Paterson Habitat for Humanity, Inc. and Subsidiary d/b/a Passaic County Habitat for Humanity

Consolidated Financial Statements

June 30, 2023

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Paterson Habitat for Humanity, Inc. and Subsidiary
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Independent Auditors' Report

To the Board of Directors
Paterson Habitat for Humanity, Inc. and Subsidiary
Paterson, New Jersey

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Paterson Habitat for Humanity, Inc. and Subsidiary (the "Organization") (d/b/a Passaic County Habitat for Humanity), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Paterson Habitat for Humanity, Inc. and Subsidiary as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Paterson Habitat for Humanity, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

To the Board of Directors
Paterson Habitat for Humanity, Inc. and Subsidiary

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Paterson Habitat for Humanity, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

To the Board of Directors
Paterson Habitat for Humanity, Inc. and Subsidiary

Other Reporting Required by *Government Auditing Standard*s

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2023, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paterson Habitat for Humanity, Inc. and Subsidiary's internal control over financial reporting and compliance.

Nisivoccia LLP

Mt. Arlington, New Jersey
November 21, 2023

Paterson Habitat for Humanity, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2023

ASSETS

Cash and cash equivalents	$ 4,085,748
Accounts receivable	145,321
Investments	3,219,141
Mortgages receivable, net of unamortized discount	961,448
Escrows and security deposits	33,232
ReStore inventory	154,156
Houses available for sale	1,179,815
Houses under construction	7,994,472
Prepaids and other assets	46,496
Property and equipment, net	322,960
Operating lease asset	1,008,891
Investment in joint ventures	10,060,918
Total assets	$ 29,212,598

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	$ 232,898
Deferred revenue	781,576
Homeowners' deposits	63,093
Lines of credit	1,000,000
Notes payable, net of unamortized debt issuance costs	14,721,986
Operating lease liability	1,008,041
Total liabilities	17,807,594
Net assets:	
Without donor restrictions:	
Undesignated	7,974,595
Board designated	3,301,659
With donor restrictions	128,750
Total net assets	11,405,004
Total liabilities and net assets	$ 29,212,598

Paterson Habitat for Humanity, Inc. and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2023

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue:			
Contributions	$ 1,793,376	$ 100,000	$ 1,893,376
State and local government grants	1,446,923		1,446,923
ReStore revenue, net of cost of goods sold	1,165,778		1,165,778
Proceeds from sale of properties	630,574		630,574
Donated assets and services	15,632		15,632
Rental income	46,210		46,210
Amortization of mortgage discounts	73,245		73,245
Other income	151,578		151,578
Income from investment in joint ventures	115,609		115,609
Net assets released from program restrictions	50,000	(50,000)	
Total support and revenue	5,488,925	50,000	5,538,925
Expenses:			
Program Services:			
Home building program	2,166,343		2,166,343
ReStore program	1,124,518		1,124,518
Neighborhood revitalization program	485,460		485,460
Total program services	3,776,321		3,776,321
Supporting Services:			
General and administrative	491,561		491,561
Fundraising	429,380		429,380
Total supporting services	920,941		920,941
Total expenses	4,697,262		4,697,262
Change in net assets from operations	791,663	50,000	841,663
Nonoperating activities:			
Loss on sale of mortgages	(3,000)		(3,000)
Investment income, net	303,140		303,140
Total nonoperating activities	300,140		300,140
Change in net assets	1,091,803	50,000	1,141,803
Net assets, beginning of year	10,184,451	78,750	10,263,201
Net assets, end of year	$ 11,276,254	$ 128,750	$ 11,405,004

See Accompanying Notes to Consolidated Financial Statements

Paterson Habitat for Humanity, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services				Supporting Services			
	Home Building Program	ReStore Program	Neighborhood Revitalization Program	Total	General and Administrative	Fundraising	Total	Total
Salaries and wages	$ 356,880	$ 417,290	$ 203,370	$ 977,540	$ 214,539	$ 241,197	$ 455,736	$ 1,433,276
Payroll taxes and employee benefits	116,239	158,308	35,788	310,335	56,997	70,545	127,542	437,877
Total salaries and related benefits	473,119	575,598	239,158	1,287,875	271,536	311,742	583,278	1,871,153
Construction costs	5,696,503		224,909	5,921,412				5,921,412
Facilities expenses	143,126	374,387	3,324	520,837	10,957	4,257	15,214	536,051
Professional fees	18,422			18,422	105,638		105,638	124,060
Interest expense	149,694			149,694				149,694
Office expense	74,265	41,478	9,710	125,453	30,577	24,849	55,426	180,879
Real estate taxes	120,727			120,727				120,727
Tithe	89,500			89,500				89,500
Advertising and marketing expenses	7,800	20,104	1,356	29,260	30,413	8,048	38,461	67,721
Donation pickup expense		23,899		23,899				23,899
Travel and meetings	5,311	2,560	2,513	10,384	13,915	1,897	15,812	26,196
Special event expenses						65,575	65,575	65,575
Miscellaneous	31,051	71,143	4,490	106,684	28,525	13,012	41,537	148,221
Depreciation and amortization	115,003	15,349		130,352				130,352
Total expenses before capitalized costs	6,924,521	1,124,518	485,460	8,534,499	491,561	429,380	920,941	9,455,440
Less: Capitalized construction costs	(4,758,178)			(4,758,178)				(4,758,178)
Total expenses	$ 2,166,343	$ 1,124,518	$ 485,460	$ 3,776,321	$ 491,561	$ 429,380	$ 920,941	$ 4,697,262

Paterson Habitat for Humanity, Inc. and Subsidiary
Consolidated Statement of Cash Flows
Year Ended June 30, 2023

Cash flows from operating activities:	
Change in net assets	$ 1,141,803
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	130,352
Amortization of deferred finance costs	7,351
Unamortized mortgage discount	(73,245)
Income from joint ventures	(115,609)
Loss on sale of mortgages	3,000
Realized and unrealized gains on investments	(214,427)
Dividends reinvested	(44,629)
Changes in operating assets and liabilities:	
Accounts receivable	679,250
Mortgages receivable	125,489
ReStore inventory	(13,136)
Inventory of real estate and construction materials	(3,708,985)
Prepaids and other assets	106,653
Accounts payable and accrued expenses	(146,495)
Deferred revenue	472,699
Homeowner deposits	17,589
Operating lease asset and liability	(850)
Net cash used in operating activities	(1,633,190)
Cash flows from investing activities:	
Purchase of property and equipment	(33,035)
Purchase of investments	(6,597,017)
Proceeds from sales of investments	3,636,932
Distributions received from joint ventures	128,456
Investment in joint ventures	(581,491)
Net cash used in investing activities	(3,446,155)
Cash flows from financing activities:	
Proceeds from principal borrowings on notes payable	2,483,591
Refinance costs incurred with new financing	(878,665)
Principal repayments on notes payable	(43,076)
Proceeds from principal borrowings on line of credit	1,000,000
Net cash provided by financing activities	2,561,850
Net decrease in cash, cash equivalents and restricted cash	(2,517,495)
Cash, cash equivalents and restricted cash, beginning of year	6,636,475
Cash, cash equivalents and restricted cash, end of year	$ 4,118,980
Supplementary disclosure of cash activity:	
Cash paid during the year for interest	$ 142,343
Supplemental disclosure of noncash activity:	
Donated materials, supplies and services	$ 15,632
Unrealized gains on investments	$ 202,374

See Accompanying Notes to Consolidated Financial Statements

1. Organization

Paterson Habitat for Humanity, Inc. and Subsidiary ("PHFH"), (d/b/a Passaic County Habitat for Humanity), is an affiliate of the global, nonprofit housing organization, Habitat for Humanity International, ("HFHI") operated on Christian principles that seeks to put God's love into action by building homes, communities and hope. PHFH is dedicated to eliminating substandard housing locally and worldwide through constructing, rehabilitating and preserving homes; by advocating for fair and just housing policies; and by providing training and access to resources to help families improve their shelter conditions. HFHI was founded on the conviction that every person should have a decent place to live and that decent shelter in decent communities should be a matter of conscience and action for all.

Since 1984, PHFH has completed 286 new homes and 50 home renovations in the City of Paterson, providing safe stable affordable housing to over 350 families. Families and individuals partner with PHFH to build or improve a place they can call home. Through the merger of affordable home ownership and community redevelopment efforts, PHFH works to revitalize distressed neighborhoods and create safe affordable communities. In 2022, PHFH broke ground on its first project outside of Paterson, a mixed-use development in the City of Passaic, and also launched a critical repair program in Paterson. In 2023 the critical repair program expanded to serve an additional five Passaic County municipalities.

PHFH operates a ReStore in Wayne, NJ, Paterson Habitat ReStore, LLC (the "ReStore"). The ReStore sells new and used donated goods, from which the proceeds are used to support the mission of PHFH.

Principles of Consolidation

The consolidated financial statements include the accounts of Paterson Habitat for Humanity, Inc. and Paterson Habitat ReStore, LLC, collectively referred to as Paterson Habitat for Humanity, Inc. and Subsidiary (the "Organization"). All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. A summary of the significant accounting policies followed by the Organization in the preparation of the accompanying consolidated financial statements is set forth below:

Basis of Presentation

The Organization prepares its consolidated financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2016-14, dated August 2016, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities* (FASB Update). In addition, the Organization uses the FASB's *Accounting for Contributions Received and Made*.

Presentation of Financial Statements of Not-for-Profit Entities requires that resources be classified for accounting and reporting purposes into two net asset categories: net assets with donor restrictions and net assets without donor restrictions. Contributions that are restricted by the donor are reported as increases in assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions.

Accounting for Contributions Received and Made requires that unconditional promises to give be recorded as receivables and revenue and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. The net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets without donor are resources representing the portion of expendable funds available for support of the Organization's programs and general operations. These resources are not subject to donor-imposed restrictions. Net assets without donor restrictions also include those expendable resources which may have been designated for special use by the Board of Directors.

Net Assets with Donor Restrictions

Net assets with donor restrictions are net assets that represent those amounts which are donor restricted for a stipulated time or for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from donor restrictions.

Net assets with donor restrictions were as follows as of June 30, 2023:

	With donor restrictions
Lead-Free NJ	$ 8,870
Cinton Street Park Project	19,880
Childcare Development Phase III	100,000
	$ 128,750

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2023:

Satisfaction of purpose restrictions:	With donor restrictions
Lead-Free NJ	$ 39,880
Clinton Street Park Project	10,120
	$ 50,000

Revenue and Support

The Organization recognizes revenue from building and financing affordable homes when the homes are sold. The performance obligation consists of the completion of the home and sale to eligible individuals. The Organization records special events revenue equal to the fair value of direct benefits to donors, and then contribution revenue for the excess received when the event takes place.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

A portion of the Organization's revenue is derived from cost-reimbursable state and local contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidated statement of financial position.

ReStore revenue is recognized at the point of sale.

Rental income is recognized on a month-to-month basis in accordance with the lease agreements.

Disaggregation of Revenue

In the following table, revenue is disaggregated by timing of satisfaction of performance obligations for the year ended June 30:

	2023
Performance obligations satisfied at a point in time	$ 2,314,921

Revenue from performance obligations satisfied at a point in time are related to the sale of homes, ReStore sales revenue and special event revenue.

Deferred Revenue

Deferred revenue consists of funds received in advance of services being performed and will be recognized as income in future periods when earned. At June 30, 2023, deferred revenue amounted to $781,576.

Liquidity and Availability

The provisions of FASB Update No. 2016-14 requires the presentation of qualitative information on how the Organization manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a nonprofit's financial assets at the consolidated statement of financial position date to meet cash needs for general expenditures within one year is required to be presented on the face of the consolidated financial statement and/or in the notes to the consolidated financial statements.

The following reflects the Organization’s financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date.

	2023
Financial assets at year end:	
Cash and cash equivalents	$ 4,085,748
Accounts receivable	145,321
Investments	3,219,141
ReStore inventory	154,156
Total financial assets:	7,604,366
Less those unavailable for general expenditures within one year:	
Contractual or donor-imposed restrictions:	
Board designated net assets	(3,301,659)
Restricted by donor for purpose	(128,750)
Financial assets available to meet cash needs for general expenditures within one year	$ 4,173,957

The Organization has a goal to maintain cash on hand to meet 90 days of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has committed lines of credit in the amount of $3,200,000. In addition to these available financial assets, a significant portion of the Organization's annual expenditures will be funded by current year operating revenues including federal and state awards, contribution revenue, home and ReStore sales.

Cash, Cash Equivalents and Restricted Cash

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investing instruments purchased with an original maturity of three months or less to be cash equivalents.

The Organization maintains escrow and security deposits on behalf of homeowners. These accounts are used to collect homeowner deposits to be used to pay escrow expenses (such as property taxes and homeowners' insurance premiums), and for the payment of maintenance expenses on property that share common facilities.

For purposes of the consolidated cash flow statement cash consists of cash and cash equivalents and escrow and security deposits.

Accounts and Contributions Receivable and Allowance for Doubtful Accounts

Accounts and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants, pledges, or contributions receivable. There was no allowance for bad debts as of June 30, 2023.

Investments

The Organization follows FASB ASC, *Accounting for Certain Investments Held by Not-for-Profit Organizations.* In accordance with this accounting standard, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income or loss (including interest, dividends and realized gains and losses on sale of investments) are included in the statement of activities as increases or decreases of net assets without donor restrictions unless the income or loss is restricted by the donor or law. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

Fair market value, at acquisition or contribution, as well as at subsequent dates, is determined based on quoted market prices as provided by the investment advisors.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge. That impairment charge would be included in the statement of activities and a new cost basis would be established. For the fiscal year ended June 30, 2023, the Organization did not record any impairment charge.

Fair Value Measurements

In accordance with FASB ASC, *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the assets or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

The Fair Value Measurements Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable market price existed (an exit price). An exit price valuation will include margins for risk even if they are not observable. As the Organization is released from risk, the margins for risk will also be released through net realized capital gains (losses) in net income. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques:

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost);
- Income approach - Techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

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. For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information might not be available.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or settle or otherwise fulfill a liability is not relevant when measuring fair value.

The following is a description of valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2023.

Mutual funds: the carrying amounts are valued at the net asset value (NAV) of shares held by the Organization at year end.

Equities: The carrying amounts are stated at the value at the closing price reported in the active market in which the individual securities are traded.

Home Building and ReStore Inventory

Property acquisition and construction costs incurred in connection with the Organization's home building program are capitalized as inventory of houses available for sale and houses under construction until construction is completed. At the time of sale, the total cost is reflected in program service expenses as cost of homes sold on a specific identification basis. Occasionally, when development is deemed not to be feasible, the Organization charges these capitalized costs to expense when the determination is made.

The ReStore follows the provisions of FASB ASC *Inventory,* which requires the measure of inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventory is comprised of donated building materials, furniture, appliances and other household goods. These items are recorded at lower of thrift shop value or net realizable value.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of the gift, when donated. Significant additions, renewals, and betterments are capitalized while replacements, maintenance, and repairs which do not improve or extend the life of an asset are expensed. Depreciation is provided for by the straight-line method over the estimated useful lives of the assets. Gifts of long-lived assets are reported as an increase in net assets without donor restrictions, unless there are explicit restrictions that specify how the assets are to be used.

Proceeds from the sale of fixed assets, if not restricted, are transferred to net assets without donor restrictions, or, if restricted, to net assets with donor restrictions.

In accordance with *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Organization periodically evaluates property and equipment for impairment, relying on a number of factors including operating results, and future business plans. Recoverability of property is evaluated by a comparison of the carrying amount of an asset or asset group to estimated future recoverability of the carrying amount of the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the estimated fair value. There were no impairment charges recorded for the year ended June 30, 2023.

In-Kind Contributions

The Organization follows the provisions of FASB ASU 2020-07, *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which requires nonprofits to present contributed nonfinancial assets as a separate line in the statement of activities apart from contributions of cash or other financial assets.

Amounts are reported in the consolidated financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills, and which would be typically purchased if not provided by donation. Donated assets and services are reported at their fair value at the time of donation.

Donated real estate, building materials and professional services have been recorded as contributions at an aggregate estimated fair value of $15,632 for the year ended June 30, 2023, with corresponding amounts being reflected as an asset and included in inventory of real estate and homes under construction.

Numerous volunteers donate their time to the Organization's program services and fundraising activities during the year. The value of this contributed time is not reflected in these consolidated financial statements since it does not meet the criteria for recognition under U.S. generally accepted accounting principles. However, this volunteer time is critical to the Organization and these hours are measured and monitored. Volunteers worked approximately 16,220 hours for the year ended June 30, 2023.

Mortgages Receivable

Mortgages from homeowners do not bear interest and generally have a maximum life of 30 years. Required monthly repayments are calculated on a level payment basis. The Organization discounts the mortgages received each accounting period using an interest rate stipulated by Habitat for Humanity International ("HFHI").

Mortgages sold within 12 months from the origination are not discounted. This practice facilitates the combining of all affiliated financial statements by HFHI. Discounting has no effect on the cash flows of the Organization. Mortgage discounts are amortized to income on a straight-line basis over the life of the underlying mortgages.

The Organization reviews mortgages receivable for collectability based on previous experience and determinations by management. In management's opinion, the collateral is sufficient to enable the Organization to realize the mortgages receivable without any allowance for uncollectible amounts provided in the consolidated financial statements.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The consolidated financial statements report certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

Program expenses are those related to operation of the home building, neighborhood revitalization and ReStore programs. Support costs relate to administrative expenses associated with those programs. Expenses are charged to each program based on direct expenditures incurred. The allocation of indirect costs such as employees' salaries and other costs are based on methods considered by management to be reasonable including an estimate of time spent on each program or support service. Fundraising includes the direct cost of special events and the allocation of employees' salaries, when applicable, as well as other costs involved in fundraising and special events.

Investment in Joint Ventures

The Organization accounts for its investment in joint ventures under the equity method. Under the equity method of accounting the Organization's share of net income (loss) of the joint ventures is recognized as income from investment in joint ventures on the Organization's consolidated statement of activities, and distributions received from the joint ventures are treated as a reduction of the investment account.

Income Taxes

The Organization is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization is also exempt under Title 15 of the State of New Jersey, *Corporations and Organizations Not-for-Profit Act*. Accordingly, no provision for federal or state income taxes has been presented in the accompanying consolidated financial statements.

The Organization follows the provisions of FASB ASC *Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the consolidated financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those tax positions.

The Organization does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the year ended June 30, 2023. However, the Organization is subject to regular audit by tax authorities, including a review of its nonprofit status which management believes would be upheld upon examination.

The Organization believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, upon resolution of any issues raised by taxing authorities those positions may differ materially from previously filed tax returns.

As required by law, the Organization files informational returns in the United States federal and New Jersey state jurisdictions. The Organization is subject to income tax examinations for returns within the statutory periods established by the respective jurisdictions.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Advertising and Marketing

The Organization expenses the costs of advertising and marketing as incurred. The Organization incurred $67,721 in advertising and marketing expenses for the year ended June 30, 2023.

Leases

In February 2016, the FASB issued guidance ASC 842, *Leases,* to increase transparency and comparability among companies by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted FASB ASC 842, with a date of initial application of July 1, 2022, by applying the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases* (Topic 842): *Targeted Improvements.*

The Organization did not restate prior periods under FASB ASC 840 and instead evaluated whether a cumulative effect adjustment to net assets as of July 1, 2022, was necessary for the cumulative impact of adoption of FASB ASC 842. The Organization recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available.

The Organization elected the available practical expedients to account for existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

ROU assets represent the Organization's right to use leased assets over the term of the lease. Lease liabilities represent the Organization's contractual obligation to make lease payments and are measured at the present value of the future lease payments over the lease term. ROU assets are calculated as the present value of the future lease payments adjusted by any deferred rent liability and lease incentives. ROU assets and lease liabilities are recognized at the lease commencement date.

The Organization uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Organization uses the risk-free rate at the lease commencement date to determine the present value of the future lease payments.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022, a lease liability of $1,234,013, which represents the present value of the remaining operating lease payments of $1,339,556, discounted using the Organization's risk-free rate of 2.84%, and a right-of-use asset of $1,254,266.

The Organization has elected for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but greater than 1 month at lease commencement, and do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise. The Organization recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

The standard had a material impact on the Organization's consolidated statement of financial position but did not have an impact on the Organization's consolidated statement of activities, nor consolidated statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2023, through the date of the independent auditors' report and the date the consolidated financial statements were available to be issued November 21, 2023. The consolidated financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

3. Mortgages Receivable

Mortgages receivable are comprised of noninterest-bearing notes which are secured by properties sold through the home building program. These notes have original maturities of twenty or thirty years with the latest maturing in December 2052. Mortgages received for the year ended June 30, 2023, were discounted at the HFHI stipulated interest rate of 7.49%.

	2023
Face value of discounted mortgages	$ 2,594,811
Less: Unamortized discount	(1,633,363)
	$ 961,448

From time to time, the Organization sells mortgages to local banks. In 2023 mortgages receivable with an aggregate book value of $150,000, were sold for $147,000 resulting in a net loss of $3,000.

4. Investments

The fair value of investments are determined by reference to quoted market values for similar investments.

Investments at June 30, 2023, are summarized as follows:

	Level 1	Level 2	Total
Equities	$ 308,737		$ 308,737
Mutual funds		$ 2,910,404	2,910,404
	$ 308,737	$ 2,910,404	$ 3,219,141

Investment activity for the year ended June 30, 2023, is comprised of the following:

	2023
Beginning balance	$ -
Purchases	6,597,017
Sales	(3,636,932)
Dividend income reinvested	44,629
Realized gain on investments	12,053
Unrealized gain on investments	202,374
Ending balance	$ 3,219,141

Strategic Investment Funds (Quasi Endowment)

The Organization's endowment consists of equities and mutual funds established for a variety of purposes and is made up of funds without donor restrictions which have been designated by the board of directors.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Management has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original investment as of the date the assets were designated by the Board of Directors for investment. As a result of this interpretation, the Organization classifies net assets without donor restrictions – Board designated (a) the original value of assets contributed to the endowment, (b) the original value of subsequent assets transferred to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the Board.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the board designated endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other financial resources, and (7) investment policies.

<u>Investment Return Objectives, Risk Parameters and Strategies:</u>

The Organization has adopted investment and spending policies, approved by management, for endowment assets that attempt to provide a predictable stream of funding to programs supported while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes equity and mutual funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4-5%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

<u>Spending Policy:</u>

The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior two years. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds and the possible effects of inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

5. <u>Investments in Joint Venture</u>

In April 2018, the Organization entered into a joint venture agreement, along with four other Habitat Affiliates, with HFHI NMTC Leverage Lender 2018, LLC ("Joint Venture") in order to receive funding from U.S. Bancorp Community Development Corp. ("USBCDC") to financially assist the Organization and the four Habitat Subsidiaries with building new low-income housing in the neighborhoods they individually serve. USBCDC contributed these funds to the Organization and four Habitat Affiliates in order to take advantage of New Market Tax Credits ("NMTC"). The Organization transferred property, with an aggregate value of $1,285,056 as an initial capital contribution to obtain a 21.84% ownership interest in the joint venture. In addition to investing in the joint venture, the Organization was able to secure a 30-year loan payable in the amount of $1,892,285 with HFHI SUB-CDE 111, LLC (a community development entity). In April 2025, the Joint Venture has the ability to exercise a put option, which would enable the Organization to terminate this transaction and extinguish its debt.

In January 2020, the Organization entered into a joint venture agreement, along with Habitat for Humanity of Charlotte, Inc. ("HHC"), with Charlotte-Paterson Leverage I, LLC ("Joint Venture") in order to receive funding from U.S. Bancorp Community Development Corp. ("USBCDC") to financially assist the Organization and HHC with rehabilitation and/or construction of certain single-family residences located within a Qualified Census Tract. USBCDC contributed these funds to the Organization and HHC in order to take advantage of New Market Tax Credits ("NMTC"). The Organization transferred property, with an aggregate value of $3,730,770 as an initial capital contribution to obtain a 61.18% ownership interest in the joint venture. In addition to investing in the joint venture, the Organization was able to secure a 20-year loan payable in the amount of $5,200,000 with NJCC CDE Robeson, LLC (a community development entity). In January 2027, the Joint Venture has the ability to exercise a put option, which would enable the Organization to terminate this transaction and extinguish its debt.

In June 2023, the Organization invested in another partnership (INHP-Passaic Leverage I, LLC) with 48.10% ownership to take advantage NMTC of financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive NMTC to be applied against their federal tax liability. As a result, the Organization invested $5,111,900 and was able to secure a 20-year loan in the amount of $7,000,000 payable to a community development entity. The loan proceeds are to be used solely for the purpose of acquiring, rehabbing and/or constructing single-family homes in qualified census tracts and selling at least 20% of such homes to low-income persons. In June 2030, the Joint Venture has the ability to exercise a put option, which would enable the Organization to terminate this transaction and extinguish its debt.

Under the terms of each NMTC joint ventures, the Organization is required to build one home per year in a low-income census tract during the compliance period of each transaction. See Note 12 for details of the loans.

The table below sets forth a summary of changes in the investment in joint ventures:

Balance at July 1, 2022	$ 4,961,865
Investment in new joint venture	5,111,900
Income from investment in joint venture	115,609
Distributions received from jont venture	(128,456)
Balance at June 30, 2023	$ 10,060,918

6. Inventory of Houses Available for Sale and Under Construction

Property acquisition and construction costs incurred in connection with the Organization's home building program are capitalized as inventory. While construction activity is relatively constant over the course of each year, the number of properties completed can vary significantly year to year and this can produce variations in the Organization's annual change in net assets.

Inventory of houses available for sale amounted to $1,179,815 and inventory of houses under construction amounted to $7,994,472 as of June 30, 2023.

7. Property and Equipment

Property and equipment and their related estimated useful lives at June 30, 2023, are as follows:

Assets	Estimated Useful Life (Years)	2023
Building	15 to 39	$ 524,016
Furniture, fixtures, and equipment	3 to 10	58,675
Vehicles	5 to 10	72,466
		655,157
Less: accumulated depreciation		(332,197)
		$ 322,960

Depreciation expense for the year ended June 30, 2023, totaled $130,352.

8. Bank Line of Credit

The Organization has an available secured line of credit with Columbia Bank in the amount of $500,000. The line of credit is collateralized by the administrative office of the Organization. Interest is payable monthly at the prime rate as published by the Wall Street Journal plus 0.50% not to fall below 6.50%. The effective interest rate as of June 30, 2023, was 9.0%. As of June 30, 2023, there was $500,000 outstanding on the line of credit, which was repaid in October 2023. The line of credit matures on November 1, 2024.

The Organization has available an unsecured line of credit with Valley National Bank in the amount of $500,000. Interest is payable monthly at the bank's prime rate, effective interest rate was 8.25% as of June 30, 2023. As of June 30, 2023, there was $500,000 outstanding on the line of credit which was repaid in October 2023. The line of credit is automatically renewed annually.

In May 2023 the Organization entered into a line of credit with Bank of America referred to as a Loan Management Account. The line is collateralized by the assets of the Organization held in brokerage accounts. The amount available on the line is $2,200,000, interest is payable at a base rate plus a spread, as defined in the agreement. No amounts were outstanding on the line as of June 30, 2023.

9. Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash. Also, the Organization is subject to credit risk through mortgages receivable due from homeowners and inventory of residential real estate. Although the Organization does not currently foresee a credit risk associated with the amounts due, repayment of the amounts is dependent upon the financial stability of the obligors.

10. Tithe

As an independent affiliate of HFHI, the Organization covenants with HFHI to contribute 10% of its cash contributions without donor restrictions and ReStore and event profits to one or more international affiliates. The tithe for the year ended June 30, 2023, was $89,500.

11. Leases

As of the date of the auditors' report, the Organization was obligated under operating leases for its ReStore expiring through April 2027.

Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Because the Organization is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments used to determine the lease liabilities. The Organization's lease does not include termination options for either party to the lease, guaranteed residual values or restrictive financial or other covenants.

Other information related to the Organization's operating lease as of and for the year ended June 30, 2023, was as follows:

Operating cash flows from operating leases	$ 278,000
ROU assets obtained in exchange for new operating lease liabilities	$ 1,254,266
Weighted-average remaining lease term in years for operating leases	3.83
Weighted-average discount rate for operating leases	2.84%

The future minimum lease liabilities under these noncancellable operating leases as of June 30, 2023, are as follows:

Year Ended June 30,	
2024	$ 255,892
2025	284,352
2026	284,352
2027	236,960
Total undiscounted cash flows	1,061,556
Less: present value discount	(53,515)
Total lease liabilities	$ 1,008,041

12. Notes Payable

Notes payable consist of the following at June 30:

On June 14, 2020, the Organization entered into a secured disaster loan with the SBA in the amount of $150,000. During fiscal year 2022, the loan was increased to $2,000,000. Monthly payments of $8,662 began in May 2022. The loan accrues interest at a rate of 2.75%. Loan matures in June 2050.	$ 1,956,925
The Organization participates in the Self-Help Homeownership Opportunity Program (SHOP 2020) administered by HFHI. The program includes a grant award and an interest free loan which is scheduled to be repaid upon completion of construction of the designated projects for which the funds were awared/loaned.	14,000
Note payable due to a community development entity (HFHI SUB-CDE Ill, LLC). Debt requires interest only payments until April 2025 at .068%. The loan matures in April 2048. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The note is subject to certain financial and non-financial covenants. Embedded in the note payable agreement is a put option feature that is exercisable in April 2025. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to HFHI SUB-CDE 111, LLC.	1,892,285

Note payable due to a community development entity (NJCC CDE Robeson, LLC). Debt requires interest only payments until January 2027 at 1.023%. The loan matures in January 2040. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The note is subject to certain non-financial covenants. Embedded in the note payable agreement is a put option feature that is exercisable in January 2027. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to NJCC CDE Robeson, LLC.	5,200,000
Note payable due to a community development entity (NJCC CDE 44, LLC). Debt requires interest only payments until June 2030 at .73%. The loan matures in June 2043. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The note is subject to certain non-financial covenants. Embedded in the note payable agreement is a put option feature that is exercisable in June 2030. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to NJCC CDE 44, LLC.	7,000,000
	16,063,210
Unamortized deferred financing fees	(1,341,224)
Notes payable	$ 14,721,986

The CDE notes are subject to certain financial covenants. The Organization was in compliance with those covenants as of June 30, 2023.

Although the Organization intends to exercise the put option on all CDE notes, under the agreements the Organization is responsible for repayment in the event the option is not exercised. The following is a schedule of the future minimum principal payments as of June 30, 2023:

Year Ending June 30,	Unamortized Debt Issuance Cost	Future Maturities of Notes
2024	$ (195,884)	$ 57,375
2025	(193,617)	51,511
2026	(182,285)	52,926
2027	(153,877)	54,379
2028	(114,106)	55,873
Thereafter	(501,456)	15,791,146
	$ (1,341,224)	$ 16,063,210

13. Retirement Plan

The Organization established a defined contribution retirement plan for the benefit of its employees. The plan is administered by an independent pension administrator and is an employer/employee contribution-based plan where the Organization will match 4% of an employee's annual compensation while they are actively contributing to the plan. Employees are vested immediately in employer matching contributions. Total retirement plan contributions for the year ended June 30, 2023, amounted to $59,758.

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<u>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*</u>

To the Board of Directors of
Paterson Habitat for Humanity, Inc. and Subsidiary
Paterson, New Jersey

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Paterson Habitat for Humanity, Inc. and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated November 21, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Paterson Habitat for Humanity, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paterson Habitat for Humanity, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Paterson Habitat for Humanity, Inc. and Subsidiary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Board of Directors of
Paterson Habitat for Humanity, Inc. and Subsidiary

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Paterson Habitat for Humanity, Inc. and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nisivoccia LLP

Mt. Arlington, New Jersey
November 21, 2023

Summary of Auditors' Results:

- An unmodified report was issued on Paterson Habitat for Humanity, Inc. and Subsidiary's financial statements.

- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of Paterson Habitat for Humanity, Inc. and Subsidiary.

- The audit did not disclose any noncompliance which is material in relation to the financial statements of Paterson Habitat for Humanity, Inc. and Subsidiary.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Responses for State Awards:

- The audit did not disclose any findings and responses for federal and state award programs.

Status of Prior Year Findings

There were no audit findings in the prior year.