

**Nazareth Housing, Inc.**

Financial Statements

June 30, 2016 and 2015

## **Independent Auditors' Report**

### **The Board of Directors Nazareth Housing, Inc.**

We have audited the accompanying financial statements of Nazareth Housing, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2016 and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

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

***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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 12-13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Prior Period Financial Statements***

The financial statements of Nazareth Housing, Inc. as of June 30, 2015, were audited by other auditors whose report dated January 21, 2016, expressed an unmodified opinion on those statements.

*PKF O'Connor Davies, LLP*

Harrison, New York  
April 14, 2017

**Nazareth Housing, Inc.**

Statements of Financial Position

	June 30,	
	2016	2015
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 646,289	\$ 663,251
Due from government agencies	383,528	55,631
Other receivables	5,799	65,354
Prepaid expenses	13,300	9,228
Total Current Assets	1,048,916	793,464
Property and equipment, net	248,619	105,921
Other Assets		
Investments	951,644	926,293
Due from affiliate	93,037	99,787
Total Other Assets	1,044,681	1,026,080
Total Assets	\$ 2,342,216	\$ 1,925,465
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 166,860	\$ 47,765
Deferred income	-	122,500
Total Liabilities	166,860	170,265
Net Assets		
Unrestricted	2,175,356	1,755,200
Total Liabilities and Net Assets	\$ 2,342,216	\$ 1,925,465

See notes to financial statements

**Nazareth Housing, Inc.**

Statements of Activities

	Year Ended June 30,	
	2016	2015
<b>REVENUE</b>		
Revenue from governmental sources		
City of New York Department of Homeless Services	\$ 824,393	\$ 425,881
NYS Office of Temporary and Disability Assistance	-	59,698
NYS Supportive Housing Program	50,384	-
NY Rising Housing Recovery Program	51,717	-
Other government grants	6,750	45,789
Harlem landlord income	-	186,970
Property management fees	90,226	30,767
Investment income	2,845	3,000
<b>SUPPORT</b>		
Contributions, foundations	311,367	244,761
Contributions, individuals	87,992	78,431
Donated services	31,440	771,115
Miscellaneous income	33,923	68,876
Fundraising from special events, net of \$36,495 and \$28,016 in expenses	397,594	371,652
Total Support and Revenue	1,888,631	2,286,940
<b>EXPENSES</b>		
Program services		
City of New York Department of Homeless Services	874,460	479,547
Other program services	551,583	1,306,596
Total Program Services	1,426,043	1,786,143
Supporting services		
Management and general	400,382	295,947
Development and fundraising	241,998	195,778
Total Supporting Services	642,380	491,725
Total Expenses	2,068,423	2,277,868
Change in Net Assets Before Non-Operating Activities	(179,792)	9,072
Non-Operating Activities		
Acquisition of Thorpe Family Residence, Inc.	599,948	-
Change in Net Assets	420,156	9,072
<b>NET ASSETS</b>		
Beginning of year	1,755,200	1,746,128
End of year	\$ 2,175,356	\$ 1,755,200

See notes to financial statements

**Nazareth Housing, Inc.**

Statements of Cash Flows

	Year Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 420,156	\$ 9,072
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	34,492	27,012
Loss on disposal of furniture and fixtures	-	8,613
Acquisition of Thorpe Family Residence	(599,948)	-
Changes in operating assets and liabilities		
Due from government agencies	(250,481)	87,457
Other receivables	64,849	(27,638)
Prepaid expenses	(4,072)	7,969
Due from affiliate	51,002	3,250
Accounts payable and accrued expenses	22,804	(11,937)
Deferred income	(122,500)	7,642
Net Cash from Operating Activities	(383,698)	111,440
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received in acquisition of Thorpe Family Residence	430,730	-
Purchase of property and equipment	(38,643)	(15,000)
Proceeds from bonds	1,738,016	1,426,000
Purchase of bonds	(1,763,367)	(1,578,266)
Net Cash From Investing Activities	366,736	(167,266)
Net Change in Cash and Cash Equivalents	(16,962)	(55,826)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	663,251	719,077
End of year	\$ 646,289	\$ 663,251
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Non Cash Investing Activity		
Fair value of assets acquired	\$ 696,239	\$ -
Liabilities assumed	(96,291)	-
Inherent Contribution Received in Acquisition of Thorpe Family Residence	\$ 599,948	\$ -

See notes to financial statements

## Nazareth Housing, Inc.

Notes to Financial Statements  
June 30, 2016 and 2015

### 1. **Organization**

Nazareth Housing, Inc. (the "Organization") is a New York State non-profit corporation established to provide temporary and permanent housing to those individuals and families in financial need in New York City.

### 2. **Business Combination**

Effective January 1, 2016, the Thorpe Family Residence, Inc. (the "Residence") was acquired by Nazareth Housing, Inc. At this effective date, the identity and separate existence of the Residence ceased and all of its assets and liabilities were assumed by Nazareth Housing, Inc. The Residence was a New York State non-profit corporation and was exempt from Federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Residence was also exempt from New York State and local taxes.

The highly respected work of the Residence was strongly aligned with the mission, vision, and values of Nazareth Housing, Inc. With nearly 22% of its historic clientele from Bronx communities, the addition of housing sites and service locations enhances the Nazareth Housing, Inc.'s capacity to respond to the growing challenges in housing and economic stability experienced by low-income households.

The integration of the Residence staff and programs over the past two years Nazareth Housing, Inc. as the surviving organization ensures the sustainability and success of the Residence's historical mission in the Bronx communities it has served since its founding in 1985.

The acquisition was accounted for under guidance for recording acquisitions by not-for-profit entities prescribed by accounting principles generally accepted in the United States of America ("US GAAP"). This guidance requires that the acquisition method is to be used when one not-for-profit entity acquires another not-for-profit entity. The acquisition method requires the acquirer to measure and recognize the identifiable assets acquired, liabilities assumed, and any non-controlling ownership interests in the acquiree at acquisition-date fair values, with certain exceptions. The acquisition method also requires the not-for-profit acquirer to recognize either goodwill or an inherent contribution received in the acquisition. With the Residence acquisition, the fair value of the assets acquired exceeded the fair value of the liabilities assumed, so an inherent contribution has been recorded in the accompanying 2016 statement of activities.

**Nazareth Housing, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**2. Business Combination (continued)**

The following summarizes the final allocation of the fair value of assets acquired and liabilities assumed at the date of the acquisition:

Cash	\$ 430,730
Grants receivable	82,710
Other receivables	44,252
Property and equipment	138,547
Total Assets	<u>\$ 696,239</u>
Accounts payable and accrued expenses	<u>\$ 96,291</u>
Total Liabilities	96,291
Total Net Assets, Unrestricted (inherent contribution)	<u>599,948</u>
Total Liabilities and Net Assets	<u>\$ 696,239</u>

**3. Summary of Significant Accounting Policies**

***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with US GAAP which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Organization considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents. At times cash deposits may exceed the federally insured limits and expose the Organization to credit risk. The Organization believes it is not exposed to any significant risk of loss on these funds.

***Net Asset Presentation***

Net assets and revenues, are classified based on the existence or absence of donor-imposed restrictions. The Organization's net assets are neither permanently nor temporarily restricted by donor imposed restrictions and are classified as unrestricted.

***Revenue***

A significant portion of the Organization'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, 2016 and 2015

**3. Summary of Significant Accounting Policies (continued)**

***Contributions***

Contributions, including unconditional promises to give, are reported as revenues in the period received. Unconditional promises to give that are due beyond one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized when the conditions upon which they depend have been substantially met.

***Contributed Services***

The Organization recognizes contributions of services at their estimated fair value at the date of the donation if those services create or enhance non-financial assets or require specialized skills by individuals possessing those skills and would typically be purchased if not provided by donation.

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

***Fair Value Measurements***

The Organization follows US GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

***Investment Valuation and Income Recognition***

Investments, which are comprised of bonds with maturities ranging from 4-24 months, are reported at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of income.

***Income Taxes***

Nazareth Housing, Inc. is qualified as a tax exempt organization under Section 501(c)(3) of the Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Code. Accordingly, no provision for federal or state income taxes has been made.

**Nazareth Housing, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**3. Summary of Significant Accounting Policies (continued)**

***Income Taxes (continued)***

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2013.

***Fixed Assets***

Furniture, fixtures and equipment, and leasehold improvements are recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	3-7 years
Leasehold improvements	9-10 years

***Evaluation of Subsequent Events by Management***

Management has evaluated subsequent events for disclosure and/or recognition through the date that the financial statements were available to be issued, which date is April 14, 2017.

**4. Due from Government Agencies and Other Receivables**

The Organization considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

**5. Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Furniture, fixtures and equipment	\$ 377,269	\$ 200,079
Leasehold improvements	100,307	100,307
Accumulated depreciation and amortization	<u>(228,957)</u>	<u>(194,465)</u>
	<u>\$ 248,619</u>	<u>\$ 105,921</u>

Depreciation expense for the years ended June 30, 2016 and 2015 were \$34,492 and \$27,012.

**6. Investments and Fair Value Measurements**

The Organization's investments consist entirely of corporate bonds and are valued using Level 2 inputs. As of June 30, 2016 and 2015 the investments totaled \$951,644 and \$926,293.

**Nazareth Housing, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**7. Lease Agreements**

***Office Spaces***

The Organization entered into an extended lease for office space at 519 E. 11<sup>th</sup> Street through October 31, 2016. Rent expense was \$30,868 and \$29,968 in 2016 and 2015, respectively.

The Organization 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 expired June 2015, at which time Nazareth opted to renew for another two year term. Rent expense was \$9,268 and \$9,541 in 2016 and 2015, respectively.

***Shelter Apartments***

As part of its mission, the Organization has entered into apartment lease agreements with its affiliates Nazareth House Housing Development Fund Corporation ("Nazareth HDFC") and 721 East 6<sup>th</sup> Street Housing Development Fund Corporation ("721 E 6th HDFC") for total of eight shelter apartments for families participating in the New York City shelter system. Leases for these apartments are renewed on an annual basis.

Additional shelter apartment rents were paid to non-affiliated parties by the Organization under leases with expiration dates through June 30, 2087. The rents are reimbursed through funds received from the City of New York Department of Homeless Services.

For the years ended June 30, 2016 and 2015 shelter apartment rental expense was \$95,180 and \$94,923. These amounts include the following payments to the Organization's affiliates:

	2016	2015
Nazareth HDFC	\$ 25,970	\$ 25,713
721 E 6th HDFC	52,578	52,578
	\$ 78,548	\$ 78,291

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

	Office Space		Shelter Apartments	
	137 East 2nd	519 East 11th	Non-affiliated	Affiliated
2017	\$ 9,731	\$ 30,868	\$ 16,632	\$ 79,333
2018	10,218	-	16,632	-
2019	4,344	-	16,632	-
2020	-	-	16,632	-
2021	-	-	16,632	-
	\$ 24,293	\$ 30,868	\$ 83,160	\$ 79,333

**Nazareth Housing, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**8. Transactions with Related Parties (*not disclosed elsewhere*)**

***Shelter Program***

The Organization utilizes a building owned by one of its affiliates, Crotona Thorpe HDFC, to operate one of its shelter programs. Although there is not a lease, the Organization pays for all capital improvements and operating costs of the building.

***Due from Affiliate***

Due from affiliate consists of advances by the Organization to Nazareth HDFC for the renovation of, and property insurance for, a building located on East 4<sup>th</sup> 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 have established a periodic repayment policy as funds to repay the loan become available.

For 2016 and 2015, the Board approved a \$5,000 reduction of the debt by grant assistance to Nazareth HDFC. As of June 30, 2016 and 2015 \$93,037 and \$99,787 was outstanding. Interest is not charged on the outstanding amount.

***Contributions by Board Members***

During the years ended June 30, 2016 and 2015 the Organization received contributions from members of the Board of Directors totaling \$46,873 and \$113,783. These contributions are reported as components of individual contributions and donated services.

**9. Management Agreements**

The Organization has entered into property management service agreements with its affiliates to manage their property, administrative and operating activities. These agreements shall be automatically renewed on an annual basis.

**10. Line of Credit**

The Organization 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%. No amount was outstanding on the line of credit at June 30, 2016 and 2015.

**11. Retirement Plan**

The Organization 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.

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**Nazareth Housing, Inc.**

Supplementary Information  
June 30, 2016 and 2015

Nazareth Housing, Inc.

Schedule of Functional Expenses  
Year Ended June 30, 2016

	City of New York Department of Homeless Services	Other Program Services	Total Program Services	Management and General	Development and Fundraising	Total
<b>Personnel Services</b>						
Salaries and wages	\$ 366,752	\$ 329,729	\$ 696,481	\$ 237,479	\$ 173,476	\$ 1,107,436
Consultants and contracted security	132,336	150	132,486	24,000	27,685	184,171
Employees health and welfare benefits	45,102	43,550	88,652	26,327	14,411	129,390
Payroll taxes and related expenses	28,626	30,316	58,942	19,979	15,579	94,500
<b>Total Personnel Services</b>	<u>572,816</u>	<u>403,745</u>	<u>976,561</u>	<u>307,785</u>	<u>231,151</u>	<u>1,515,497</u>
<b>Other Costs</b>						
Shelter apartment rental	95,180	-	95,180	-	-	95,180
Professional fees	3,898	-	3,898	48,409	-	52,307
Office supplies	19,680	14,334	34,014	17,809	4,797	56,620
Telephone	10,590	6,041	16,631	1,965	-	18,596
Postage	629	181	810	382	2,584	3,776
Office rental	17,561	22,524	40,085	3,438	-	43,523
Transportation	2,134	693	2,827	446	207	3,480
Program expense	23,934	85,323	109,257	6,700	3,251	119,208
Repair and maintenance	74,593	4,315	78,908	205	-	79,113
Utilities	24,841	-	24,841	-	-	24,841
Grants and assistance to others	-	7,600	7,600	-	-	7,600
Insurance	12,201	1,037	13,238	-	-	13,238
Miscellaneous	624	-	624	320	8	952
<b>Total Other Costs</b>	<u>285,865</u>	<u>142,048</u>	<u>427,913</u>	<u>79,674</u>	<u>10,847</u>	<u>518,434</u>
<b>Total Expenses Before Depreciation and Amortization</b>	<u>858,681</u>	<u>545,793</u>	<u>1,404,474</u>	<u>387,459</u>	<u>241,998</u>	<u>2,033,931</u>
<b>Depreciation and amortization</b>	<u>15,779</u>	<u>5,790</u>	<u>21,569</u>	<u>12,923</u>	<u>-</u>	<u>34,492</u>
<b>Total Expenses</b>	<u>\$ 874,460</u>	<u>\$ 551,583</u>	<u>\$ 1,426,043</u>	<u>\$ 400,382</u>	<u>\$ 241,998</u>	<u>\$ 2,068,423</u>

See independent auditors' report

Nazareth Housing, Inc.

Schedule of Functional Expenses  
Year Ended June 30, 2015

	City of New York Department of Homeless Services	Other Program Services	Total Program Services	Management and General	Development and Fundraising	Total
<b>Personnel Services</b>						
Salaries and wages	\$ 247,526	\$ 257,925	\$ 505,451	\$ 185,821	\$ 151,727	\$ 842,999
Consultants and contracted security	-	107,014	107,014	20,662	-	127,676
Employees health and welfare benefits	28,722	45,945	74,667	24,187	8,746	107,600
Payroll taxes and related expenses	22,277	22,168	44,445	14,761	13,655	72,861
<b>Total Personnel Services</b>	<u>298,525</u>	<u>433,052</u>	<u>731,577</u>	<u>245,431</u>	<u>174,128</u>	<u>1,151,136</u>
<b>Other Costs</b>						
Shelter apartment rental	94,923	-	94,923	-	-	94,923
Professional fees	-	754,263	754,263	15,354	2,588	772,205
Office supplies	4,920	5,006	9,926	3,085	1,342	14,353
Telephone	8,717	3,706	12,423	709	-	13,132
Postage	787	1,645	2,432	-	2,634	5,066
Office rental	21,666	16,346	38,012	4,340	-	42,352
Transportation	3,106	2,997	6,103	2,261	32	8,396
Program expense	5,431	8,654	14,085	11,375	15,054	40,514
Repair and maintenance	5,466	6,020	11,486	869	-	12,355
Utilities	6,770	-	6,770	133	-	6,903
Grants and assistance to others	-	51,395	51,395	7,178	-	58,573
Insurance	12,158	1,036	13,194	-	-	13,194
Loss of disposal of fixed assets	-	8,613	8,613	-	-	8,613
Miscellaneous	-	7,711	7,711	1,430	-	9,141
<b>Total Other Costs</b>	<u>163,944</u>	<u>867,392</u>	<u>1,031,336</u>	<u>46,734</u>	<u>21,650</u>	<u>1,099,720</u>
<b>Total Expenses Before Depreciation and Amortization</b>	<u>462,469</u>	<u>1,300,444</u>	<u>1,762,913</u>	<u>292,165</u>	<u>195,778</u>	<u>2,250,856</u>
Depreciation and amortization	17,078	6,152	23,230	3,782	-	27,012
<b>Total Expenses</b>	<u>\$ 479,547</u>	<u>\$ 1,306,596</u>	<u>\$ 1,786,143</u>	<u>\$ 295,947</u>	<u>\$ 195,778</u>	<u>\$ 2,277,868</u>

See independent auditors' report