

Nazareth Housing, Inc.

Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017 and 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.

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, 2018 and 2017, 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 Summarized Comparative Information

We have previously audited Nazareth Housing, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

Harrison, New York
January 16, 2019

Nazareth Housing, Inc.

Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 772,913	\$ 1,003,670
Accounts receivable	1,215,505	640,146
Contributions receivable	139,078	77,093
Other receivables	10,766	31,396
Prepaid expenses	17,130	9,274
Total Current Assets	2,155,392	1,761,579
Property and equipment, net	195,613	223,230
Other Assets		
Investments	176,384	373,552
Due from affiliate	83,037	88,037
Total Other Assets	259,421	461,589
	\$ 2,610,426	\$ 2,446,398
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 144,215	\$ 132,366
Deferred income	10,000	82,691
Total Liabilities	154,215	215,057
Net Assets		
Unrestricted	2,384,616	2,231,341
Temporarily restricted	71,595	-
Total Net Assets	2,456,211	2,231,341
	\$ 2,610,426	\$ 2,446,398

Nazareth Housing, Inc.

Statements of Activities

	Year Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Program service revenue	\$ 1,718,964	\$ -	\$ 1,718,964	\$ 1,499,513	\$ -	\$ 1,499,513
Grants and contributions	278,108	120,000	398,108	395,403	-	395,403
Property management fees	152,208	-	152,208	152,208	-	152,208
Special events, net of \$96,797 and \$87,664 in expenses	334,686	-	334,686	661,458	-	661,458
Donated services	306,949	-	306,949	29,443	-	29,443
Investment income	5,646	-	5,646	6,098	-	6,098
Miscellaneous income	982	-	982	2,425	-	2,425
Net assets released from restrictions	48,405	(48,405)	-	-	-	-
Total Support and Revenue	<u>2,845,948</u>	<u>71,595</u>	<u>2,917,543</u>	<u>2,746,548</u>	<u>-</u>	<u>2,746,548</u>
EXPENSES						
Program services	2,027,124	-	2,027,124	1,971,836	-	1,971,836
Management and general	225,094	-	225,094	440,506	-	440,506
Development and fundraising	133,506	-	133,506	248,778	-	248,778
Total Expenses	<u>2,385,724</u>	<u>-</u>	<u>2,385,724</u>	<u>2,661,120</u>	<u>-</u>	<u>2,661,120</u>
Change in Net Assets Before Contributed Legal Services	460,224	71,595	531,819	85,428	-	85,428
Contributed legal services	<u>306,949</u>	<u>-</u>	<u>306,949</u>	<u>29,443</u>	<u>-</u>	<u>29,443</u>
Change in Net Assets	153,275	71,595	224,870	55,985	-	55,985
NET ASSETS						
Beginning of year	<u>2,231,341</u>	<u>-</u>	<u>2,231,341</u>	<u>2,175,356</u>	<u>-</u>	<u>2,175,356</u>
End of year	<u>\$ 2,384,616</u>	<u>\$ 71,595</u>	<u>\$ 2,456,211</u>	<u>\$ 2,231,341</u>	<u>\$ -</u>	<u>\$ 2,231,341</u>

See notes to financial statements

Nazareth Housing, Inc.

Schedule of Functional Expenses

Year Ended June 30, 2018
(with comparative totals for 2017)

	Program Services			Supporting Services		2018 Total	2017 Total
	City of New York Department of Homeless Services	Other Program Services	Total Program Services	Management and General	Development and Fundraising		
Salaries and wages	\$ 478,107	\$ 451,152	\$ 929,259	\$ 85,592	\$ 78,554	\$ 1,093,405	\$1,381,362
Employees health and welfare benefits	67,643	79,523	147,166	15,334	11,943	174,443	203,056
Payroll taxes and related expenses	51,218	36,737	87,955	2,919	6,009	96,883	111,509
Total Salaries and Related Expenses	<u>596,968</u>	<u>567,412</u>	<u>1,164,380</u>	<u>103,845</u>	<u>96,506</u>	<u>1,364,731</u>	<u>\$ 1,695,927</u>
Shelter apartment rental	95,706	-	95,706	-	-	95,706	95,706
Consultants and contracted security	309,002	-	309,002	58,902	22,222	390,126	336,932
Professional fees	8,638	-	8,638	15,008	7,881	31,527	24,814
Office supplies	8,344	4,808	13,152	1,409	1,796	16,357	20,403
Telephone	9,008	4,247	13,255	1,351	-	14,606	15,097
Postage	705	13	718	234	1,044	1,996	3,313
Office rental	17,426	17,426	34,852	10,218	-	45,070	43,737
Transportation	3,905	791	4,696	257	65	5,018	5,868
Program expense	48,785	135,597	184,382	18,782	3,814	206,978	205,575
Repair and maintenance	49,852	1,246	51,098	1,019	-	52,117	37,526
Utilities	43,047	-	43,047	-	-	43,047	40,662
Grants and assistance to others	-	50,208	50,208	-	-	50,208	56,792
Insurance	27,689	5,885	33,574	1,513	-	35,087	34,413
Bad debt	-	1,000	1,000	-	-	1,000	5,293
Miscellaneous	-	51	51	810	178	1,039	1,282
Total Expenses Before Non-Cash Items	<u>622,107</u>	<u>221,272</u>	<u>843,379</u>	<u>109,503</u>	<u>37,000</u>	<u>989,882</u>	<u>927,413</u>
Total Expenses Before Depreciation and amortization	1,219,075	788,684	2,007,759	213,348	133,506	2,354,613	2,623,340
Depreciation and amortization	<u>19,157</u>	<u>208</u>	<u>19,365</u>	<u>11,746</u>	<u>-</u>	<u>31,111</u>	<u>37,780</u>
Total Expenses	<u>\$ 1,238,232</u>	<u>\$ 788,892</u>	<u>\$ 2,027,124</u>	<u>\$ 225,094</u>	<u>\$ 133,506</u>	<u>\$ 2,385,724</u>	<u>\$ 2,661,120</u>

See notes to financial statements

Nazareth Housing, Inc.

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 224,870	\$ 55,985
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	31,111	37,780
Bad debt expense	1,000	5,293
Changes in operating assets and liabilities		
Accounts receivable	(576,359)	(328,991)
Contributions receivable	(61,985)	(10,013)
Other receivables	20,630	(25,597)
Prepaid expenses	(7,856)	4,026
Due from affiliate	5,000	5,000
Accounts payable and accrued expenses	11,849	(34,494)
Deferred income	<u>(72,691)</u>	<u>82,691</u>
Net Cash from Operating Activities	<u>(424,431)</u>	<u>(208,320)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,494)	(12,391)
Proceeds from sale of investments	298,168	679,092
Purchase of investments	<u>(101,000)</u>	<u>(101,000)</u>
Net Cash From Investing Activities	<u>193,674</u>	<u>565,701</u>
Net Change in Cash and Cash Equivalents	(230,757)	357,381
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,003,670</u>	<u>646,289</u>
End of year	<u>\$ 772,913</u>	<u>\$ 1,003,670</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 6,744	\$ 7,802

See notes to financial statements

Nazareth Housing, Inc.

Notes to Financial Statements
June 30, 2018 and 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. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with United States of America ("U.S. 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.

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of Organization's operations. Unrestricted net assets may be used at the discretion of Organization's management and Board of Directors.

Temporarily restricted - represent amounts restricted by donors for specific activities of the Entity or to be used at some future date. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization does not have permanently restricted net assets.

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.

Nazareth Housing, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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

Allowance for Doubtful Accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in accounts receivable. As of June 30, 2018 and 2017, no allowance for doubtful accounts has been deemed necessary.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives. Expenditures for maintenance and repairs are expensed as incurred. Expenditures that improve or extend the estimated useful lives are capitalized. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or term of the lease inclusive of expected renewals.

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

Revenue Recognition

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.

In-kind Contributions

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

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.

Special Events

Revenues and expenses incurred relative to special events are recognized upon occurrence of the respective event. Revenues are shown net of costs of direct benefits to donors.

Nazareth Housing, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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

Fair Value Measurements

The Organization follows U.S. 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 are comprised of money market accounts invested in a FDIC Insured Bank Deposit Program managed by STIFEL Bank & Trust. Such deposits may be held at several banks to ensure that FDIC maximum insurance coverage limits are not exceeded. In-kind contributions of stocks or other financial assets are sold immediately so that the settlement of the contribution equals the trade date of the sale transaction.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged. Accordingly, certain costs have been allocated among programs and supporting services benefited based on management's assessment of the benefit derived.

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.

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 2015.

Subsequent Events

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 January 16, 2019.

Nazareth Housing, Inc.

Notes to Financial Statements June 30, 2018 and 2017

3. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Furniture, fixtures and equipment	\$ 386,154	\$ 382,660
Leasehold improvements	107,307	107,307
Accumulated depreciation and amortization	<u>(297,848)</u>	<u>(266,737)</u>
	<u>\$ 195,613</u>	<u>\$ 223,230</u>

Depreciation expense for the years ended June 30, 2018 and 2017 is \$31,111 and \$37,780.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets available for various programs or purposes and were expended and released from restrictions during the years ended June 30:

<u>Program/Purpose</u>	<u>Balance June 30, 2017</u>	<u>Net Assets Additions in 2018</u>	<u>Net Assets Released in 2018</u>	<u>Balance June 30, 2018</u>
LESReady!	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ (48,405)</u>	<u>\$ 71,595</u>

The Organization did not have temporarily restricted net assets for the year ended June 30, 2017.

5. Lease Agreements

Office Spaces

The Organization entered into an extended lease for office space at 519 E. 11th Street through October 31, 2017, at which time the Organization began rental payments on a month to month basis. Rent expense was \$31,794 and \$30,868 in 2018 and 2017.

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 2017, at which time Organization began rental payments on a month to month basis. Rent expense was \$10,218 and \$9,731 in 2018 and 2017.

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.

Nazareth Housing, Inc.

Notes to Financial Statements June 30, 2018 and 2017

5. Lease Agreements *(continued)*

Additional shelter apartment rents were paid to non-affiliated parties by the Organization under leases with expiration dates through June 30, 2018 or 2019. The rents are reimbursed through funds received from the City of New York Department of Homeless Services.

For the years ended June 30, 2018 and 2017 shelter apartment rental expense was \$95,706. These amounts include the following payments to the Organization's affiliates:

	2018	2017
Nazareth HDFC	\$ 25,970	\$ 25,970
721 E 6th HDFC	53,104	53,104
	\$ 79,074	\$ 79,074

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

	Office Space	Shelter Apartments	
	137 East 2nd	Non-affiliated	Affiliated
2019	\$ 4,344	\$ 16,632	\$ 79,865
2020	-	16,632	-
2021	-	16,632	-
2022	-	16,632	-
Thereafter	-	1,081,080	-
	\$ 4,344	\$1,147,608	\$ 79,865

6. 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 2018 and 2017, the Board approved a \$5,000 reduction of the debt by grant assistance to Nazareth HDFC. As of June 30, 2018 and 2017 \$83,037 and \$88,037 was outstanding. Interest is not charged on the outstanding amount.

Nazareth Housing, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

6. Transactions with Related Parties (*not disclosed elsewhere*) (*continued*)

Contributions by Board Members

During the years ended June 30, 2018 and 2017 the Organization received contributions from members of the Board of Directors totaling \$126,487 and \$67,050. These contributions are reported as components of individual contributions and donated services.

7. 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.

8. Line of Credit

The Organization has a secured 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, 2018 and 2017.

9. 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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