

**NAZARETH HOUSING, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**NAZARETH HOUSING, INC.**

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**JUNE 30, 2014 AND 2013**

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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, 2014 and 2013, 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, 2014 and 2013, 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  
November 6, 2014

NAZARETH HOUSING, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 719,077	\$ 467,935
Due from government agencies	143,088	215,132
Other receivables	37,716	112,705
Prepaid expenses	<u>17,197</u>	<u>13,800</u>
Total current assets	<u>917,078</u>	<u>809,572</u>
Property and equipment, net	<u>126,546</u>	<u>120,927</u>
Other assets:		
Certificates of deposit	774,027	720,835
Due from affiliate	<u>103,037</u>	<u>108,037</u>
	<u>877,064</u>	<u>828,872</u>
Total assets	<u>\$ 1,920,688</u>	<u>\$ 1,759,371</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accrued expenses	\$ 59,702	\$ 46,157
Deferred income	<u>114,858</u>	<u>45,000</u>
Total current liabilities	<u>174,560</u>	<u>91,157</u>
Net assets:		
Unrestricted	<u>1,746,128</u>	<u>1,668,214</u>
Total liabilities and net assets	<u>\$ 1,920,688</u>	<u>\$ 1,759,371</u>

See notes to financial statements.

**NAZARETH HOUSING, INC.**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>Revenue and support:</b>		
Revenue:		
Fees from governmental sources:		
City of New York Department of Homeless Services	\$ 422,201	\$ 399,869
NYS Office of Temporary and Disability Assistance	263,353	188,836
Other grants	39,933	52,062
Harlem landlord income	186,790	348,440
Investment income	3,830	2,319
Support:		
Contributions, Foundations	353,188	160,178
Contributions, Individuals	73,593	35,472
Donated services	96,658	235,534
Other support	59,703	13,464
Fundraising from special events, net of \$36,358 (2014) and \$65,922 (2013) in expenses	294,187	649,715
Total revenue and support	1,793,436	2,085,889
<b>Expenses:</b>		
Program Services:		
City of New York Department of Homeless Services	474,223	499,014
Other program services	818,774	776,552
Total program services	1,292,997	1,275,566
Supporting services:		
Management and general	251,301	245,775
Development and fundraising	171,224	97,665
Total supporting services	422,525	343,440
Total expenses	1,715,522	1,619,006
Change in net assets	77,914	466,883
Net assets, beginning of year	1,668,214	1,201,331
Net assets, end of year	\$ 1,746,128	\$ 1,668,214

See notes to financial statements.

**NAZARETH HOUSING, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2014**

	City of New York Dept. of Homeless Services	All other Program Services	Total Program Services	Management and General	Development and Fundraising	Total
<b>Personnel services:</b>						
Salaries and wages	\$ 237,628	\$ 278,985	\$ 516,613	\$ 157,761	\$ 137,346	\$ 811,720
Consultants and contracted security	-	121,324	121,324	16,259	-	137,583
Employees health and welfare benefits	30,519	25,311	55,830	15,776	12,591	84,197
Payroll taxes and payroll related expenses	20,136	25,194	45,330	14,987	13,048	73,365
Total personnel services	<u>288,283</u>	<u>450,814</u>	<u>739,097</u>	<u>204,783</u>	<u>162,985</u>	<u>1,106,865</u>
<b>Other costs:</b>						
Shelter apartment rental	94,923	-	94,923	-	-	94,923
Professional fees	7,400	97,158	104,558	10,644	130	115,332
Office supplies	6,253	2,058	8,311	1,999	654	10,964
Telephone	10,238	4,938	15,176	247	-	15,423
Postage	812	225	1,037	16	1,050	2,103
Office rental	18,249	19,704	37,953	4,427	-	42,380
Transportation	2,947	4,341	7,288	1,828	68	9,184
Program expense	3,834	22,840	26,674	12,555	5,970	45,199
Repairs and maintenance	5,577	16,264	21,841	266	-	22,107
Shelter utilities	7,549	-	7,549	-	-	7,549
Grants and assistance to others	-	91,795	91,795	-	-	91,795
Insurance	11,080	2,544	13,624	2,128	76	15,828
Bad debt write-off	-	75,936	75,936	-	-	75,936
Miscellaneous	-	467	467	4,795	291	5,553
Total other costs	<u>168,862</u>	<u>338,270</u>	<u>507,132</u>	<u>38,905</u>	<u>8,239</u>	<u>554,276</u>
Total expenses before depreciation	457,145	789,084	1,246,229	243,688	171,224	1,661,141
Depreciation	17,078	29,690	46,768	7,613	-	54,381
Total expenses	<u>\$ 474,223</u>	<u>\$ 818,774</u>	<u>\$ 1,292,997</u>	<u>\$ 251,301</u>	<u>\$ 171,224</u>	<u>\$ 1,715,522</u>

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
<b>Personnel services:</b>						
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
<b>Total personnel services</b>	<b>274,776</b>	<b>376,220</b>	<b>650,996</b>	<b>191,734</b>	<b>97,113</b>	<b>939,843</b>
<b>Other costs:</b>						
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	19,640	26,351	1,976	-	28,327
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
<b>Total other costs</b>	<b>205,736</b>	<b>375,061</b>	<b>580,797</b>	<b>43,098</b>	<b>552</b>	<b>624,447</b>
<b>Total expenses before depreciation</b>	<b>480,512</b>	<b>751,281</b>	<b>1,231,793</b>	<b>234,832</b>	<b>97,665</b>	<b>1,564,290</b>
<b>Depreciation</b>	<b>18,502</b>	<b>25,271</b>	<b>43,773</b>	<b>10,943</b>	<b>-</b>	<b>54,716</b>
<b>Total expenses</b>	<b>\$ 499,014</b>	<b>\$ 776,552</b>	<b>\$ 1,275,566</b>	<b>\$ 245,775</b>	<b>\$ 97,665</b>	<b>\$ 1,619,006</b>

See notes to financial statements.



**NAZARETH HOUSING, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 77,914	\$ 466,883
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	54,381	54,716
Bad debt write-off	75,936	37,653
(Increase) decrease in operating assets:		
Due from government agencies	(3,892)	(179,435)
Other receivables	74,988	(53,833)
Prepaid expenses	(3,397)	4,502
Increase (decrease) in operating liabilities:		
Accrued expenses	13,545	(28,830)
Deferred income	69,858	45,000
Net cash provided by operating activities	<u>359,333</u>	<u>346,656</u>
Cash flows from investing activities:		
Purchase of property and equipment	(60,000)	(29,987)
Proceeds from maturing certificates of deposit	1,419,000	733,000
Purchase of certificates of deposit	(1,472,191)	(955,835)
Due from affiliate	5,000	5,000
Net cash (used in) investing activities	<u>(108,191)</u>	<u>(247,822)</u>
Net increase in cash	251,142	98,834
Cash and cash equivalents, beginning of year	<u>467,935</u>	<u>369,101</u>
Cash and cash equivalents, end of year	<u>\$ 719,077</u>	<u>\$ 467,935</u>

See notes to financial statements.

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013, 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, 2014 AND 2013**

**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 2014 and 2013, donated legal services amounting to \$96,658 and \$235,534 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 2013 financial statements have been reclassified for comparative purposes only.

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2012 through June 30, 2014 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 \$43,236 for 2014 and \$43,571 for 2013.

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 2014 and for 2013.

Property and equipment consists of the following:

	<u>2014</u>	<u>2013</u>
Furniture, fixtures and equipment	\$ 294,682	\$ 235,711
Leasehold improvements	100,307	100,307
	<u>394,989</u>	<u>336,018</u>
Less accumulated depreciation and amortization	(268,443)	(215,091)
	<u>\$ 126,546</u>	<u>\$ 120,927</u>

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**3. Certificates of deposit:**

Certificates of deposits consist of the following:

Fiscal 2014	Maturity date	Amount
Banco Popular de PR	August 19, 2014	\$ 249,000
Oriental Bank, San Juan, PR	October 20, 2014	70,027
Bank of Baroda, NY	November 28, 2014	249,000
First Niagara Bank of Buffalo	November 28, 2014	206,000
		<u>\$ 774,027</u>
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>

**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).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**4. Fair value measurements (continued):**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

*Certificates of deposit:* Valued at amortized cost, which approximates fair value.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value on a recurring basis as of June 30, 2014 and 2013:

<u>Description</u>	<u>Total</u>	<u>Assets at fair value as of June 30, 2014</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Certificates of deposit	\$ 774,027	\$ -	\$ 774,027	\$ -

  

<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	\$ -

**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 2014 and for 2013.

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**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 2014 and 2013, the Board approved a \$5,000 reduction of the debt by grant assistance to the affiliate.

**7. Commitments:**

Nazareth entered into a lease for office space at 519 E. 11<sup>th</sup> Street extended through October 31, 2016. Rent expense was \$29,969 in 2014 and \$36,504 in 2013.

Nazareth also entered into a facilities use agreement for office space at 137 E. 2<sup>nd</sup> 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 \$8,372 in 2014 and \$8,687 in 2013.

**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. 6<sup>th</sup> Street HDFC for six shelter apartments for families participating in the New York City shelter system. The leases, which expire June 30, 2015, require Nazareth to pay the following lease commitments:

	Nazareth House HDFC	721 E. 6 <sup>th</sup> St. HDFC
<u>June 30,</u> 2015	<u>\$ 25,713</u>	<u>\$ 52,578</u>

Several other shelter apartment rents were paid by Nazareth under leases with expiration dates to June 30, 2019 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 \$94,923 for 2014 and \$92,000 for 2013 (including \$25,713 paid to affiliate Nazareth House HDFC for 2014 and \$24,724 paid in 2013 and \$52,578 for 2014 and \$50,644 for 2013 paid to 721 E. 6<sup>th</sup> Street HDFC).

NAZARETH HOUSING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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>
2015	\$ 38,532	\$ 94,923
2016	39,420	16,632
2017	14,123	16,632
2018	-	16,632
2019	-	16,632
	<u>\$ 92,075</u>	<u>\$ 161,451</u>

8. **Management agreements:**

Nazareth has entered into two management service agreements with several nonprofit organizations to manage their administrative and operating activities.

9. **Line of Credit:**

Nazareth has an unsecured line of credit agreement with JP Morgan Chase Bank with a maximum borrowing of \$100,000 and interest at the prime rate plus 1.35% (4.6% at June 30, 2014). No amount was outstanding on the line of credit at June 30, 2014 and 2013.

10. **Subsequent events:**

Management has evaluated subsequent events through November 6, 2014, which is the date the financial statements are available for issuance and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the footnotes to the financial statements.