

Nazareth Housing, Inc.

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Directors Nazareth Housing, Inc.

We have audited the accompanying financial statements of Nazareth Housing, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities 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.

Auditors' 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 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 12-13 are 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.

PKF O'Connor Davies, LLP

Harrison, New York
December 17, 2017

Nazareth Housing, Inc.

Statements of Financial Position

	June 30,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,003,670	\$ 646,289
Due from government agencies	717,239	383,528
Other receivables	31,396	5,799
Prepaid expenses	<u>9,274</u>	<u>13,300</u>
Total Current Assets	<u>1,761,579</u>	<u>1,048,916</u>
Property and equipment, net	<u>223,230</u>	<u>248,619</u>
Other Assets		
Investments	373,552	951,644
Due from affiliate	<u>88,037</u>	<u>93,037</u>
Total Other Assets	<u>461,589</u>	<u>1,044,681</u>
	<u>\$ 2,446,398</u>	<u>\$ 2,342,216</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 132,366	\$ 166,860
Deferred income	<u>82,691</u>	<u>-</u>
Total Liabilities	<u>215,057</u>	<u>166,860</u>
Net Assets		
Unrestricted	<u>2,231,341</u>	<u>2,175,356</u>
	<u>\$ 2,446,398</u>	<u>\$ 2,342,216</u>

See notes to financial statements

Nazareth Housing, Inc.

Statements of Activities

	Year Ended June 30,	
	2017	2016
REVENUE		
Revenue from governmental sources		
City of New York Department of Homeless Services	\$ 1,168,250	\$ 824,393
NYS Supportive Housing Program	95,406	50,384
NY Rising Housing Recovery Program	187,187	51,717
Other government grants	12,723	6,750
Property management fees	152,208	90,226
Investment income	6,098	2,845
 SUPPORT		
Contributions, foundations	339,536	311,367
Contributions, individuals	55,867	87,992
Donated services	29,443	31,440
Miscellaneous income	38,372	33,923
Fundraising from special events, net of \$87,644 and \$36,495 in expenses	661,458	397,594
Total Support and Revenue	2,746,548	1,888,631
 EXPENSES		
Program services		
City of New York Department of Homeless Services	1,179,599	874,460
Other program services	792,237	551,583
Total Program Services	1,971,836	1,426,043
Supporting services		
Management and general	469,949	400,382
Development and fundraising	248,778	241,998
Total Supporting Services	718,727	642,380
Total Expenses	2,690,563	2,068,423
Change in Net Assets Before Non-Operating Activities	55,985	(179,792)
Non-Operating Activities		
Acquisition of Thorpe Family Residence, Inc.	-	599,948
Change in Net Assets	55,985	420,156
 NET ASSETS		
Beginning of year	2,175,356	1,755,200
End of year	\$ 2,231,341	\$ 2,175,356
See notes to financial statements		

Nazareth Housing, Inc.

Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 55,985	\$ 420,156
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	37,780	34,492
Acquisition of Thorpe Family Residence	-	(599,948)
Changes in operating assets and liabilities		
Due from government agencies	(333,711)	(250,481)
Other receivables	(25,597)	64,849
Prepaid expenses	4,026	(4,072)
Due from affiliate	5,000	51,002
Accounts payable and accrued expenses	(34,494)	22,804
Deferred income	82,691	(122,500)
Net Cash from Operating Activities	(208,320)	(383,698)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received in acquisition of Thorpe Family Residence	-	430,730
Purchase of property and equipment	(12,391)	(38,643)
Proceeds from bonds	679,092	1,738,016
Purchase of bonds	(101,000)	(1,763,367)
Net Cash From Investing Activities	565,701	366,736
Net Change in Cash and Cash Equivalents	357,381	(16,962)
CASH AND CASH EQUIVALENTS		
Beginning of year	646,289	663,251
End of year	\$ 1,003,670	\$ 646,289
SUPPLEMENTAL CASH FLOW INFORMATION		
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, 2017

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, 2017

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	<u>138,547</u>
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, 2017

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, 2017

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 2014.

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 December 17, 2017.

4. Due from Government Agencies and Other Receivables

Management 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>2017</u>	<u>2016</u>
Furniture, fixtures and equipment	\$ 382,660	\$ 370,269
Leasehold improvements	107,307	107,307
Accumulated depreciation and amortization	<u>(266,737)</u>	<u>(228,957)</u>
	<u>\$ 223,230</u>	<u>\$ 248,619</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 were \$37,780 and \$34,492.

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, 2017 and 2016 the investments totaled \$373,552 and \$951,644.

Nazareth Housing, Inc.

Notes to Financial Statements
June 30, 2017

7. Lease Agreements

Office Spaces

The Organization entered into an extended lease for office space at 519 E. 11th Street through October 31, 2017. Rent expense was \$30,868 in 2017 and 2016.

The Organization also entered into a facilities use agreement for office space at 137 E. 2nd 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 \$9,731 and \$9,268 in 2017 and 2016.

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 6th 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, 2017 or 2018. The rents are reimbursed through funds received from the City of New York Department of Homeless Services.

For the years ended June 30, 2017 and 2016 shelter apartment rental expense was \$95,706 and \$95,180. These amounts include the following payments to the Organization's affiliates:

	2017	2016
Nazareth HDFC	\$ 25,970	\$ 25,970
721 E 6th HDFC	53,104	52,578
	\$ 79,074	\$ 78,548

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	\$ 79,865
2018	10,218	-	16,632	-
2019	4,344	-	16,632	-
2020	-	-	16,632	-
2021	-	-	16,632	-
	\$ 24,293	\$ 30,868	\$ 83,160	\$ 79,865

Nazareth Housing, Inc.

Notes to Financial Statements
June 30, 2017

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 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 have established a periodic repayment policy as funds to repay the loan become available.

For 2017 and 2016, the Board approved a \$5,000 reduction of the debt by grant assistance to Nazareth HDFC. As of June 30, 2017 and 2016 \$88,037 and \$93,037 was outstanding. Interest is not charged on the outstanding amount.

Contributions by Board Members

During the years ended June 30, 2017 and 2016 the Organization received contributions from members of the Board of Directors totaling \$67,050 and \$46,873. 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, 2017 and 2016.

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, 2017 and 2016

Nazareth Housing, Inc.

Schedule of Functional Expenses
Year Ended June 30, 2017

	City of New York Department of Homeless Services	Other Program Services	Total Program Services	Management and General	Development and Fundraising	Total
Personnel Services						
Salaries and wages	\$491,281	\$492,930	\$984,211	\$199,602	\$ 197,549	\$1,381,362
Consultants and contracted security	265,016	-	265,016	71,916	-	336,932
Employees health and welfare benefits	51,654	69,870	121,524	63,476	18,056	203,056
Payroll taxes and related expenses	<u>37,583</u>	<u>34,597</u>	<u>72,180</u>	<u>24,216</u>	<u>15,113</u>	<u>111,509</u>
Total Personnel Services	<u>845,534</u>	<u>597,397</u>	<u>1,442,931</u>	<u>359,210</u>	<u>230,718</u>	<u>2,032,859</u>
Other Costs						
Shelter apartment rental	95,706	-	95,706	-	-	95,706
Professional fees	12,073	-	12,073	42,158	26	54,257
Office supplies	12,809	4,570	17,379	1,917	1,107	20,403
Telephone	8,889	4,653	13,542	1,555	-	15,097
Postage	693	75	768	102	2,443	3,313
Office rental	17,003	17,003	34,006	9,731	-	43,737
Transportation	3,709	938	4,647	847	374	5,868
Program expense	61,350	101,112	162,462	34,306	14,100	210,868
Repair and maintenance	34,449	1,065	35,514	2,005	7	37,526
Utilities	40,662	-	40,662	-	-	40,662
Grants and assistance to others	-	56,792	56,792	-	-	56,792
Insurance	32,913	-	32,913	1,500	-	34,413
Miscellaneous	<u>221</u>	<u>64</u>	<u>285</u>	<u>994</u>	<u>3</u>	<u>1,282</u>
Total Other Costs	<u>320,477</u>	<u>186,272</u>	<u>506,749</u>	<u>95,115</u>	<u>18,060</u>	<u>619,924</u>
Total Expenses Before Depreciation and Amortization	1,166,011	783,669	1,949,680	454,325	248,778	2,652,783
Depreciation and amortization	<u>13,588</u>	<u>8,568</u>	<u>22,156</u>	<u>15,624</u>	<u>-</u>	<u>37,780</u>
Total Expenses	<u>\$ 1,179,599</u>	<u>\$ 792,237</u>	<u>\$ 1,971,836</u>	<u>\$ 469,949</u>	<u>\$ 248,778</u>	<u>\$ 2,690,563</u>

See independent auditors' report

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
Personnel Services						
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
Total Personnel Services	<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>
Other Costs						
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
Total Other Costs	<u>285,865</u>	<u>142,048</u>	<u>427,913</u>	<u>79,674</u>	<u>10,847</u>	<u>518,434</u>
Total Expenses Before Depreciation and Amortization	858,681	545,793	1,404,474	387,459	241,998	2,033,931
Depreciation and amortization	<u>15,779</u>	<u>5,790</u>	<u>21,569</u>	<u>12,923</u>	<u>-</u>	<u>34,492</u>
Total Expenses	<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