

**WASHINGTON AREA COMMUNITY  
INVESTMENT FUND, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### TABLE OF CONTENTS

Independent auditor's report	1
Financial statements:	
Statements of financial position	2 - 3
Statements of activities	4 - 5
Statements of changes in net assets	6
Statements of cash flows	7 - 8
Statement of functional expenses - 2007	9
Statement of functional expenses - 2006	10
Notes to financial statements	11 - 22



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Washington Area Community Investment Fund, Inc.  
Washington, DC

We have audited the accompanying statements of financial position of Washington Area Community Investment Fund, Inc. ("WACIF"), as of December 31, 2007 and 2006, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of WACIF's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Area Community Investment Fund, Inc. as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*E. Cohen and Company, CPAs*

November 10, 2008

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# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2007 AND 2006

	<b>ASSETS</b>	
	<u>2007</u>	<u>2006</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 545,845	\$ 403,331
Borrowers' escrow	56,360	19,058
Investments	566,866	1,091,431
Pledges, grants and other receivables, net of reserve of \$14,875 and \$36,123 in 2007 and 2006	211,987	101,598
Accrued interest receivable	217,020	125,429
Current portion, notes receivable, net of reserve of \$299,024 and \$185,695 in 2007 and 2006	1,904,233	1,346,619
Other receivable	51,002	-
Prepaid expenses and other current assets	4,602	8,724
	<u>3,557,915</u>	<u>3,096,190</u>
<b>Total current assets</b>		
<b>Noncurrent assets</b>		
Other receivable	-	50,156
Notes receivable, net of current portion	479,668	994,768
Deposits	1,860	1,860
Property and equipment, net	12,966	18,869
	<u>494,494</u>	<u>1,065,653</u>
<b>Total noncurrent assets</b>		
	<u>\$ 4,052,409</u>	<u>\$ 4,161,843</u>
<b>Total assets</b>		

See notes to the financial statements.

**WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.**

**STATEMENTS OF FINANCIAL POSITION (Continued)  
DECEMBER 31, 2007 AND 2006**

**LIABILITIES AND NET DEFICIT**

	<b>2007</b>	<b>2006</b>
Current liabilities		
Accounts payable and accrued expenses	\$ 98,853	\$ 58,602
Deferred revenue	-	25,183
Lines-of-credit	1,280,082	1,186,500
Current portion of notes payable	1,497,305	1,325,239
<b>Total current liabilities</b>	<b>2,876,240</b>	<b>2,595,524</b>
Long-term liabilities		
Borrowers escrow	21,241	19,058
Notes payable, net of current portion	1,723,095	1,834,672
<b>Total long-term liabilities</b>	<b>1,744,336</b>	<b>1,853,730</b>
<b>Total liabilities</b>	<b>4,620,576</b>	<b>4,449,254</b>
Commitments and contingencies		
Unrestricted		
Board-designated	775,055	817,771
Undesignated	(1,343,222)	(1,127,003)
Total unrestricted deficit	(568,167)	(309,232)
Temporarily restricted net assets	-	21,821
<b>Total deficit</b>	<b>(568,167)</b>	<b>(287,411)</b>
<b>Total liabilities and deficit</b>	<b>\$ 4,052,409</b>	<b>\$ 4,161,843</b>

See notes to the financial statements.

WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue						
Government grants	\$ 521,484	\$ -	\$ 521,484	\$ 307,473	\$ -	\$ 307,473
Foundation grants	81,000	-	81,000	49,000	26,000	75,000
Investment income	224,953	-	224,953	254,148	-	254,148
Contributions	60,658	-	60,658	23,690	-	23,690
Management fees	1,802	-	1,802	83,430	-	83,430
Donated services	43,546	-	43,546	37,731	-	37,731
Loan fees	25,609	-	25,609	38,782	-	38,782
Miscellaneous income	25,284	-	25,284	36,326	-	36,326
Unexpended amounts required to be returned to grantors	-	-	-	(21,150)	-	(21,150)
Net assets released from restrictions	21,821	(21,821)	-	186,606	(186,606)	-
<b>Total revenue</b>	<u>1,006,157</u>	<u>(21,821)</u>	<u>984,336</u>	<u>996,036</u>	<u>(160,606)</u>	<u>835,430</u>

See notes to the financial statements.

WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

STATEMENTS OF ACTIVITIES (Continued)  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Expenses						
Program						
Loan Fund	\$ 450,168	-	\$ 450,168	\$ 443,881	-	\$ 443,881
H Street (ii)	-	-	-	105,788	-	105,788
CDBO PG	57,791	-	57,791	96,212	-	96,212
City Wide	-	-	-	85,127	-	85,127
Carebuilders	137,152	-	137,152	63,234	-	63,234
SBA Microloan	65,343	-	65,343	42,788	-	42,788
General program	26,204	-	26,204	37,327	-	37,327
Suitland	-	-	-	28,686	-	28,686
BCEO Maryland	-	-	-	27,984	-	27,984
Ward 6	164,070	-	164,070	18,930	-	18,930
Ward 7	119,380	-	119,380	5,221	-	5,221
BCEO PG	-	-	-	5,210	-	5,210
Ward 8	113,403	-	113,403	5,099	-	5,099
<b>Total program</b>	<u>1,133,511</u>	<u>-</u>	<u>1,133,511</u>	<u>965,487</u>	<u>-</u>	<u>965,487</u>
Total program expenses	1,133,511	-	1,133,511	965,487	-	965,487
General and administrative	12,906	-	12,906	184,249	-	184,249
Fundraising	118,675	-	118,675	182,024	-	182,024
<b>Total expenses</b>	<u>1,265,092</u>	<u>-</u>	<u>1,265,092</u>	<u>1,331,760</u>	<u>-</u>	<u>1,331,760</u>
<b>Change in net assets</b>	<u>\$ (258,935)</u>	<u>\$ (21,821)</u>	<u>\$ (280,756)</u>	<u>\$ (335,724)</u>	<u>\$ (160,606)</u>	<u>\$ (496,330)</u>

See notes to the financial statements.

WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007		2006			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Net (deficit) assets, beginning of year	\$ (309,232)	\$ 21,821	\$ (287,411)	\$ 26,492	\$ 182,427	\$ 208,919
Change in net assets	(258,935)	(21,821)	(280,756)	(335,724)	(160,606)	(496,330)
Net (deficit) assets, end of year	<u>\$ (568,167)</u>	<u>\$ -</u>	<u>\$ (568,167)</u>	<u>\$ (309,232)</u>	<u>\$ 21,821</u>	<u>\$ (287,411)</u>

See notes to the financial statements.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ (280,756)	\$ (496,330)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation expense	5,903	7,011
Provision for bad debt	134,024	385,946
Realized and unrealized loss (gain) on investments	776	(46,314)
Noncash contribution	-	(37,731)
Gain on disposal of fixed assets	-	(2,195)
(Increase) decrease in assets		
Borrowers' escrow	(37,302)	(2,117)
Pledges and grants receivables	(110,389)	13,698
Accrued interest receivable	(91,591)	(42,895)
Other receivables	(846)	-
Prepaid expenses and other assets	4,122	(2,175)
Deposits	-	(1,860)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	40,251	40,984
Deferred revenue	(25,183)	25,183
Recoverable grant	-	(47,222)
Deferred compensation	-	(5,503)
Total adjustments	(80,235)	284,810
<b>Net cash used in operating activities</b>	<b>(360,991)</b>	<b>(211,520)</b>
Cash flows from investing activities		
Purchases of fixed assets	-	(4,104)
Purchases of certificates of deposit	(586,763)	(89,026)
Redemption of certificates of deposit	1,110,552	3,787
Issuance of notes receivable	(505,264)	(1,515,488)
Collections of notes receivable	328,726	947,776
<b>Net cash provided by (used in) investing activities</b>	<b>347,251</b>	<b>(657,055)</b>

See notes to the financial statements.

**WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.**

**STATEMENTS OF CASH FLOWS (Continued)  
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
Cash flows from financing activities		
Proceeds from borrowers' escrow	\$ 2,183	\$ 88
Proceeds from (repayment of) lines of credit	93,582	(8,261)
Repayment of notes payable	(11,218)	(2,126,993)
Proceeds from notes payable	71,707	2,495,145
<b>Net cash provided by financing activities</b>	<b>156,254</b>	<b>359,979</b>
Net increase (decrease) in cash	142,514	(508,596)
Cash and cash equivalents, beginning of year	403,331	911,927
<b>Cash and cash equivalents, end of year</b>	<b>\$ 545,845</b>	<b>\$ 403,331</b>
Cash paid during the year for interest	\$ 193,330	\$ 99,919
Non-cash activities - investing		
Transfer of funds from bank to government agency	\$ -	\$ 50,156

There were no non-cash financing activities for the years ended December 31, 2007 or 2006.

See notes to the financial statements.

WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2007

	Ward 6	Ward 7	Ward 8	SBA Microloan	Loan Fund	CBDO PG	Carebuilders	General Program	Total Program	General and Administrative	Fundraising	Total Expenses
Bad debt	\$ -	\$ -	\$ -	\$ -	\$ 134,024	\$ -	\$ -	\$ -	\$ 134,024	\$ -	\$ -	\$ 134,024
Bank service charges	9,225	6,961	5,875	3,793	241	5,152	6,779	55	38,081	1,616	-	1,616
Conferences, training, travel	4,969	2,081	5,177	569	1,555	3,329	4,579	46	22,305	5	2,527	40,613
Consultants	-	-	-	-	-	-	-	-	-	5	2,499	24,809
Depreciation	-	-	-	-	-	-	-	-	-	5,903	-	5,903
Dues and subscriptions	340	230	229	136	94	213	336	168	1,746	5	57	1,808
Employee benefits	16,142	10,918	10,842	5,404	3,378	6,333	14,515	2,837	70,369	44	3,880	74,293
Equipment lease	1,520	903	945	475	219	531	1,215	224	6,032	255	415	6,702
Insurance	572	362	375	197	50	313	504	108	2,481	727	103	3,311
Interest expense	-	-	-	9,111	232,449	-	-	-	241,560	317	-	241,877
Loan fund fees	-	-	-	-	4,859	-	-	-	4,859	-	-	4,859
Marketing	21,365	21,421	15,405	5,790	2,535	2,707	6,832	1,383	77,438	113	10,928	88,479
Office expenses	752	449	488	317	134	355	660	87	3,222	111	349	3,682
Payroll expenses	66,720	45,714	45,387	25,837	19,873	20,273	63,068	12,862	299,734	3,561	23,455	326,750
Postage	627	528	441	335	94	628	794	138	3,585	4	12,071	15,660
Printing, copying and duplication	2,372	2,372	238	-	-	-	1,000	-	5,982	-	6,686	12,668
Professional fees	26,219	18,767	19,118	8,679	48,319	12,428	21,104	5,584	160,218	183	50,792	211,193
Rent	5,360	3,658	3,575	1,831	931	2,504	4,865	1,366	23,990	17	2,839	26,846
Repairs and maintenance	4,016	2,638	2,704	1,490	708	1,763	3,711	856	17,886	23	841	18,750
Special event expenses	-	-	-	-	-	-	-	-	-	-	371	371
Supplies	1,037	640	683	349	215	160	4,469	90	7,643	5	167	7,815
Telephone	1,958	1,254	1,312	711	309	740	1,764	279	8,327	9	428	8,764
Temporary staffing	89	77	93	46	46	74	225	15	665	-	84	749
Utilities	787	507	536	273	135	288	732	106	3,364	3	183	3,550
<b>Totals</b>	<b>\$ 164,070</b>	<b>\$ 119,380</b>	<b>\$ 113,403</b>	<b>\$ 65,343</b>	<b>\$ 450,188</b>	<b>\$ 57,791</b>	<b>\$ 137,152</b>	<b>\$ 26,204</b>	<b>\$ 1,133,511</b>	<b>\$ 12,906</b>	<b>\$ 118,675</b>	<b>\$ 1,265,092</b>

See notes to the financial statements.

WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2006

	Ward 6	Ward 7	Ward B	BCEO Maryland	SBA Microloan	Loan Fund	CBDO PG	Carabuilders	Suitland	H Street (H)	City Wide	BCEO PG	General Program	Total Program	General and Administrative	Fundraising	Total Expenses
Bad debt	\$ -	\$ -	\$ -	\$ 14,331	\$ -	\$ 283,206	\$ 5,246	\$ -	\$ -	\$ -	\$ 58,652	\$ -	\$ -	\$ 361,435	\$ 340	\$ 24,171	\$ 385,948
Bank service charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,316	-	1,316
Board meetings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,485	-	5,485
Capital purchases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conferences, training, travel	560	550	520	-	-	2,650	50	9,494	-	-	-	-	-	9,494	-	-	9,494
Consultants	515	-	-	4,252	3,781	5,516	33,527	7,218	13,584	37,700	4,935	458	-	7,413	13,671	-	21,084
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	11,486	22,768	11,722	45,976
Dues and subscriptions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,011	-	7,011
Employee benefits	2,804	783	722	1,409	6,769	3,533	9,051	7,093	2,062	8,673	2,596	518	26	46,069	1,760	-	47,829
Equipment lease	189	55	54	134	528	481	744	554	224	913	271	61	-	4,208	5,415	7,185	58,669
Insurance	89	26	26	128	387	360	677	369	224	874	242	39	1	3,442	341	707	5,256
Interest expense	-	-	-	-	-	118,212	-	-	-	-	-	-	-	118,212	-	-	118,212
Loan fund fees	-	-	-	-	-	812	-	-	-	-	-	-	-	812	-	-	812
Marketing	1,180	-	-	-	-	2,713	-	565	-	8,075	2,222	-	-	14,755	-	1,695	16,450
Meetings	-	-	-	134	-	300	124	654	-	-	-	-	-	1,212	3,612	69	4,893
Office expenses	77	24	22	33	171	305	218	266	54	231	70	16	-	1,489	1,893	183	3,565
Payroll expenses	11,237	3,297	3,269	6,322	26,282	21,193	38,008	28,916	10,512	40,881	13,700	3,480	62	208,187	18,939	31,609	268,715
Postage	197	38	39	58	352	322	384	403	124	385	136	-	-	2,500	-	1,272	3,772
Printing, copying and duplication	185	44	45	34	389	260	264	467	23	188	74	63	-	3,036	140	4,278	6,454
Professional Fees	-	-	-	-	-	-	-	-	-	-	-	-	37,231	37,231	76,535	21,603	135,569
Rent	1,227	214	211	620	2,063	2,080	4,184	2,044	1,057	4,012	1,221	242	7	19,162	1,187	3,127	23,486
Repairs and maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,665	80,761	102,426
Start/Event expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Supplies	234	72	71	137	651	544	768	635	217	1,247	285	92	-	4,953	574	5,527	10,377
Telephone	347	86	90	284	1,109	1,121	1,567	1,218	485	2,068	566	146	-	9,089	722	1,630	11,446
Temporary staffing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,942	9,942
Utilities	89	30	30	88	276	283	400	245	130	541	150	30	-	2,302	192	358	2,852
Totals	\$ 18,930	\$ 5,221	\$ 5,099	\$ 27,984	\$ 42,788	\$ 443,881	\$ 96,212	\$ 63,234	\$ 28,686	\$ 105,788	\$ 85,127	\$ 5,210	\$ 37,327	\$ 995,487	\$ 184,249	\$ 182,024	\$ 1,331,760

See notes to the financial statements.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007 AND 2006

### 1. Organization

The Washington Area Community Investment Fund, Inc. (WACIF) is a non-stock, not-for-profit corporation organized under the laws of the Commonwealth of Virginia. Its primary purpose is to promote community economic development and provide access to affordable housing for low-income and disadvantaged households in the Washington metropolitan area. WACIF provides low-interest loans and affordable financing to community-based development groups involved in the preservation, construction and rehabilitation of affordable housing, and provides technical assistance and access to capital under its Business Community Empowerment Opportunity program (B-CEO) to small businesses in its target markets.

WACIF's activities are primarily funded by securing social investment and permanent capital from individuals, corporations, financial institutions, and not-for-profit organizations.

WACIF has been determined to be exempt from federal income tax pursuant to Internal Revenue Code (IRC) Section 501(c)(3) and is classified as other than a private foundation within the meaning of Section 509(a) of the IRC. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

### 2. Summary of significant accounting policies

#### **Basis of accounting**

The financial statements have been prepared on the accrual basis of accounting.

#### **Basis of presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, WACIF is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

#### **Revenue recognition**

WACIF accounts for contributions in accordance with the recommendations of SFAS 116, *Accounting for Contributions Received and Contributions Made*.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 2. Summary of significant accounting policies (continued)

#### **Revenue recognition (continued)**

Under the guidelines of SFAS 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor, including pledges, is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. 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 statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the support is received, WACIF reports the support as unrestricted.

Cost-reimbursement grants are recognized when earned; that is, when the expenses have been incurred.

#### **Contributions, grants and accounts receivable and allowance for uncollectible accounts**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. All contributions receivable are expected to be collected within one year.

Accounts and grants receivable are recorded at the lower of cost or fair value. The risk of loss on the receivables is the balance due at the time of default. The receivables are unsecured. Accounts are considered delinquent when they are 120 days in arrears. WACIF uses the allowance method to determine uncollectible contributions and other receivables. The allowance is based upon experience, management's analysis of specific promises made, and other historical factors that pertain to the receivables. No interest is accrued on receivables.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 2. Summary of significant accounting policies (continued)

#### **Contributions, grants and accounts receivable and allowance for doubtful accounts (continued):**

WACIF is the recipient of grants from governmental agencies, some of which are dependent on the performance of specific activities, or achievement of specified goals by WACIF. In some cases, if the grant requirements are not met by the expiration of the grant, WACIF is required to return any unexpended funds. WACIF recognizes the revenue from these grants as it is earned.

#### **Notes receivable**

Notes receivable are recorded at original cost less principal payments received. Notes for housing development are secured by deeds of trust on the related properties. Notes for economic development are unsecured. The risk of loss on the unsecured receivables is the balance due at the time of default. WACIF uses the allowance method of accounting for uncollectible accounts. The allowance is based upon management's analysis of the creditworthiness of the creditor, experience and other historical factors that pertain to the receivables.

#### **Property and equipment and depreciation**

WACIF capitalizes fixed assets with an original cost of \$1,000 or more. Furniture, equipment and leasehold improvements are recorded at cost. Donated equipment is reflected in the accompanying financial statements at its estimated fair value at the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations using the straight-line method over estimated useful lives of three to seven years for furniture, equipment and software. Leasehold improvements are amortized over the life of the lease. Amortization expense is included in depreciation expense.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 2. Summary of significant accounting policies (continued)

#### **Cash equivalents**

For purposes of the statement of cash flows, WACIF considers all highly liquid short term instruments whose maturity dates do not extend past three months from the original date of purchase, and all money market funds, to be cash equivalents.

#### **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

#### **Donated services and materials**

Donated materials and equipment are reported as unrestricted support unless there are explicit stipulations regarding their use. Donations of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support.

Donated services are recognized if the services create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. These services are recorded as support and expense in the accompanying Statement of Activities in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

Donations in-kind have been received from members of the Board of Directors for out-of-pocket expenses including travel, telephone, postage, etc. The value of such donations is not reflected in the accompanying financial statements as it does not meet the requirements for recording donated services.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 2. Summary of significant accounting policies (continued)

#### Functional allocation of expense

The costs of providing various programs and other activities of WACIF have been summarized on a functional basis in the accompanying financial statements. Costs that can be identified with particular programs or support functions are charged directly to that program or function. Salaries and related costs have been allocated among the programs and supporting services based upon timesheets prepared by the employees and management's best estimates of the proportion of these costs applicable to each program. Other allocable costs have been allocated to program services and to support services based upon management's best estimates.

#### Reclassification

Certain items in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported net income.

### 3. Investments

Investments are recorded at market value and consist of the following at December 31,

	2007		2006	
	Fair Market Value	Cost	Fair Market Value	Cost
Certificates of deposit	\$ 520,490	\$ 520,041	\$ 746,596	\$ 746,596
Fixed income securities	17,286	18,455	183,910	183,676
Equity securities	29,090	30,000	141,721	125,992
Mutual funds	-	-	19,204	19,044
	<u>\$ 566,866</u>	<u>\$ 568,496</u>	<u>\$ 1,091,431</u>	<u>\$ 1,075,308</u>

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 3. Investments (continued)

Investment income consists of the following:

	2007	2006
Interest on notes receivable	\$ 201,267	\$ 221,508
Interest on other investments	24,462	14,260
Unrealized (loss) gain	(776)	18,380
Total	\$ 224,953	\$ 254,148

### 4. Notes receivable

For the year ended December 31, 2007, notes receivable amounted to \$2,383,901, net of the reserve for uncollectible notes of \$299,024. Of the total notes receivable, \$1,351,429 is secured by first lien deeds of trust, and \$187,215 is secured by second lien deeds of trust. For the year ended December 31, 2006, notes receivable amounted to \$2,341,387, net of the reserve for uncollectible notes of \$185,695. Future maturities of notes receivable approximate the following:

Years ending December 31,		
	2008	\$ 2,203,257
	2009	437,986
	2010	41,682
	Subtotal	2,682,925
	Less reserve for uncollectible notes	( 299,024)
	Total	\$ 2,383,901

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 4. Notes receivable (continued)

Interest on notes receivable ranges from 3% to 9.5%. Costs and fees for loan processing are expensed as incurred.

Notes receivable are considered delinquent when they are 120 days past due. As of December 31, 2007, \$1,072,236 in notes receivable were considered delinquent but are included in the amount due in 2008 in the above schedule because they are considered collectible.

Notes receivable serve as collateral for notes payable.

Management believes that it is not practicable to estimate the fair value of the notes receivable because programs with similar characteristics are not currently available to WACIF.

### 5. Property and equipment

Property and equipment consisted of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 30,326	\$ 30,326
Furniture and fixtures	8,319	8,319
Leasehold improvements	12,733	12,733
Software	<u>1,243</u>	<u>1,243</u>
Total	52,621	52,621
Less accumulated depreciation	<u>(39,655)</u>	<u>(33,752)</u>
Net property and equipment	<u>\$ 12,966</u>	<u>\$ 18,869</u>

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 6. In-kind contributions

WACIF receives pro bono legal services for its loan programs. The donated services include preparation of the loan documents and settlement activities. The value of these services amounted to \$43,546 and \$37,731 during 2007 and 2006, respectively.

### 7. Commitments and contingency

#### Lease

In 2005 WACIF exercised its option to extend its office lease for an additional year. As of December 31, 2007, a new lease had not been signed. WACIF continues to occupy its space on a month-to-month basis, at a monthly cost of \$1,860.

#### Off-balance sheet risk

WACIF is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit. WACIF's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. WACIF uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to extend credit are agreements to lend as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates. WACIF evaluates each customer's creditworthiness on a case-by-case basis.

WACIF has approved funding for program grants and loan commitments totaling approximately \$300,000 that had not been disbursed as of December 31, 2007.

#### Contracts

WACIF has entered into an annual information technology maintenance contract with required payments of \$1,400 per month through December, 2008. The principal of the information technology firm is related to a member of WACIF's management (see Note 12).

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 7. Commitments and contingency (continued)

#### Contracts (continued)

In September 2007, WACIF entered into a contract for architectural services in connection with the child care center program. The contract calls for total compensation of \$10,000 and expires in August 2008. As of December 31, 2007, \$2,500 had been paid under this contract.

### 8. Lines-of-credit

WACIF has a \$100,000 revolving line-of-credit with City First Bank with an interest rate of 5% and 6% at December 31, 2007 and 2006, respectively, collateralized by a certificate of deposit. The outstanding balance on this line at December 31, 2007 and 2006 was \$82,419 and \$86,500, respectively.

WACIF has a \$200,000 revolving line-of-credit with National Capital Bank with an original maturity date of July 2005 with the option to renew annually. This loan requires interest to be paid quarterly at a rate of 2%. As of December 31, 2007 and 2006, the outstanding balance on this line was \$197,664 and \$100,000, respectively.

WACIF has a \$1,000,000 revolving line-of-credit with City First Bank. This line-of-credit matured in December 2005 but was extended for additional terms through December 2008. Draws from this line are to be used to provide short-term working capital to eligible borrowers. Interest on the first \$750,000 advanced is fixed at the then current federal funds rate, as published in the Wall Street Journal. Interest on the remaining \$250,000 is 4%. As of December 31, 2007 and 2006 the amount drawn against this line was \$1,000,000. The line-of-credit facility requires that WACIF maintain certain financial ratios. As of December 31, 2007 and 2006, WACIF failed to meet this requirement.

WACIF has established a \$125,000 line-of-credit with the DC Department of Housing and Community Development. The line bears no interest rate, and is to be used only for projects specified in the agreement. At the conclusion of the project, unexpended funds must be returned to the Department. As of December 31, 2007, WACIF had not drawn on this line.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 8. Lines-of-credit (continued)

WACIF has established a \$350,000 line-of-credit with the DC Department of Housing and Community Development. The line bears no interest rate, and is to be used only for projects specified in the agreement. At the conclusion of the project, unexpended funds must be returned to the Department. As of December 31, 2007, WACIF had not drawn on this line.

### 9. Notes payable

Notes payable at December 31, 2007 and 2006 amounted to \$3,220,400 and \$3,159,911, respectively. Future maturities of notes payable approximate the following:

Years ending December 31,	
2008	\$ 1,497,305
2009	239,804
2010	1,093,174
2011	197,698
2012	62,704
Thereafter	<u>129,715</u>
Total	<u>\$ 3,220,400</u>

Principal payments are generally due upon maturity. Interest is payable quarterly, annually or biannually, and rates range from 0% to 4.75%. Notes payable are collateralized with the assets of the organization.

Management believes that it is not practicable to estimate the fair value of the notes payable because programs with similar characteristics are not currently available to WACIF.

### 10. Borrowers' escrow

Borrowers' escrow consists of amounts paid by note-holders as collateral against notes issued by WACIF.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 11. Concentration of credit risk

WACIF has concentrated its credit risk for cash by maintaining deposits in financial institutions in excess of the \$100,000 federally insured limit. The maximum potential loss that could have resulted from this concentration approximated \$690,867 at December 31, 2007. WACIF has not experienced any losses on such accounts and believes it is not exposed to any significant risk on cash held by these financial institutions.

WACIF established a reserve for uncollectible accounts against its notes receivables balances. The notes are secured by deeds of trust on respective properties financed by WACIF.

One debtor accounts for 21.7% of accounts receivable.

### 12. Related party transactions

During 2006, WACIF obtained consulting services from a Company owned by a relative of a member of management amounting to \$33,752. The cost of these services is included in the Statements of Activities. As of December 31, 2006 WACIF was owed \$185 by this Company. WACIF has entered into an annual service contract with this Company (see Note 7).

A Company of which a Board member is a principal member of management has a line of credit with WACIF. At December 31, 2007 and 2006, that Company owed WACIF \$57,741 and \$100,000, respectively.

### 13. Temporarily restricted net assets

Temporarily restricted net assets consist of funds set aside to be used for community loans. These funds, however, can also be used to offset loan losses. Interest earned on these funds can be used to support WACIF's general activities. Restricted net assets of \$21,821 of community loan funds were available at December 31, 2006, and were used for community loans during 2007.

# WASHINGTON AREA COMMUNITY INVESTMENT FUND, INC.

## NOTES TO FINANCIAL STATEMENTS (continued) YEARS ENDED DECEMBER 31, 2007 AND 2006

### 14. Board-designated net assets

As a matter of policy, the Board of Directors has designated reserves with relation to the loan fund. The reserve is calculated at 15% of funds available for loan, to be set aside as a liquidity reserve. A separate reserve for SBA loan funds consists of 15% of the balance disbursed and outstanding on loans from the SBA facility. In addition, the Board sets aside not less than \$165,000, as a reserve against the allowance for uncollectible accounts.

Liquidity reserve	\$ 595,850
SBA reserve	14,205
Loan loss reserve	<u>165,000</u>
Total Board-designated net assets	<u>\$ 775,055</u>

### 15. Noncash transactions

During 2006, a certificate of deposit was inadvertently transferred to the District of Columbia Unclaimed Property Division. Management has filed the appropriate paperwork to regain possession of the funds, which were returned in 2008. The certificate of deposit is recorded as an other receivable.

### 16. Going concern

The net asset deficit was funded by transfers from the loan fund to the operating account. Management has taken steps to reduce expenses and accelerate collection of receivables. Approximately \$950,000 of receivables outstanding at December 31, 2007 have been collected in 2008. WACIF has increased its fees for new loans and renewals of loans, and those borrowers utilizing lines of credit are required to make monthly interest payments. In addition, WACIF has continued to receive funding under its existing government grants, as well as a new award of a \$750,000 contract to support the economic development of designated commercial districts. Earnings in excess of operating expenses will be used to replenish net assets.