	282,878
Total Financial Assets Available Within One Year	617,917
Less: Amounts unavailable for general expenditures within one year due to donors' restrictions	(551,403)
Financial Assets Available to Meet General Expenditures Within One Year	$ 66,514

HFH WDC has various sources of liquidity at its disposal, including cash and cash equivalents, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of HFH WDC throughout the year. This is done through monitoring and reviewing HFH WDC's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of HFH WDC's cash flow related to HFH WDC's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. To help manage unanticipated liquidity needs, HFH WDC has a committed line of credit of $1,500,000, of which approximately $455,000 was unused and available to draw upon as of June 30, 2020. HFH WDC's used line of credit is secured by HFH WDC's certificates of deposit and property.

NOTE 14 – INCOME TAXES

Under Section 501(c)(3) of the IRC, HFH WDC is exempt from the payment of taxes on income other than net unrelated business income. HFH WDC reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertainty in income taxes. For the year ended June 30, 2020, no provision for income taxes was made, as HFH WDC had no net unrelated business income and did not identify any uncertainty in income taxes requiring recognition or disclosure in these financial statements. HFH WDC's tax returns are subject to possible examination by the taxing authorities. For federal purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns. There are currently no examinations pending or in progress regarding HFH WDC's tax returns. It is HFH WDC's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 5, 2021, which is the date the financial statements were available to be issued. Except as noted below, there were no subsequent events that require recognition or disclosure in the financial statements.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. HFH DC has been able to continue its office operations in a remote environment. Construction services have been deemed essential, which has allowed HFH DC to continue to build their current projects and to complete 14 houses from the beginning of the pandemic through the report date. At this point, the extent to which COVID-19 may impact HFH DC is uncertain.