



***CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT***

YEARS ENDED JUNE 30, 2020 AND 2019

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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 Financial Statements

We have audited the accompanying consolidated financial statements of Paterson Habitat for Humanity, Inc. and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of Paterson Habitat ReStore, LLC were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paterson Habitat for Humanity, Inc. and Subsidiary as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, in fiscal year 2020, PHFH adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit, Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*; and, No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

Other Matters:

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of Paterson Habitat for Humanity, Inc.'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 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 Paterson Habitat for Humanity, Inc.'s 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.'s internal control over financial reporting and compliance.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey
October 30, 2020

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30,	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,101,535	\$ 1,330,621
Escrows and security deposits	139,485	65,901
Mortgages receivable, net	3,407,114	3,238,226
Grants and other receivables	36,727	272,031
Prepaid expenses	268,060	91,027
Houses available for sale	1,472,115	1,788,595
Houses under construction	1,844,299	1,481,750
ReStore inventory	74,316	90,575
Property, land, and equipment, net	348,945	380,833
Investment in joint ventures	7,523,129	3,805,207
	<u> </u>	<u> </u>
Total assets	<u>\$ 18,215,725</u>	<u>\$ 12,544,766</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 278,286	\$ 381,597
Refundable advance - Paycheck Protection Program	400,000	
Refundable advance - Government grant	163,000	
Homeowners' deposits	127,741	69,289
Deferred revenue	816,781	529,652
Lines of credit	1,250,000	
Secured disaster loan payable	150,000	
Notes payable	9,706,669	5,051,637
	<u> </u>	<u> </u>
Total liabilities	<u>12,892,477</u>	<u>6,032,175</u>
Net assets:		
Without donor restrictions	5,323,248	5,799,877
With donor restrictions		712,714
	<u> </u>	<u> </u>
Total net assets	<u>5,323,248</u>	<u>6,512,591</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 18,215,725</u>	<u>\$ 12,544,766</u>

The accompanying notes are an integral part of these consolidated financial statements.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year ended June 30, 2020		Year ended June 30, 2019	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Support and revenues:				
Private support:				
Contributions and private grants	\$ 1,023,374	\$ 464,900	\$ 697,796	\$ 712,714
Donated services and materials	61,306		106,910	
Special events, net of expenses of \$39,297 and \$84,343 for 2020 and 2019, respectively	224,133		350,480	
Total private support	1,308,813	464,900	1,155,186	712,714
Governmental support:				
Federal and state awards		642,250		798,196
Total governmental support		642,250		798,196
Other operating revenues:				
Sale of houses	1,021,001		1,428,000	
Mortgage loan discount amortization	332,064		57,801	
Investment in joint ventures	76,625		38,200	
ReStore sales	823,862		1,018,389	
Other	92,355		83,826	
Total other operating revenues	2,345,907		2,626,216	
Net assets released from restrictions	1,819,864	(1,819,864)	798,196	(798,196)
Total support and revenues	5,474,584	(712,714)	4,579,598	712,714
Expenses:				
Program services:				
Housing and community engagement	4,288,783		4,570,310	
ReStore	909,242		796,992	
Total program services	5,198,025		5,367,302	
Supporting services:				
Management and general Fundraising	436,914		508,597	
	316,274		319,589	
Total supporting services	753,188		828,186	
Total expenses	5,951,213		6,195,488	
Change in net assets	(476,629)	(712,714)	(1,615,890)	712,714
Net assets, beginning of year	5,799,877	712,714	7,415,767	7,415,767
Net assets, end of year	\$ 5,323,248	\$	\$ 5,799,877	\$ 712,714
				\$ 6,512,591

The accompanying notes are an integral part of these consolidated financial statements.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (1,189,343)	\$ (903,176)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	105,986	73,234
Amortization of discounts on mortgages receivable, net	400,775	656,855
Write-off of discounts for mortgages sold	(249,728)	
Transfers to homeowners in return for mortgages	(891,000)	(1,942,240)
Payments on mortgages from homeowners	177,873	203,862
Sale of mortgages	333,467	
Foreclosures	59,725	
Investment income in joint ventures	(76,625)	(25,352)
Changes in assets and liabilities:		
(Increase) decrease in:		
Escrow and security deposits	(73,584)	(46,042)
Grants and other receivables	235,304	(70,554)
Prepaid expenses	(177,033)	(9,282)
Houses available for sale	316,480	16,611
Houses under construction	(362,549)	583,991
ReStore inventory	16,259	16,190
Increase (decrease) in:		
Accounts payable and accrued expenses	(103,311)	113,975
Tithe payable		(30,947)
Refundable advance - government grant	163,000	
Homeowners' deposits	58,452	
Deferred revenue	287,129	366,504
Refundable advance - Paycheck Protection Program	400,000	
Net cash used by operating activities	<u>(568,723)</u>	<u>(996,371)</u>
Cash flows from investing activities:		
Distributions received from joint venture	89,473	38,200
Investment in joint venture	(3,730,770)	
Purchase of property, land and equipment	<u>(6,750)</u>	<u>(111,810)</u>
Net cash used by investing activities	<u>(3,648,047)</u>	<u>(73,610)</u>
Cash flows from financing activities:		
Proceeds from line of credit	1,500,000	
Proceeds from secured disaster loan payable	150,000	
Proceeds from notes payable	5,200,000	
Reimbursement of debt issuance costs		5,706
Debt issuance costs	(612,316)	
Repayments on line of credit	<u>(250,000)</u>	
Net cash provided by financing activities	<u>5,987,684</u>	<u>5,706</u>
Net increase (decrease) in cash and cash equivalents	1,770,914	(1,064,275)
Cash and cash equivalents, beginning of year	<u>1,330,621</u>	<u>2,394,896</u>
Cash and cash equivalents, end of year	<u>\$ 3,101,535</u>	<u>\$ 1,330,621</u>
Supplemental Cash Flow Information		
Cash paid for interest	<u>\$ 130,002</u>	<u>\$ 61,788</u>

The accompanying notes are an integral part of these consolidated financial statements.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2020 and 2019

	Program services				Supporting services				Total program and supporting services			
	Housing and Community Engagement		ReStore		Total program services		Management and general		Fundraising		Total supporting services	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Salaries and wages	\$ 842,465	\$ 722,761	\$ 331,754	\$ 284,025	\$ 1,174,219	\$ 1,006,786	\$ 128,734	\$ 125,881	\$ 239,792	\$ 245,856	\$ 371,737	\$ 1,542,745
Payroll taxes and employee benefits	226,237	235,897	108,149	103,382	334,386	339,279	96,803	96,369	72,581	70,122	166,491	503,770
Total salaries and related expenses	1,068,702	958,658	439,903	387,407	1,508,605	1,346,065	225,537	222,250	312,373	315,978	538,228	2,046,515
Construction costs	2,194,796	2,348,765			2,194,796	2,348,765						2,194,796
Discounts on mortgages	483,110	714,656			483,110	714,656						483,110
Facilities expenses	14,519	28,881	372,095	303,095	386,614	331,976	9,574	12,473			12,473	396,188
Professional fees	54,998	113,991			54,998	113,991	95,750	130,821	1,695	2,001	132,822	246,813
Interest expense	130,002	61,788			130,002	61,788						130,002
Real estate taxes	111,920	141,260			111,920	141,260						111,920
Depreciation and amortization	75,258	45,861	2,128	4,077	77,386	49,938	28,600	23,296			23,296	105,986
Tithe	103,013	113,603			103,013	113,603						103,013
Marketing and other expenses			79,653	83,592	79,653	83,592			2,206	1,610	69,487	79,653
Office expenses	14,909	19,045			14,909	19,045	60,146	67,877				77,261
Insurance	37,556	23,802			37,556	23,802	17,307	51,880				37,556
Donation pickup expense			15,463	18,821	15,463	18,821						15,463
Total expenses	\$ 4,288,783	\$ 4,570,310	\$ 909,242	\$ 796,992	\$ 5,198,025	\$ 5,367,302	\$ 436,914	\$ 508,597	\$ 316,274	\$ 319,589	\$ 828,186	\$ 5,951,213
												\$ 6,195,488

The accompanying notes are an integral part of these consolidated financial statements.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. Nature of the Organization

Paterson Habitat for Humanity, Inc. and Subsidiary (PHFH), an affiliate of Habitat for Humanity International, was organized as a not-for-profit corporation under the laws of the State of New Jersey in 1984 with the mission of eliminating poverty housing from Passaic County, New Jersey, and to make decent, affordable shelter for all people throughout the world a matter of conscience. As such, PHFH builds and sells Energy Star certified, quality affordable housing to low-income qualified homeowners, primarily in the City of Paterson, New Jersey. Eligible homeowners generally are families living in substandard housing who are unable to secure adequate housing by conventional means. Contribution of money and materials are the principal funding sources of PHFH operations. Volunteer labor is also central to PHFH's ability to build new homes and offer them to qualified families at affordable prices through zero-interest mortgages.

Eligible homeowner incomes are not adequate to purchase homes at PHFH's cost. Therefore, in order to provide affordable housing to eligible buyers, PHFH subsidizes the sale of each house. Because homes currently are sold for an amount below actual cost, fundraising and volunteer services must provide the financial resources for the subsidy.

PHFH seeks to not only raise living standards for families through homeownership, but also to revitalize neighborhoods and communities. PHFH's financial counseling and mentoring programs address personal debt and money management issues for homeowner families, and continues to excel in foreclosure prevention with only eleven foreclosures in its 35-year plus history. Finally, limited resources are directed to carefully selected community programs to support safe streets, effective public education, and other goals that affect the quality of life for Habitat homeowner families and their neighbors.

PHFH operates a ReStore that sells donated new and used goods and construction materials to help raise additional revenue which is used to further the mission of PHFH.

2. Summary of significant accounting policies

This summary of significant accounting policies of PHFH is presented to assist in understanding PHFH's consolidated financial statements. The consolidated financial statements and notes are representations of PHFH's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in *FASB Accounting Standards Codification* (the Codification) and have been consistently applied in the preparation of the consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of Paterson Habitat for Humanity, Inc. and Paterson Habitat ReStore, LLC. ReStore is a wholly-owned subsidiary of PHFH. All material intercompany balances and transactions have been eliminated in consolidation.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of significant accounting policies (continued)

Basis of presentation

The financial statements of PHFH have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require PHFH to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of PHFH. These net assets may be used at the discretion of PHFH's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of PHFH or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consists of demand deposit accounts, which are highly liquid financial instruments with maturities of three months or less. Cash does not include amounts held in escrow, such as potential homeowner's funds held pending closing of the unit.

Escrows and security deposits

PHFH 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.

Mortgages receivable

Mortgages from homeowners do not bear interest and generally have a maximum life of up to 30 years. Required monthly repayments are calculated on a level payment basis. PHFH discounts the mortgages received each accounting period using an interest rate stipulated by Habitat for Humanity International, Inc. (HFHI). This practice facilitates the combining of all Subsidiary consolidated financial statements by HFHI. Discounting has no effect on the cash flows of PHFH. Mortgage discounts are amortized to income on a straight-line basis over the life of the underlying mortgages.

PHFH reviews mortgages receivable for collectability based on previous experience and determinations by management and the Board of Directors. In management's opinion, the collateral is sufficient to realize the mortgages receivable without any allowance.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of significant accounting policies (continued)

Grants and other receivables

Financial assistance received from federal, state, and local governmental entities in the form of grants are recognized on a cost reimbursement basis and are recorded in federal and state awards on the consolidated statements of activities and changes in net assets. Grants receivable from government agencies are periodically reviewed by management for collectability. The balance of grants receivable has been determined to be collectible. Therefore, no allowance has been recorded.

Houses available for sale and under construction

Houses available for sale are stated at cost.

Houses under construction consists of material, labor, and equipment costs related to home construction such as indirect labor, supplies, and tool costs. These costs are recorded as houses under construction on the consolidated statements of financial position as they are incurred. Land costs are included in houses under construction and are stated at the lower of cost or the fair value at the date of purchase. Also included in land costs are any costs incurred in development. When homes are sold, the corresponding costs are then expensed in the consolidated statements of activities and changes in net assets as program services under the caption construction costs.

Property, land, and equipment

Property, land, and equipment purchased are stated at cost. Replacements, betterments, and additions to property, land, and equipment are capitalized. PHFH capitalizes all property, land, and equipment with a value of \$5,000 or greater that extend the useful life of the asset. Depreciation and amortization of buildings, equipment, furnishings, and improvements are provided on a straight-line basis over their estimated useful lives:

Building and improvements	15 - 39 years
Construction equipment	5 - 10 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Donations of property, land, and equipment are recorded as contributions at the fair value of the asset, based on values of comparable assets, at the date of the gift. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property, land, and equipment are reported as contributions with donor restrictions.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of significant accounting policies (continued)

Investment in joint ventures

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

Deferred financing fees

Deferred financing fees represent costs incurred related to the issuance of New Market Tax Credit notes payable. Unamortized costs are presented as a direct reduction from the face amount of the debt on the balance sheet. Amortization of those costs is provided on the straight-line method over the remaining term of the applicable indebtedness (3 - 29 years). Amortization expense for the years ended June 30, 2020 and 2019 was \$67,348 and \$36,294, respectively.

Deferred revenue

Deferred revenue represents revenues received in advance of satisfaction of performance obligations.

Revenue and revenue recognition

PHFH recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. 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 met.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

A portion of the PHFH's revenue is derived from federal, state county, and city agencies contracts and grants, which are conditioned upon certain performance obligations and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when PHFH has incurred expenditures in compliance with specific contract or grant provisions. Amounts received on cost reimbursement grants, prior to incurring qualifying expenditures, are reported as refundable advances in the balance sheet. Under the terms of funding agreements with various governmental agencies, all reported expenditures are subject to audit and acceptance by the funding agencies. In the opinion of management, adjustments, if any, resulting from future audits, should not have a material effect on the PHFH's financial position or changes in its net assets.

PHFH's recognizes revenue from special events when the event takes place. Amounts received prior to the commencement of the events, including deposits, are deferred to the applicable period.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition (continued)

Revenue from sales of houses is recognized when the risk of ownership has transferred to the new homeowners.

ReStore sales revenues are recognized at the point of sale with the customer.

PHFH has adopted Accounting Standards Update No. 2018-08 Not for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958); and, No. 2014-09 Revenue from Contracts with Customers (Topic 606) as management believes the standards improve the usefulness and understandability of PHFH's financial reporting.

Analysis of various provisions of these standards resulted in no significant change in the way PHFH recognizes revenue, with the exception of certain government grants which had previously been treated as without donor restriction. These amounts have been reclassified as with donor restriction in the amount of \$798,196 for the year ended June 30, 2019. Since they were cost reimbursement grants, the same amounts were released as of June 30, 2019. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Donated services

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 typically be purchased if not provided by donation. Donated materials and services are recorded as contributions at their estimated fair value at the date of donation.

Numerous volunteers donate their time to PHFH program services and fundraising activities during the year. These services are not reflected in the consolidated financial statements since these services do not require specialized skills. Volunteers worked approximately 12,200 and 20,400 hours for the years ended June 30, 2020 and 2019, respectively.

Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as time and effort and square footage.

Reclassifications

Certain amounts in the fiscal year 2019 financial statements have been reclassified to conform to the fiscal year 2020 financial statement presentation.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of significant accounting policies (continued)

Income taxes

PHFH is a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. PHFH has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. PHFH has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

ReStore is a single member LLC of PHFH, and as such is not required to file a tax return.

3. Risk and uncertainties

Financial instruments that potentially subject PHFH to credit risk consist principally of cash and cash equivalents, mortgages receivable, and grants and other receivables. PHFH maintains its cash and cash equivalents in bank deposit accounts and money market accounts, the balances of which, at times, may exceed federally insured limits. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions. Concentration of credit risk with respect to mortgages receivable is reduced since PHFH holds the trust deeds as security on the mortgages. Concentration of credit risk with respect to grants and other receivables is limited due to the fact that the grants and other receivables are mainly derived from governmental agencies and have short payment periods.

PHFH has reviewed its operations in light of the COVID-19 pandemic. Based on that review, it does not anticipate that the COVID-19 pandemic will have a material impact on its operations. However, events surrounding the Federal and State responses to the COVID-19 virus, and changes to those responses could change that analysis, and that change could be material.

4. Availability and liquidity

The following represents PHFH's financial assets at June 30, 2020:

Financial assets at year end

Cash and cash equivalents	\$ 3,018,984
Mortgages receivable, one year or less	127,905
Grants and other receivables, one year or less	<u>36,727</u>
Total financial assets	<u>3,183,616</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,183,616</u>

PHFH's goal is generally to maintain financial assets to meet 90 days of operating expenses, net of kind (approximately \$1,500,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

PHFH also has lines of credits available to meet short-term needs. See Note 9 for information about these arrangements.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

5. Mortgages receivable

Mortgages receivable consists of non-interest bearing mortgages that are collateralized by the houses. Mortgages on houses sold during the years ended June 30, 2020 and 2019 were discounted at the HFHI stipulated interest rate of 7.38% and 7.66%, respectively.

	<u>2020</u>	<u>2019</u>
Face value of mortgages	\$ 5,371,584	\$ 5,051,649
Less unamortized discount	<u>1,964,470</u>	<u>1,813,423</u>
Mortgages receivable, net	<u>\$ 3,407,114</u>	<u>\$ 3,238,226</u>

A provision for impairment of loans has not been recorded since PHFH holds the trust deeds as security on the mortgages.

6. Property, land, and equipment

Property, land, and equipment consist of the following:

	<u>2020</u>	<u>2019</u>
Building, land, and improvements	\$ 460,380	\$ 460,380
Construction equipment	49,877	52,773
Furniture and equipment	8,343	21,552
Vehicles	<u>62,616</u>	<u>55,866</u>
	581,216	590,571
Less accumulated depreciation	<u>232,271</u>	<u>209,738</u>
	<u>\$ 348,945</u>	<u>\$ 380,833</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$38,638 and \$36,940, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Investments in joint ventures

In December 2013, PHFH entered into a joint venture agreement, along with two other Habitat Affiliates, with NFH Northeast 1 Leverage Lender, LLC ("Joint Venture") in order to receive funding from Citibank (CITI) to financially assist PHFH and the two Habitat Subsidiaries with building new low-income housing in the neighborhoods they individually serve. CITI contributed these funds to PHFH and two Habitat Affiliates in order to take advantage of New Market Tax Credits (NMTC). PHFH transferred property, with an aggregate value of \$2,535,500, as an initial capital contribution to obtain a 44.70% ownership interest in the joint venture. In addition to investing in the joint venture, PHFH was able to secure a 30 year loan payable in the amount of \$3,504,640 with CITI NMTC Subsidiary XVI, LLC (a community development entity). See Note 11 for details on the loan. In July 2020, the Joint Venture had the ability to exercise a put option, which would enable PHFH to terminate this transaction. PHFH has started the process and expects the total amount of the loan to be forgiven within fiscal year 2021.

In April 2018, PHFH 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 PHFH and the four Habitat Subsidiaries with building new low-income housing in the neighborhoods they individually serve. USBCDC contributed these funds to PHFH and four Habitat Affiliates in order to take advantage of New Market Tax Credits (NMTC). PHFH 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 PHFH was able to secure a 30 year loan payable in the amount of \$1,892,285 with HFHI NMTC SUB-CDE III, LLC (a community development entity). See Note 11 for details on the loan. In April 2025, the Joint Venture has the ability to exercise a put option, which would enable PHFH to terminate this transaction and extinguish its debt.

In January 2020, PHFH 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 PHFH and HHC with rehabilitation and/or construction of certain single-family residences located within a Qualified Census Tract. USBCDC contributed these funds to PHFH and HHC in order to take advantage of New Market Tax Credits (NMTC). PHFH 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, PHFH 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). See Note 11 for details on the loan. In January 2027, the Joint Venture has the ability to exercise a put option, which would enable PHFH to terminate this transaction and extinguish its debt.

Under the terms of each new market tax credit joint ventures, the PHFH is required to build one home per year in the City of Paterson during the compliance period of each transaction.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Investments in joint ventures (continued)

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

	<u>2020</u>	<u>2019</u>
Balance at July 1	\$ 3,805,207	\$ 3,818,055
Income from investment in joint venture	76,625	25,352
Distributions received from joint venture	(89,473)	(38,200)
New joint venture investment	<u>3,730,770</u>	
Balance at June 30	<u>\$ 7,523,129</u>	<u>\$ 3,805,207</u>

8. Refundable advance – Paycheck Protection Program

On April 20, 2020, the PHFH was granted a loan in the amount of \$400,000 pursuant to the Paycheck Protection Program (the PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES ACT”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and related interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

PHFH’s has determined the PPP to be conditional contribution and as such it has recorded the proceeds of the loan as a refundable advance and has not included it in revenues as of June 30, 2020. PHFH will not recognize income until all conditions are met and the loan is fully forgiven by the Small Business Administration (SBA). Any unforgiven portion of the PPP loan would be payable over two years at an interest rate of 1% and would mature on April 01, 2022. The application for forgiveness has not yet been made available by PHFH’s lending institution. At the time of the issuance of this report, PHFH believes that they will meet the requirements resulting in full forgiveness of the PPP loan.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

9. Lines of credit

Lines of credit consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
<p>PHFH 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 PHFH. Interest is payable monthly at the bank's prime rate less 2.00% not to fall below 4.00%. The effective interest rate as of June 30, 2020 and 2019 was 5.125% and 5.50%, respectively. The line of credit matures in November 2020.</p>	\$ 500,000	\$
<p>PHFH has an available unsecured line of credit with Valley National Bank in the amount of \$500,000. Interest is payable monthly at the bank's prime rate as published in the Wall Street Journal. The effective interest rate as of June 30, 2020 and 2019 was 5.125% and 6.375%, respectively. The line of credit expires in January 2021.</p>		
<p>PHFH has an available unsecured line of credit with Columbia Bank (formerly Atlantic Stewardship Bank) in the amount of \$750,000. Interest is payable monthly at the bank's prime rate as published in the Wall Street Journal. The effective interest rate as of June 30, 2020 and 2019 was 4.00% and 6.00%, respectively. The line of credit matures in November 2020.</p>	<u>750,000</u>	<u> </u>
<p>Lines of credit</p>	<u>\$ 1,250,000</u>	<u>\$</u>
<p>Amount available and unused</p>	<u>\$ 500,000</u>	<u>\$</u>

10. Secured disaster loan payable

On June 14, 2020, PHFH entered into a secured disaster loan with the SBA in the amount of \$150,000. Monthly payment of \$641, including principal and interest, will begin twelve months from the date of the promissory note. The loan will accrue interest at a rate of 2.75%. The balance of principal and interest will be payable in thirty years from the date of the promissory note.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

11. Notes payable

Notes payable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable due to a community development entity (HFHI NMTC SUB-CDE III, 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 PHFH 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. Under the terms of the put option agreement, HFHI NMTC Leverage Lender 2018, LLC, is expected to purchase the ownership interest. Exercise of the option will effectively allow PHFH to extinguish its outstanding debt owed to HFHI NMTC SUB-CDE III, LLC. The value of the put option is not material to the consolidated financial statements and therefore is not recorded in the books and records. (See Note 7)	\$ 1,892,285	\$ 1,892,285
Note payable due to a community development entity (Citi NMTC Subsidiary XVI, LLC). Debt requires interest only payments until June 2020 at 1.03%. The loan matures in January 2043. The loan is secured by substantially all the assets acquired by PHFH 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 July 2020. Under the terms of the put option agreement, HFH Northeast 1 Leverage Lender, LLC (Joint Venture), is expected to purchase the ownership interest. At the date of this report, PHFH expects the Joint Venture to exercise the put option within the fiscal year 2021. Exercise of the option will effectively allow PHFH to extinguish its outstanding debt owed to HFH NMTC Investment Fund, LLC. The value of the put option is not material to the consolidated financial statements and therefore is not recorded in the books and records. (See Note 7)	3,504,640	3,504,640
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 PHFH 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. Under the terms of the put option agreement, Twain Investment Fund 452, LLC, is expected to purchase the ownership interest. Exercise of the option will effectively allow PHFH to extinguish its outstanding debt owed to NJCC CDE Robeson, LLC. The value of the put option is not material to the consolidated financial statements and therefore is not recorded in the books and records. (See Note 7)	5,200,000	
Unamortized deferred financing fees	<u>(890,256)</u>	<u>(345,288)</u>
Notes payable	<u>\$ 9,706,669</u>	<u>\$ 5,051,637</u>

No annual principal payments are due during the next five years and in total thereafter under the aforementioned borrowings.

Interest expense for the years ended June 30, 2020 and 2019 was \$130,002 and \$61,788, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

12. Sale of mortgages

During the year ended June 30, 2020, PHFH sold mortgages to a local financial institution for 100% of the outstanding face value of \$333,467; therefore, there was no loss recognized on the transaction. The sale of mortgages resulted in the reversal of \$249,728 of previously recorded mortgage discount expense. The \$249,728 is included in mortgage loan discount amortization revenue in the consolidated statement of activities and changes in net assets.

There were no sales of mortgages for the year ended June 30, 2019.

13. Retirement plan

During the year ended June 30, 2018, PHFH established a defined contribution 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 PHFH will match 4% of an employee's annual compensation while they are actively contributing to the plan. Employees are vested upon three years of service. Total retirement plan contributions for the years ended June 30, 2020 and 2019 amounted to \$49,119 and \$46,764, respectively.

14. Commitments

Operating lease

In August 2018, PHFH amended the existing lease for an operating facility in Wayne, NJ for the PHFH ReStore. The lease was extended for five additional years through March 31, 2024. Under the conditions of the lease agreement, PHFH is responsible for its monthly rent and its pro-rata share of the property's real estate taxes and operating expenses. Total rent and common area maintenance charges paid for the years ended June 30, 2020 and 2019 was \$271,077 and \$251,937, respectively.

Future minimum lease payments for the remaining term of the lease are as follows:

Year ending June 30:	
2021	\$ 278,000
2022	278,000
2023	278,000
2024	<u>208,500</u>
	<u>\$ 1,042,500</u>

Contract agreement

On January 31, 2020, PHFH entered into a master services agreement to produce and install eight modular houses in Paterson, New Jersey. The agreement sets an original sum of \$1,020,896. PHFH has made an advance payment of \$192,819, which is recorded in prepaid expenses as of June 30, 2020. Project is expected to be completed by fiscal year 2022.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

15. Fundraising events

PHFH sponsored several events during the year ended June 30, 2020 and 2019 to raise additional funds for its activities. The events and the net income derived are as follows:

	2020		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Annual dinner and journal	\$ 19,264	\$ 11,407	\$ 7,857
Corporate challenge	215,746	13,631	202,115
Other special events	<u>28,420</u>	<u>14,259</u>	<u>14,161</u>
	<u>\$ 263,430</u>	<u>\$ 39,297</u>	<u>\$ 224,133</u>
	2019		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Annual dinner and journal	\$ 63,142	\$ 22,813	\$ 40,329
Corporate challenge	320,294	55,459	264,835
Other special events	<u>51,387</u>	<u>6,071</u>	<u>45,316</u>
	<u>\$ 434,823</u>	<u>\$ 84,343</u>	<u>\$ 350,480</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

16. Net assets

Net assets were as follows for the years ended June 30:

	2020			2019		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Undesignated	\$5,323,248	\$	\$5,323,248	\$5,799,877	\$	\$5,799,877
Hamilton 7 & Beyond					712,714	712,714
Total net assets	<u>\$5,323,248</u>	<u>\$</u>	<u>\$5,323,248</u>	<u>\$5,799,877</u>	<u>\$ 712,714</u>	<u>\$6,512,591</u>

Releases from net assets with donor restrictions are as follows at June 30:

Satisfaction of purpose restrictions:	<u>2020</u>	<u>2019</u>
Hamilton 7 & Beyond	\$ 1,177,614	\$
Northside Neighborhood project	345,310	49,969
Fourth ward Paterson project	296,940	748,227
	<u>\$ 1,819,864</u>	<u>\$ 798,196</u>

17. Subsequent events

Subsequent events have been evaluated through October 30, 2020, which is the date the consolidated financial statements were available to be issued. PHFH is not aware of any material subsequent events, except for the following.

On October 9, 2020, PHFH entered into a loan and security agreement with Habitat Mortgage Solutions, LLC (HMS) in the amount of \$500,000 to provide funds for the Harrison 8 project. The loan will bear interest at a rate of 3.40%.

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

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

We have audited, in accordance with the 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 balance sheets as of June 30, 2020, and the related consolidated statements of activities, cash flows and functional expenses, for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 30, 2020. The financial statements of Paterson Habitat ReStore, LLC were not audited in accordance with Government Auditing Standards and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable non-compliance associated with Paterson Habitat ReStore, LLC.

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) to determine the audit 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. 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 result 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 PHFH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey

October 30, 2020