

HOMESTRETCH, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016



Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report

Board of Directors
Homestretch, Inc.

We have audited the accompanying financial statements of **Homestretch, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Homestretch, Inc.** as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
January 25, 2018

Homestretch, Inc.

Statements of Financial Position

June 30,

2017

2016

Assets

Current assets

Cash and cash equivalents	\$ 1,297,460	\$ 1,258,782
Client savings accounts	91,114	45,929
Credit counseling accounts	38,233	32,004
Accounts and grants receivable	107,333	75,305
Investments	9,666	8,795
Prepaid expenses	14,300	15,542
	<u>1,558,106</u>	<u>1,436,357</u>

Property and equipment

Land	1,308,452	1,308,452
Property and equipment, net of accumulated depreciation	4,980,714	5,158,983
	<u>6,289,166</u>	<u>6,467,435</u>

Deposits

	6,945	12,595
Total assets	<u>\$ 7,854,217</u>	<u>\$ 7,916,387</u>

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 72,718	\$ 81,428
Accrued vacation	49,690	42,361
Deposits	31,169	35,294
Deferred revenue	860	92
Client savings payable	91,114	45,929
Credit counseling payable	26,209	26,037
Current portion of long-term notes payable	123,431	121,065
	<u>395,191</u>	<u>352,206</u>

Long-term liabilities

Notes payable - property	1,533,673	1,634,316
Notes payable - building	1,523,313	1,546,104
Notes payable - grants	3,447,490	3,447,490
	<u>6,504,476</u>	<u>6,627,910</u>
Total liabilities	<u>6,899,667</u>	<u>6,980,116</u>

Net assets

Unrestricted	822,427	880,444
Temporarily restricted	132,123	55,827
Total net assets	<u>954,550</u>	<u>936,271</u>
Total liabilities and net assets	<u>\$ 7,854,217</u>	<u>\$ 7,916,387</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Homestretch, Inc.

Statement of Activities and Change in Net Assets for the year ended June 30, 2017

	Unrestricted	Temporarily restricted	Total
Support and revenue			
Federal and local grants	\$ 39,799	\$ -	\$ 39,799
United Way	40,839	-	40,839
Contributions	1,684,079	156,500	1,840,579
Client payments	192,250	-	192,250
Special events, net of expenses of \$49,085	308,077	-	308,077
Investment income	1,558	-	1,558
Rental income	237,001	-	237,001
Other	20,840	-	20,840
Net assets released from restrictions	80,204	(80,204)	-
Total support and revenue before in-kind support	<u>2,604,647</u>	<u>76,296</u>	<u>2,680,943</u>
In-kind support	271,471	-	271,471
Total support and revenue	<u>2,876,118</u>	<u>76,296</u>	<u>2,952,414</u>
Expenses before depreciation and in-kind expenses			
Program services	1,975,971	-	1,975,971
Management and general	329,814	-	329,814
Fundraising	136,719	-	136,719
Expenses before depreciation and in-kind expenses	<u>2,442,504</u>	<u>-</u>	<u>2,442,504</u>
Change in net assets before depreciation and in-kind expenses	433,614	-	509,910
Depreciation expense			
Program services	169,268	-	169,268
Management and general	42,317	-	42,317
Fundraising	14,106	-	14,106
Total depreciation expense	<u>225,691</u>	<u>-</u>	<u>225,691</u>
In-kind expense			
Program services	235,940	-	235,940
Management and general	20,000	-	20,000
Fundraising	10,000	-	10,000
Total in-kind expense	<u>265,940</u>	<u>-</u>	<u>265,940</u>
Total expenses			
Program services	2,381,179	-	2,381,179
Management and general	392,131	-	392,131
Fundraising	160,825	-	160,825
Total expenses	<u>2,934,135</u>	<u>-</u>	<u>2,934,135</u>
Change in net assets	(58,017)	76,296	18,279
Net assets, beginning of year	<u>880,444</u>	<u>55,827</u>	<u>936,271</u>
Net assets, end of year	<u>\$ 822,427</u>	<u>\$ 132,123</u>	<u>\$ 954,550</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Homestretch, Inc.

Statement of Activities and Change in Net Assets for the year ended June 30, 2016

	Unrestricted	Temporarily restricted	Total
Support and revenue			
U.S. Department of Housing and Urban Development grant	\$ 153,602	\$ -	\$ 153,602
Federal, state and county grants	479,718	-	479,718
United Way	41,992	-	41,992
Contributions	1,396,187	111,212	1,507,399
Client payments	120,390	-	120,390
Special events, net of expenses of \$19,487	185,737	-	185,737
Investment income	1,578	-	1,578
Rental income	270,611	-	270,611
Other	15,887	-	15,887
Net assets released from restrictions	113,836	(113,836)	-
Total support and revenue before in-kind support	2,779,538	(2,624)	2,776,914
In-kind support	209,234	-	209,234
Total support and revenue	2,988,772	(2,624)	2,986,148
Expenses before depreciation and in-kind expenses			
Program services	1,995,910	-	1,995,910
Management and general	310,452	-	310,452
Fundraising	127,829	-	127,829
Expenses before depreciation and in-kind expenses	2,434,191	-	2,434,191
Change in net assets before depreciation and in-kind expenses	554,581	-	551,957
Depreciation expense			
Program services	164,900	-	164,900
Management and general	41,225	-	41,225
Fundraising	13,742	-	13,742
Total depreciation expense	219,867	-	219,867
In-kind expense			
Program services	173,195	-	173,195
Management and general	24,026	-	24,026
Fundraising	12,013	-	12,013
Total in-kind expense	209,234	-	209,234
Total expenses			
Program services	2,334,005	-	2,334,005
Management and general	375,703	-	375,703
Fundraising	153,584	-	153,584
Total expenses	2,863,292	-	2,863,292
Change in net assets	125,480	(2,624)	122,856
Net assets, beginning of year	754,964	58,451	813,415
Net assets, end of year	\$ 880,444	\$ 55,827	\$ 936,271

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Homestretch, Inc.

Statement of Functional Expenses for the year ended June 30, 2017

	Program services	Management and general	Fundraising	Total
Bank and payroll fees	\$ 6,581	\$ 1,646	\$ 548	\$ 8,775
Fundraising	-	2,965	26,685	29,650
Health insurance	71,996	17,999	6,000	95,995
Housing assistance	252,241	-	-	252,241
Insurance	26,629	6,657	2,219	35,505
Interest	108,822	11,378	4,876	125,076
Legal	230	57	19	306
Occupancy	25,865	6,467	2,155	34,487
Office expenses	18,191	4,547	1,516	24,254
Other	9,626	7,220	2,407	19,253
Payroll taxes	68,047	17,012	5,671	90,730
Pension costs	24,496	6,125	2,041	32,662
Postage and delivery	2,409	602	201	3,212
Printing	2,204	550	184	2,938
Professional fees	49,952	12,488	4,163	66,603
Property expenses	135,413	-	-	135,413
Rental properties	236,863	-	-	236,863
Repairs and maintenance	28,286	7,072	2,357	37,715
Salaries	873,901	218,475	72,825	1,165,201
Taxes and licenses	24,000	6,000	2,000	32,000
Telephone	10,219	2,554	852	13,625
Total expenses before depreciation and in-kind	1,975,971	329,814	136,719	2,442,504
In-kind expenses				
Donated materials - at fair value	156,340	-	-	156,340
Donated services - at fair value	79,600	20,000	10,000	109,600
	<u>235,940</u>	<u>20,000</u>	<u>10,000</u>	<u>265,940</u>
	2,211,911	349,814	146,719	2,708,444
Depreciation	169,268	42,317	14,106	225,691
Total expenses	\$ <u>2,381,179</u>	\$ <u>392,131</u>	\$ <u>160,825</u>	\$ <u>2,934,135</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Homestretch, Inc.

Statement of Functional Expenses for the year ended June 30, 2016

	Program services	Management and general	Fundraising	Total
Bank and payroll fees	\$ 4,766	\$ 1,192	\$ 397	\$ 6,355
Fundraising	-	2,732	24,587	27,319
Health insurance	63,181	15,795	5,265	84,241
Housing assistance	302,825	-	-	302,825
Insurance	24,907	6,226	2,075	33,208
Interest	119,767	7,036	3,015	129,818
Legal	274	69	23	366
Occupancy	24,184	6,046	2,015	32,245
Office expenses	20,117	5,029	1,676	26,822
Other	11,033	8,275	2,758	22,066
Payroll taxes	62,435	15,609	5,203	83,247
Pension costs	23,918	5,979	1,993	31,890
Postage and delivery	2,114	528	176	2,818
Printing	1,365	341	114	1,820
Professional fees	55,986	13,997	4,666	74,649
Property expenses	118,216	-	-	118,216
Rental properties	274,431	-	-	274,431
Repairs and maintenance	21,822	5,456	1,819	29,097
Salaries	827,381	206,845	68,948	1,103,174
Taxes and licenses	23,073	5,768	1,923	30,764
Telephone	14,115	3,529	1,176	18,820
Total expenses before depreciation and in-kind	1,995,910	310,452	127,829	2,434,191
In-kind expenses				
Donated materials - at fair value	118,680	-	-	118,680
Donated services - at fair value	54,515	24,026	12,013	90,554
	<u>173,195</u>	<u>24,026</u>	<u>12,013</u>	<u>209,234</u>
	2,169,105	334,478	139,842	2,643,425
Depreciation	164,900	41,225	13,742	219,867
Total expenses	\$ <u>2,334,005</u>	\$ <u>375,703</u>	\$ <u>153,584</u>	\$ <u>2,863,292</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Homestretch, Inc.

Statements of Cash Flows for the years ended June 30,

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 18,279	\$ 122,856
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	225,691	219,867
Loss on equipment disposal	-	1,664
Unrealized gain on investments	(622)	(444)
(Increase) decrease in operating assets		
Client savings accounts	(45,185)	88,569
Credit counseling accounts	(6,229)	9,240
Accounts and grants receivable	(32,028)	197,287
Prepaid expenses	1,242	(3,614)
Deposits	5,650	(2,830)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(8,710)	22,308
Accrued vacation	7,329	5,641
Deposits	(4,125)	6,419
Deferred revenue	768	92
Client savings payable	45,185	(88,569)
Credit counseling payable	172	(15,207)
Net cash provided by operating activities	<u>207,417</u>	<u>563,279</u>
Cash flows from investing activities		
Purchase of securities	(249)	(2,514)
Purchase of property and equipment	(47,422)	(38,902)
Net cash used in investing activities	<u>(47,671)</u>	<u>(41,416)</u>
Cash flows from financing activities		
Principal payments on notes payable - property	(22,190)	(21,387)
Principal payments on note payable - building	(98,878)	(94,769)
Net cash used in financing activities	<u>(121,068)</u>	<u>(116,156)</u>
Net change in cash and cash equivalents	38,678	405,707
Cash and cash equivalents, beginning of year	1,258,782	853,075
Cash and cash equivalents, end of year	<u>\$ 1,297,460</u>	<u>\$ 1,258,782</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 127,227</u>	<u>\$ 130,190</u>
Income taxes paid	<u>\$ -</u>	<u>\$ 650</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

1. Organization and purpose

Homestretch, Inc. (Homestretch) was incorporated under the laws of the Commonwealth of Virginia as a nonprofit corporation on March 18, 1998, and it conducts its operations in Fairfax County, Virginia. The purpose of Homestretch is to provide transitional housing for families in need of financial assistance.

Homestretch's main sources of revenue include funding from contributions, special events, rental income and client payments.

2. Significant accounting policies

Basis of presentation

The financial statements of Homestretch are presented in accordance with accounting principles generally accepted in the United States of America and have been prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenue and expenses that are applicable to future periods have been presented as deferred revenue or prepaid expenses on Homestretch's statements of financial position.

Financial statement presentation

Homestretch is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2017 and 2016, Homestretch had no permanently restricted net assets.

Cash and cash equivalents

For the purposes of the statements of cash flows, Homestretch considers all cash and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Homestretch maintains its cash in bank accounts which, at times, may exceed federal deposit insurance corporation (FDIC) limits. FDIC insurance is \$250,000 per depositor, per insured bank. No funds exceeded this amount for the years ended June 30, 2017 and 2016.

Accounts and grants receivable

Homestretch considers the need for an allowance for uncollectible accounts and grants receivable based on a review of balances and historical collection experience. For the years ended June 30, 2017 and 2016, management considers all accounts and grants receivable to be collectible and, accordingly, has not established an allowance for uncollectible accounts. Accounts and grants receivable as of June 30, 2017 and 2016 are due in one year or less.

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

2. Significant accounting policies (continued)

Contributions and promises to give

Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets. Homestretch reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Revenue recognition

Grant awards received by Homestretch are evaluated on an individual basis, based on grant specifications to determine appropriate recognition as either a contribution or cost reimbursement grant. Grants recorded as contributions are recognized as revenue in the year awarded. For grants determined to be cost reimbursement awards, grant revenue is recognized as costs are incurred, and funds received in excess of costs incurred are recorded as deferred revenue.

Investments

Investments are measured at fair value in the statements of financial position based on publicly available market data obtained from services independent of Homestretch. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Property and equipment

Homestretch capitalizes all property and equipment acquisitions in excess of \$1,500. Property and equipment are recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

In-kind support

A substantial number of volunteers donate time to Homestretch. Certain donated services are reflected in the financial statements because the services require specialized skills as defined by accounting principles generally accepted in the United States of America and are an integral part of Homestretch's purpose. Donated property is reflected as a revenue or asset at the fair market value of the property on date of donation. In-kind support is detailed in Note 13 of these financial statements.

Accrued vacation

Employees of Homestretch are entitled to paid vacation depending on job classification, length of service and other factors. Upon termination, an employee is compensated for any accrued but unpaid vacation pay. Accrued vacation balances were \$49,690 and \$42,361 as of June 30, 2017 and 2016, respectively.

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

2. Significant accounting policies (continued)

Functional classification of expenses

The costs of providing the programs and services are summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and services benefited. Expenses have been allocated between the program, management and general, and fundraising functions based on a combination of specific identification and allocation by management.

Other financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, client savings accounts, credit counseling accounts, accounts and grants receivable, prepaid expenses and deposits. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses, accrued vacation, deposits, deferred revenue, client savings payable and credit counseling payable. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities, and any associated interest rates approximate current market rates.

Use of estimates

The preparation of financial statements in conformity 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. Accordingly, actual results could differ from those estimates.

Income taxes

Homestretch is exempt from federal income tax as a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation. However, income from certain activities not directly related to Homestretch's tax-exempt purpose is subject to taxation as unrelated business income. There was no liability for unrelated business income for the years ended June 30, 2017 and 2016.

The material jurisdictions subject to potential examination by taxing authorities include the U.S. and the Commonwealth of Virginia. Management does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the organization's results of operations. Tax years that remain subject to examination by the IRS are the fiscal years ended June 30, 2014 through June 30, 2017.

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

3. Investment income

Investment income for the years ended June 30, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Unrealized gains	\$ 622	\$ 444
Interest and dividend income	936	1,134
	<u>\$ 1,558</u>	<u>\$ 1,578</u>

4. Fair value measurements

Homestretch classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

For the years ended June 30, 2017 and 2016, investments were classified as Level 1 investments and consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash	\$ 599	\$ 366
Common stocks	9,067	8,429
Total assets reported at fair value	<u>\$ 9,666</u>	<u>\$ 8,795</u>

5. Property and equipment

A summary of information relative to property for 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>	<u>Useful life</u>
Furniture and equipment	\$ 99,839	\$ 105,567	5 - 10 years
Residential property and improvements	5,995,919	5,970,136	5 - 40 years
Homestretch office building and improvements	<u>1,447,864</u>	<u>1,431,757</u>	5 - 39 years
	7,543,622	7,507,460	
Accumulated depreciation and amortization	<u>(2,562,908)</u>	<u>(2,348,477)</u>	
	<u>\$ 4,980,714</u>	<u>\$ 5,158,983</u>	

Depreciation expense for the years ended June 30, 2017 and 2016 was \$225,691 and \$219,867, respectively.

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

6. Client accounts

Homestretch maintains a credit counseling account and client savings accounts for amounts deposited by Homestretch clients for savings and debt repayment. These deposits are a condition of participation in the transitional housing program provided by Homestretch. As these accounts contain cash that is paid out to the clients when they leave the program, the balances are included as credit counseling payable and client savings payable on the accompanying statements of financial position. Client cash accounts and payables consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Credit counseling account	\$ 38,233	\$ 32,004
Client savings account	91,114	45,929
Credit counseling payable	(26,209)	(26,037)
Client savings payable	(91,114)	(45,929)
	<u>\$ 12,024</u>	<u>\$ 5,967</u>
Outstanding checks	<u>\$ (12,024)</u>	<u>\$ (5,967)</u>
Net client account balance	<u>\$ -</u>	<u>\$ -</u>

7. Notes payable - grants

Notes payable - grants is comprised of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Fairfax County Redevelopment and Housing Authority	<u>\$ 3,447,490</u>	<u>\$ 3,447,490</u>

According to the promissory notes, principal and interest payments are not required to be paid to the Fairfax County Redevelopment and Housing Authority for as long as Homestretch operates the related collateral as *affordable housing* as defined by the Fairfax County Redevelopment and Housing Authority. The notes are secured by related property.

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

8. Notes payable - property

Homestretch has the following notes outstanding as of June 30:

Description	2017	2016
Note payable, United Bank, principal and interest of \$306, payable monthly at 3.25%, secured by property in Falls Church, Virginia	\$ 65,567	\$ 67,058
Note payable, United Bank, principal and interest of \$758, payable monthly at 3.50%, secured by property in Annandale, Virginia	52,113	59,220
Note payable, United Bank, principal and interest of \$755, payable monthly at 3.50%, secured by property in Falls Church, Virginia	51,945	59,029
Note payable, United Bank, principal and interest of \$639, payable monthly at 3.50%, secured by property in Falls Church, Virginia	43,932	49,923
Note payable, United Bank, principal and interest of \$848, payable monthly at 4%, secured by property in Falls Church, Virginia	60,292	67,494
Note payable, United Bank, principal and interest of \$1,122, payable monthly at 4%, secured by property in Falls Church, Virginia	100,661	112,686
Note payable, United Bank, principal and interest of \$748, payable monthly at 3.50%, secured by property in Falls Church, Virginia	51,445	58,460
Note payable, United Bank, principal and interest of \$825, payable monthly at 4%, secured by property in Falls Church, Virginia	57,670	64,560
Note payable, United Bank, principal and interest of \$739, payable monthly at 4%, secured by property in Falls Church, Virginia	73,399	82,167

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

8. Notes payable - property (continued)

Description	2017	2016
Note payable, United Bank, principal and interest of \$703, payable monthly at 4.98%, secured by property in Falls Church, Virginia	\$ 102,379	\$ 105,559
Note payable, United Bank, principal and interest of \$615, payable monthly at 4.98%, secured by property in Falls Church, Virginia	89,562	92,344
Note payable, United Bank, principal and interest of \$586, payable monthly at 4.98%, secured by property in Falls Church, Virginia	85,293	87,942
Note payable, United Bank, principal and interest of \$657, payable monthly at 4.98%, secured by property in Falls Church, Virginia	95,650	98,621
Note payable, United Bank, principal and interest of \$590, payable monthly at 4.98%, secured by property in Annandale, Virginia	85,881	88,548
Note payable, United Bank, principal and interest of \$613, payable monthly at 3.25%, secured by property in Annandale, Virginia	131,134	134,115
Note payable, United Bank, principal and interest of \$595, payable monthly at 4.78%, secured by property in Falls Church, Virginia	80,656	83,799
Note payable, United Bank, principal and interest of \$429 payable monthly at 3.25%, secured by property in Falls Church, Virginia	92,145	94,220
Note payable, United Bank, principal and interest of \$337 payable monthly at 3.25%, secured by property in Falls Church, Virginia	72,399	74,030

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

8. Notes payable - property (continued)

Description	2017	2016
Note payable, Burke and Herbert Bank, principal and interest of \$678, payable monthly at 4.5%, secured by property in Falls Church, Virginia	\$ 88,796	\$ 92,802
Note payable, Burke and Herbert Bank, principal and interest of \$695, payable monthly at 4.5%, secured by property in Falls Church, Virginia	74,972	79,773
Note payable, Burke and Herbert Bank, principal and interest of \$500, payable monthly at 4.5%, secured by property in Falls Church, Virginia	78,422	80,841
Total	\$ 1,634,313	\$ 1,733,191

A summary of future debt service requirements is as follows for the fiscal years ending June 30:

2018	\$ 100,640
2019	105,186
2020	109,460
2021	114,248
2022	119,077
Thereafter	1,085,702
Total	\$ 1,634,313

9. Notes payable - building

Homestretch has two mortgage loans secured by land and its office building. The first mortgage bears interest at 3.25 percent through May 30, 2018, then 3.75 percent through May 30, 2023, and a five-year LIBOR swap rate plus 3.00 percent, with a floor of 3.75 percent through May 31, 2028. The swap rate shall mean as of any date, the annual rate of interest designated as the 5-year interest rate swap for the most recent individual day which is posted in Federal Reserve Statistical Release H.15. The loan required interest-only payments for the first year. After the first year, monthly payments are \$4,416, which include principal and interest. The loan matures May 2028. The outstanding balance on the first mortgage was \$922,621 and \$944,811 as of June 30, 2017 and 2016, respectively.

There is an additional mortgage on the property with an outstanding balance of \$623,483 as of June 30, 2017 and 2016. The second mortgage was amended on May 23, 2013, and the current terms include an interest rate of 3.75 percent per year through August 1, 2018, which increases to 4.25 percent per year through August 1, 2020 at which time the balance of the loan is due.

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

9. Notes payable – building (continued)

A summary of future debt service requirements is as follows for the fiscal years ending June 30:

2018	\$	22,791
2019		22,100
2020		22,864
2021		647,323
2022		24,762
Thereafter		806,264
Total	\$	<u>1,546,104</u>

10. Line of credit

Homestretch holds a line of credit for \$692,000 that is secured by the land and its office building with a fluctuating interest rate per annum equal to the Prime Rate. The line of credit matures July 31, 2019.

No amounts were outstanding as of June 30, 2017 and 2016.

11. Concentrations

Homestretch received contributions from two donors that represented 28 percent and 19 percent of the total revenue for the years ended June 30, 2017 and 2016, respectively.

12. Special events

Homestretch sponsors special events during the year to raise public awareness of its mission and to raise funds for its programs.

A summary of special events for the year ended June 30, 2017 is as follows:

	<u>Revenue</u>	<u>Direct expense</u>	<u>Net</u>
Annual Breakfast	\$ 246,366	\$ 22,417	\$ 223,949
Independence Day	86,385	13,543	72,842
Rock and Roll Event	24,411	13,125	11,286
Total special events	<u>\$ 357,162</u>	<u>\$ 49,085</u>	<u>\$ 308,077</u>

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

12. Special events (continued)

A summary of special events for the years ended June 30, 2016 is as follows:

	<u>Revenue</u>	<u>Direct expense</u>	<u>Net</u>
Annual Breakfast	\$ 205,224	\$ 19,487	\$ 185,737
	<u>\$ 205,224</u>	<u>\$ 19,487</u>	<u>\$ 185,737</u>

13. In-kind support

A summary of in-kind support received for the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Professional volunteers	\$ 38,081	\$ 33,003
Professional services	71,519	57,551
Automobiles and property improvements	21,050	16,687
Donated materials	140,821	101,993
Total in-kind support	<u>\$ 271,471</u>	<u>\$ 209,234</u>

In-kind services for the years ended June 30, 2017 and 2016 included legal services and ecological impact report services. Professional volunteers consist of volunteer tax preparers who are certified by the IRS. One vehicle was kept by Homestretch, resulting in \$5,531 being capitalized instead of expensed as in-kind expense.

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Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

14. Temporarily restricted net assets

Temporarily restricted net assets consisted of the following as of June 30, 2017:

	<u>2016</u>	<u>Additions</u>	<u>Releases</u>	<u>2017</u>
<i>Restricted for future periods</i>				
United Way	\$ 13,650	\$ -	\$ (13,650)	\$ -
<i>Restricted for programs</i>				
Wilbert Warnke	4,114	-	-	4,114
Integrity	2,163	-	-	2,163
Rite-Aid	987	5,000	(2,011)	3,976
Falls Church Endowment	1,400	-	(1,400)	-
Falls Church Episcopal	-	10,000	-	10,000
Phillip Graham Trust	4,003	-	(1,327)	2,676
Harry Poole	1,695	-	(1,695)	-
St. Stephens	8,242	39,000	(26,885)	20,357
Capital Group	-	20,000	(3,289)	16,711
Transurban	-	1,500	-	1,500
TD Bank	100	-	-	100
Wells Fargo Foundation	3,521	-	(2,524)	997
TJ Maxx	-	10,000	-	10,000
The Church at the Falls	-	36,000	(12,015)	23,985
St. Mark's Catholic Church	557	-	(557)	-
New City Medical	5,395	15,000	(3,545)	16,850
United Way	-	20,000	(7,000)	13,000
Morrison & Foster Foundation	5,000	-	(3,600)	1,400
Gannett	5,000	-	(706)	4,294
Total	<u>\$ 55,827</u>	<u>\$ 156,500</u>	<u>\$ (80,204)</u>	<u>\$ 132,123</u>

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

14. Temporarily restricted net assets (continued)

Temporarily restricted net assets consisted of the following as of June 30, 2016:

	<u>2015</u>	<u>Additions</u>	<u>Releases</u>	<u>2016</u>
<i>Restricted for future periods</i>				
United Way	\$ -	\$ 20,000	\$ (6,350)	\$ 13,650
<i>Restricted for programs</i>				
Wilbert Warnke	13,104	300	(9,290)	4,114
Integrity	2,163	-	-	2,163
Rite-Aid	2,516	412	(1,941)	987
Falls Church Endowment	-	10,000	(8,600)	1,400
Dominion	1,060	-	(1,060)	-
Church of the Holy Comforter	527	-	(527)	-
Phillip Graham Trust	30,000	-	(25,997)	4,003
Harry Poole	7,500	-	(5,805)	1,695
Exxon Mobil	1,581	-	(1,581)	-
St. Stephens	-	43,000	(34,758)	8,242
TD Bank	-	5,000	(4,900)	100
Wells Fargo Foundation	-	5,000	(1,479)	3,521
St. Mark's Catholic Church	-	4,500	(3,943)	557
New City Medical	-	13,000	(7,605)	5,395
Morrison & Foster Foundation	-	5,000	-	5,000
Gannett	-	5,000	-	5,000
Total	<u>\$ 58,451</u>	<u>\$ 111,212</u>	<u>\$ (113,836)</u>	<u>\$ 55,827</u>

15. Commitments

Homestretch leases housing for families participating in their transitional housing program. Housing is located within the Fairfax County and Falls Church, Virginia area. Leases are signed for various lease terms ranging from month-to-month to three years. Rental expense for leased housing was \$236,862 and \$274,431 for the years ended June 30, 2017 and 2016, respectively. Future lease commitments for rental properties is \$8,661 for the year ending June 30, 2018.

16. Rental income

Homestretch rented a portion of its office space to a subtenant on a month-to-month basis at a rate of \$6,375 per month. This contract was terminated during the year ended June 30, 2016. Rental income under this contract totaled \$38,250 for the year ended June 30, 2016. There was no rental income under this contract in the year ended June 30, 2017.

See independent auditor's report.

Homestretch, Inc.

Notes to Financial Statements June 30, 2017 and 2016

17. Pension plan

Homestretch has a 401(k) plan for its employees. Employees become eligible to participate in the Plan after six months of employment. Homestretch matches up to 5 percent of employee contributions of their regular salary. Employees become vested in the matching contributions immediately. The matching expense provided for the years ended June 30, 2017 and 2016 was \$32,662 and \$31,890, respectively. Homestretch may make annual discretionary contributions to the Plan, which would be subject to a “cliff” vesting schedule. No discretionary contributions were made during the years ended June 30, 2017 and 2016.

18. Subsequent events

Homestretch assessed events occurring subsequent to June 30, 2017 through January 25, 2018, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.

See independent auditor’s report.