

NAZARETH HOUSING, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NAZARETH HOUSING, INC.

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JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nazareth Housing, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Nazareth Housing, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, the related statements of activities, 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 Nazareth Housing, Inc. as of June 30, 2013 and 2012, 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.

D'Arcangelo & Co., LLP

Rye Brook, New York
January 28, 2014

NAZARETH HOUSING, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 467,935	\$ 369,101
Due from government agencies	215,132	73,350
Other receivables	112,705	58,872
Prepaid expenses	13,800	18,302
Total current assets	<u>809,572</u>	<u>519,625</u>
Property and equipment, net	<u>120,927</u>	<u>145,656</u>
Other assets:		
Certificates of deposit	720,835	498,000
Due from affiliate	108,037	113,037
	<u>828,872</u>	<u>611,037</u>
Total assets	<u>\$ 1,759,371</u>	<u>\$ 1,276,318</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 46,157	\$ 74,987
Deferred income	45,000	-
Total current liabilities	<u>91,157</u>	<u>74,987</u>
Net assets:		
Unrestricted	<u>1,668,214</u>	<u>1,201,331</u>
Total liabilities and net assets	<u>\$ 1,759,371</u>	<u>\$ 1,276,318</u>

See notes to financial statements.

3.

NAZARETH HOUSING, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Revenue and support:		
Revenue:		
Fees from governmental sources:		
City of New York Department of Homeless Services	\$ 399,869	\$ 424,304
NYS Office of Temporary and Disability Assistance	188,836	38,291
Emergency food and shelter income	42,062	13,620
Other New York City grants	10,000	15,650
Harlem landlord income	348,440	304,729
Investment income	2,319	2,967
Support:		
Contributions, Foundations	160,178	186,876
Contributions, Individuals	35,472	19,204
Donated services	235,534	22,506
Miscellaneous income	3,857	6,061
Fundraising from special events, net of \$65,922 (2013) and \$31,553 (2012) in expenses	649,715	266,065
Total revenue and support	2,076,282	1,300,273
Expenses:		
Program Services:		
City of New York Department of Homeless Services	499,014	449,204
Other program services	766,945	557,975
Total program services	1,265,959	1,007,179
Supporting services:		
Management and general	245,775	122,280
Development and fundraising	97,665	81,059
Total supporting services	343,440	203,339
Total expenses	1,609,399	1,210,518
Change in net assets	466,883	89,755
Net assets, beginning of year	1,201,331	1,111,576
Net assets, end of year	\$ 1,668,214	\$ 1,201,331

See notes to financial statements.

NAZARETH HOUSING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	City of New York Dept. of Homeless Services	All other Program Services	Total Program Services	Management and General	Development and Fundraising	Total
Personnel services:						
Salaries and wages	\$ 225,010	\$ 221,542	\$ 446,552	\$ 144,066	\$ 89,004	\$ 679,622
Consultants and contracted security	-	127,566	127,566	6,752	-	134,318
Employees health and welfare benefits	26,758	23,298	50,056	13,662	1,682	65,400
Payroll taxes and payroll related expenses	23,008	3,814	26,822	27,254	6,427	60,503
Total personnel services	274,776	376,220	650,996	191,734	97,113	939,843
Other costs:						
Shelter apartment rental	92,000	-	92,000	-	-	92,000
Professional fees	7,400	235,534	242,934	10,013	350	253,297
Office supplies	6,865	2,045	8,910	561	70	9,541
Telephone	7,266	6,223	13,489	1,048	-	14,537
Postage	670	3,375	4,045	16	-	4,061
Office rental	17,931	14,599	32,530	15,899	-	48,429
Transportation	3,037	2,151	5,188	848	-	6,036
Program expense	2,530	28,259	30,789	7,670	132	38,591
Repairs and maintenance	6,711	10,033	16,744	1,976	-	18,720
Shelter utilities	6,422	-	6,422	90	-	6,512
Grants and assistance to others	-	49,707	49,707	2,750	-	52,457
Insurance	17,251	9,077	26,328	1,200	-	27,528
Bad debt write-off	37,653	-	37,653	-	-	37,653
Miscellaneous	-	4,451	4,451	1,027	-	5,478
Total other costs	205,736	365,454	571,190	43,098	552	614,840
Total expenses before depreciation	480,512	741,674	1,222,186	234,832	97,665	1,554,683
Depreciation	18,502	25,271	43,773	10,943	-	54,716
Total expenses	\$ 499,014	\$ 766,945	\$ 1,265,959	\$ 245,775	\$ 97,665	\$ 1,609,399

See notes to financial statements.

NAZARETH HOUSING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

	City of New York Dept. of Homeless Services	All other Program Services	Total Program Services	Management and General	Development and Fundraising	Total
Personnel services:						
Salaries and wages	\$ 246,366	\$ 240,511	\$ 486,877	\$ 58,527	74,364	\$ 619,768
Consultants and contracted security	-	130,257	130,257	865	-	131,122
Employees health and welfare benefits	12,287	11,548	23,835	18,653	3,695	46,183
Payroll taxes and payroll related expenses	25,384	14,251	39,635	15,279	1,491	56,405
Total personnel services	284,037	396,567	680,604	93,324	79,550	853,478
Other costs:						
Shelter apartment rental	91,944	-	91,944	-	-	91,944
Professional fees	5,220	29,561	34,781	6,755	-	41,536
Office supplies	8,527	1,066	9,593	1,017	-	10,610
Telephone	11,307	2,841	14,148	146	-	14,294
Postage	658	294	952	16	1,342	2,310
Office rental	5,852	27,017	32,869	4,437	-	37,306
Transportation	3,507	719	4,226	589	51	4,866
Program expense	2,745	39,281	42,026	3,763	-	45,789
Repairs and maintenance	6,296	12,476	18,772	196	-	18,968
Shelter utilities	6,349	-	6,349	-	-	6,349
Grants and assistance to others	-	13,902	13,902	1,200	-	15,102
Insurance	10,652	8,381	19,033	834	-	19,867
Miscellaneous	-	-	-	508	116	624
Total other costs	153,057	135,538	288,595	19,461	1,509	309,565
Total expenses before depreciation	437,094	532,105	969,199	112,785	81,059	1,163,043
Depreciation	12,110	25,870	37,980	9,495	-	47,475
Total expenses	\$ 449,204	\$ 557,975	\$ 1,007,179	\$ 122,280	\$ 81,059	\$ 1,210,518

See notes to financial statements.

NAZARETH HOUSING, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 466,883	\$ 89,755
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	54,716	47,475
Bad debt write-off	37,653	-
Gain on sale of van	-	(4,027)
(Increase) decrease in operating assets:		
Due from government agencies	(179,435)	19,055
Other receivables	(53,833)	5,001
Prepaid expenses	4,502	1,021
Increase (decrease) in operating liabilities:		
Accrued expenses	(28,830)	18,233
Deferred income	45,000	(7,500)
Net cash provided by operating activities	346,656	169,013
Cash flows from investing activities:		
Purchase of property and equipment	(29,987)	(51,509)
Proceeds from maturing certificates of deposit	733,000	929,000
Purchase of certificates of deposit	(955,835)	(904,937)
Due from affiliate	5,000	(1,866)
Net cash (used in) investing activities	(247,822)	(29,312)
Net increase in cash	98,834	139,701
Cash and cash equivalents, beginning of year	369,101	229,400
Cash and cash equivalents, end of year	\$ 467,935	\$ 369,101

See notes to financial statements.

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

1. **Organization:**

Nazareth Housing, Inc. ("Nazareth") is a nonprofit organization established to provide both temporary and permanent housing to those individuals and families in financial need in New York City.

2. **Summary of significant accounting policies:**

Basis of accounting:

The accounting and reporting policies of the Organization conform to accounting principles generally accepted in the United States of America (GAAP).

Basis of presentation:

Nazareth reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by actions of Nazareth and/or the passage of time.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently.

At June 30, 2013 and 2012, Nazareth did not have any temporarily or permanently restricted net assets.

Contributions:

Contributions are recorded at fair value when received as: unrestricted, temporarily restricted, or if applicable permanently restricted support depending on the existence and/or nature of any donor restrictions.

Revenue:

A significant part of Nazareth's operations are funded by various governmental agencies. Revenue provided by these agencies may be subject to predetermined budgets or provisional rates. Amounts reported as revenue from governmental agencies are subject to possible adjustment after audit by the funding agencies.

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. **Summary of significant accounting policies (continued):**

Donated services:

The value of donated volunteer services is recognized as support 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 the Organization. For 2013 and 2012, donated legal services amounting to \$235,534 and \$22,506 were recorded as both support and professional fees expense.

Members of the governing board and other volunteers donate time to provide managerial and fund-raising services used in the administration of Nazareth, which are not recognized since the above recognition criteria are not met.

Use of estimates in the preparation of financial statements:

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, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Concentration of credit risk:

Nazareth's cash management policy is to mitigate the Organization's credit risks by investing in or through major financial institutions.

Cash and cash equivalents:

Cash and cash equivalents consists of checking and money market accounts.

Reclassifications:

Certain items in the fiscal 2012 financial statements have been reclassified for comparative purposes only.

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. Summary of significant accounting policies (continued):

Tax exempt status:

Nazareth is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and is not deemed a private foundation.

The Organization evaluates the effect of uncertain tax positions in accordance with the provisions of GAAP. The board of directors believes that the Organization is designed and is currently being operated in compliance with the tax-exempt provisions of the Internal Revenue Code. The Organization discloses material adjustments resulting from tax examinations, if any, and reports interest and penalties resulting from such adjustments as interest expense or other expense. There were no tax examinations or adjustments relating therefrom. Tax returns for the fiscal years June 30, 2011 through June 30, 2013 are subject to audit by the applicable taxing jurisdictions.

Property and equipment:

Furniture and equipment is recorded at cost upon purchase or at fair value if contributed. Expenditures for repairs and maintenance are charged to expense as incurred, whereas renewals and betterments that extend the lives of property and equipment are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the asset, ranging from 3-10 years. Depreciation expense amounted to \$43,571 for 2013 and \$35,920 for 2012.

Leasehold improvements are stated at cost. Amortization is computed on a straight line basis over various useful lives. Amortization expense amounted to \$11,145 for 2013 and \$11,555 for 2012.

Property and equipment consists of the following:

	2013	2012
Furniture and equipment	\$ 235,711	\$ 205,695
Leasehold improvements	100,307	100,307
	<u>336,018</u>	<u>306,002</u>
Less accumulated depreciation and amortization	(215,091)	(160,346)
	<u>\$ 120,927</u>	<u>\$ 145,656</u>

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

3. Certificates of deposit:

Certificates of deposits consist of the following:

Fiscal 2013	Maturity date	Amount
Bank of China	July 31, 2013	\$ 100,000
Fifth Third Bank Cincinnati	August 13, 2013	50,000
Everbank	September 26, 2013	50,000
Beal Bank	October 9, 2013	64,000
Bank of India	October 30, 2013	100,000
Fifth Third Bank of Cincinnati	November 13, 2013	50,000
Fifth Third Bank of Cincinnati	December 27, 2013	150,000
Firstbank of Puerto Rico	February 7, 2014	87,000
Oriental B&T San Juan, PR	October 20, 2014	69,835
		<u>\$ 720,835</u>

Fiscal 2012	Maturity date	Amount
Bank Hapoalim	July 6, 2012	\$ 76,000
Sovereign Bank	August 8, 2012	100,000
Bank of India	October 10, 2012	128,000
Beal Bank of Nevada	October 24, 2012	32,000
Beal Bank of Nevada	December 12, 2012	48,000
Compass Bank	December 24, 2012	52,000
Franklin Security Bank	December 31, 2012	62,000
		<u>\$ 498,000</u>

4. Fair value measurements:

The Organization adopted GAAP concept of *Fair Value Measurements*. In accordance with GAAP, fair value is defined as the price that the Organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. GAAP establishes a three-tier hierarchy for measuring fair value of assets and liabilities. The three-tier hierarchy of inputs is summarized in three broad levels: Level 1 - quoted prices in active markets for identical securities, Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments).

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

4. Fair value measurements (continued):

In accordance with generally accepted accounting principles, *Fair Value Measurements*, the following are the Organization's financial assets presented at fair value:

<u>Description</u>	<u>Total</u>	<u>Assets at fair value as of June 30, 2013</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Certificates of deposit	\$ 720,835	\$ -	\$ 720,835	\$ -

<u>Description</u>	<u>Total</u>	<u>Assets at fair value as of June 30, 2012</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Certificates of deposit	\$ 498,000	\$ -	\$ 498,000	\$ -

5. Retirement plan:

Nazareth has a 403 (b) retirement savings plan for its eligible employees. Employees can elect to defer up to the maximum allowed by the Internal Revenue Code per year to the plan. A discretionary employer contribution of \$13,000 was made for 2013 and \$13,500 was made for 2012.

6. Related parties:

Due from affiliate consists of advances by Nazareth to its affiliate Nazareth House Housing Development Fund Corp. for the renovation of a building located on East 4th Street in lower Manhattan. The site consists of 13 units of permanent housing and 2 units of transitional housing for qualified tenants. The Board of Directors of both organizations has established a periodic repayment policy as funds to repay the loan become available. For fiscal 2013, the Board approved a \$5,000 reduction of the debt by grant assistance to the affiliate.

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

7. **Commitments:**

Nazareth entered into a lease for office space at 519 E. 11th Street effective November 1, 2006, and extended through October 31, 2016. Rent expense was \$36,504 in 2013 and \$26,127 in 2012.

Nazareth also entered into a facilities use agreement for office space at 137 E. 2nd Street with Catholic Charities of the Archdiocese of New York expiring November 30, 2016, at which time Nazareth has an option to renew for another three year term. Rent expense was \$8,687 in 2013 and \$7,625 in 2012.

Related party leases:

Nazareth entered into apartment lease agreements with its affiliate Nazareth House HDFC for two shelter apartments and six lease agreements with its affiliate 721 E. 6th Street HDFC for six shelter apartments for families participating in the New York City shelter system. The leases, which expire through various dates to June 30, 2015, require Nazareth to pay the following lease commitments:

<u>June 30,</u>	<u>Nazareth House HDFC</u>	<u>721 E. 6th St. HDFC</u>
2014	\$ 25,708	\$ 50,553
2015	25,708	50,553
	<u>\$ 51,416</u>	<u>\$ 101,106</u>

Several other shelter apartment rents were paid by Nazareth under leases with expiration dates to July 31, 2014 to unrelated parties. The rents were reimbursed through funds received from the City of New York Department of Homeless Services. Shelter apartment rental expense was \$92,000 for 2013 and \$91,944 for 2012 (including \$24,724 paid to affiliate Nazareth House HDFC for each year 2013 and 2012 and \$50,644 for 2013 and \$50,588 for 2012 paid to 721 E. 6th Street HDFC).

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

7. **Commitments (continued):**

Future minimum lease commitments for the office spaces and the non-affiliate shelter apartments are as follows:

<u>June 30,</u>	<u>Office space</u>	<u>Shelter apartments</u>
2014	\$ 37,498	\$ 16,632
2015	37,920	1,386
2016	38,366	-
2017	13,640	-
	<u>\$ 127,424</u>	<u>\$ 18,018</u>

8. **Litigation:**

Nazareth is involved in legal claims and other related litigation matters being handled by two legal firms on a pro bono basis. While the ultimate results of the matters cannot be determined, management does not expect that they will have a material adverse effect on the Organization's results of operations or financial position.

9. **Subsequent events:**

Management has evaluated subsequent events through January 28, 2014, which is the date the financial statements are available for issuance.