



Paterson

Habitat
for Humanity[®]

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

YEARS ENDED JUNE 30, 2021 AND 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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.

Other Matters:

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2021 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

November 17, 2021

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30,	
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,794,705	\$ 3,101,535
Escrows and security deposits	145,722	139,485
Mortgages receivable, net	3,082,983	3,407,114
Grants and other receivables	149,412	36,727
Prepaid expenses	277,656	268,060
Houses available for sale	1,178,614	1,472,115
Houses under construction	1,349,715	1,844,299
ReStore inventory	102,688	74,316
Property, land, and equipment, net	322,774	348,945
Investment in joint ventures	4,974,713	7,523,129
	<u>4,974,713</u>	<u>7,523,129</u>
Total assets	<u>\$ 13,378,982</u>	<u>\$ 18,215,725</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 465,445	\$ 278,286
Refundable advance - Paycheck Protection Program	337,205	400,000
Refundable advance - Government grant		163,000
Homeowners' deposits	143,375	127,741
Deferred revenue	482,787	816,781
Lines of credit	999,949	1,250,000
Notes payable	7,780,621	9,856,669
	<u>7,780,621</u>	<u>9,856,669</u>
Total liabilities	<u>10,209,382</u>	<u>12,892,477</u>
Net assets:		
Without donor restrictions	2,998,072	5,323,248
With donor restrictions	171,528	
	<u>171,528</u>	<u>5,323,248</u>
Total net assets	<u>3,169,600</u>	<u>5,323,248</u>
Total liabilities and net assets	<u>\$ 13,378,982</u>	<u>\$ 18,215,725</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, 2021		Year ended June 30, 2020	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Support and revenues:				
Private support:				
Contributions and private grants	\$ 832,877	\$ 248,442	\$ 998,374	\$ 464,900
Donated services, property and materials	37,363	150,000	61,306	
Special events, net of expenses of \$46,352 and \$39,297 for 2021 and 2020, respectively	35,953		249,133	
Total private support	906,193	398,442	1,308,813	464,900
Governmental support:				
Federal and state awards		975,881		642,250
Total governmental support		975,881		642,250
Other operating revenues:				
Sale of houses	1,085,641		1,021,001	
Mortgage loan discount amortization	124,975		332,064	
Investment in joint ventures	121,210		76,625	
ReStore sales	1,149,439		823,862	
Rental income	57,031		36,860	
Gain on termination of joint venture	969,587		55,495	
Other	83,349			
Total other operating revenues	3,591,232		2,345,907	
Net assets released from restrictions	1,202,795	(1,202,795)	1,819,864	(1,819,864)
Total support and revenues	5,700,220	171,528	5,474,584	(712,714)
Expenses:				
Program services:				
Housing and community engagement	6,152,074		4,288,783	
ReStore	943,827		909,242	
Total program services	7,095,901		5,198,025	
Supporting services:				
Management and general	754,032		436,914	
Fundraising	175,463		316,274	
Total supporting services	929,495		753,188	
Total expenses	8,025,396		5,951,213	
Change in net assets	(2,325,176)	171,528	(476,629)	(712,714)
Net assets, beginning of year	5,323,248		5,799,877	712,714
Net assets, end of year	\$ 2,998,072	\$ 171,528	\$ 5,323,248	\$ 5,323,248

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,	
	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (2,153,648)	\$ (1,189,343)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	258,707	105,986
Discounts on mortgages receivable, net	860,733	400,775
Write-off of discounts for mortgages sold/repurchased	(57,458)	(249,728)
Transfers to homeowners in return for mortgages	(835,000)	(891,000)
Payments on mortgages from homeowners	248,079	177,873
Sale of mortgages		333,467
Foreclosures/repurchases	107,777	59,725
Investment income in joint ventures	(121,210)	(76,625)
Gain on termination of joint ventures	(969,587)	
Changes in assets and liabilities:		
(Increase) decrease in:		
Escrow and security deposits	(6,237)	(73,584)
Grants and other receivables	(112,685)	235,304
Prepaid expenses	(9,596)	(177,033)
Houses available for sale	293,501	316,480
Houses under construction	494,584	(362,549)
ReStore inventory	(28,372)	16,259
Increase (decrease) in:		
Accounts payable and accrued expenses	187,159	(103,311)
Refundable advance - government grant	(163,000)	163,000
Homeowners' deposits	15,634	58,452
Deferred revenue	(333,994)	287,129
Refundable advance - Paycheck Protection Program	(62,795)	400,000
Net cash used by operating activities	<u>(2,387,408)</u>	<u>(568,723)</u>
Cash flows from investing activities:		
Distributions received from joint venture	133,634	89,473
Investment in joint venture		(3,730,770)
Purchase of property, land and equipment	(5,895)	(6,750)
Net cash provided (used) by investing activities	<u>127,739</u>	<u>(3,648,047)</u>
Cash flows from financing activities:		
Proceeds from line of credit	500,000	1,500,000
Proceeds from notes payable	1,250,000	5,350,000
Debt issuance costs	(2,741)	(612,316)
Repayments on loan payable	(44,369)	
Repayments on line of credit	(750,051)	(250,000)
Net cash provided by financing activities	<u>952,839</u>	<u>5,987,684</u>
Net increase (decrease) in cash and cash equivalents	(1,306,830)	1,770,914
Cash and cash equivalents, beginning of year	<u>3,101,535</u>	<u>1,330,621</u>
Cash and cash equivalents, end of year	<u>\$ 1,794,705</u>	<u>\$ 3,101,535</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Termination of joint venture agreement by exercise of put option	<u>\$ 2,535,568</u>	<u>\$</u>
Cancellation of note payable related to terminated joint venture agreement	<u>\$ 3,504,640</u>	<u>\$</u>
Supplemental Cash Flow Information		
Cash paid for interest	<u>\$ 199,259</u>	<u>\$ 130,002</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, 2021 and 2020

	Program services				Supporting services				Total program and supporting services			
	Housing and Community Engagement		ReStore		Management and general		Fundraising		Total supporting services			
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020		
Salaries and wages	\$ 894,585	\$ 842,465	\$ 394,532	\$ 331,754	\$ 1,289,117	\$ 1,174,219	\$ 285,460	\$ 239,792	\$ 428,050	\$ 368,526	\$ 1,717,167	\$ 1,542,745
Payroll taxes and employee benefits	261,088	226,237	114,512	108,149	375,600	334,386	115,994	96,803	147,577	169,384	523,177	503,770
Total salaries and related expenses	1,155,673	1,068,702	509,044	439,903	1,664,717	1,508,605	401,454	225,537	575,627	537,910	2,240,344	2,046,515
Construction costs	3,320,540	2,194,796			3,320,540	2,194,796					3,320,540	2,194,796
Discounts on mortgages	928,249	483,110			928,249	483,110					928,249	483,110
Facilities expenses	13,249	14,519	349,235	372,095	362,484	386,614	9,460	9,574	9,460	9,574	371,944	396,188
Professional fees	43,515	54,998			43,515	54,998	243	1,695	218,962	97,445	262,477	152,443
Depreciation and amortization	229,679	75,258	761	2,128	230,440	77,386	28,267	28,600	28,267	28,600	258,707	105,986
Interest expense	199,259	130,002			199,259	130,002					199,259	130,002
Office expenses	24,079	14,909			24,079	14,909					109,035	77,261
Real estate taxes	105,326	111,920			105,326	111,920					105,326	111,920
Tithe	100,459	103,013			100,459	103,013					100,459	103,013
Marketing and other expenses			71,790	79,653	71,790	79,653					71,790	79,653
Insurance	32,046	37,556			32,046	37,556					32,046	37,556
Donation pickup expense			12,997	15,463	12,997	15,463					12,997	15,463
Miscellaneous							12,223	17,307	12,223	17,307	12,223	17,307
Total expenses	\$ 6,152,074	\$ 4,288,783	\$ 943,827	\$ 909,242	\$ 7,095,901	\$ 5,198,025	\$ 754,032	\$ 436,914	\$ 929,495	\$ 753,188	\$ 8,025,396	\$ 5,951,213

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, 2021 and 2020

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, 2021 and 2020

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.

Cash and cash equivalents

Cash and cash equivalents consist 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.

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.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. Summary of significant accounting policies (continued)

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	5 - 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.

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 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, 2021 and 2020 was \$226,641 and \$67,348, respectively.

Deferred revenue

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

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. Summary of significant accounting policies (continued)

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 materials 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 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.

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.

Rental revenue from transitional rental units is recorded on a monthly basis equal to an amount based on signed lease agreements.

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 1,343 and 12,200 hours for the years ended June 30, 2021 and 2020, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. Summary of significant accounting policies (continued)

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 2020 financial statements have been reclassified to conform to the fiscal year 2021 financial statement presentation.

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.

During 2020, the outbreak of a novel strain of coronavirus, COVID-19, was declared a Pandemic. The Pandemic did not have an impact on the PHFH until mid-March 2020. In response to the Pandemic, management has modified certain business and workforce practices and implemented new protocols to promote social distancing and enhance health and safety measures in its office. Due to the fluidity of the Pandemic, uncertainties as to its scope and duration, and ongoing changes in the way that governments, businesses and individuals react and respond to the Pandemic, management is unable at this time to predict the Pandemic's future impact on the PHFH.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

4. Availability and liquidity

The following represents PHFH's financial assets at June 30, 2021:

Financial assets at year end

Cash and cash equivalents	\$ 1,794,705
Mortgages receivable, one year or less	195,900
Grants and other receivables, one year or less	<u>149,412</u>
Total financial assets	2,140,017
Less amounts not available to be used within one year	
Net assets with donor restrictions	171,528
Less net assets with purpose restrictions to be met in less than a year	<u>(141,528)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,110,017</u>

PHFH's goal is generally to maintain financial assets to meet 90 days of operating expenses, net of in-kind (approximately \$2,000,000). 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.

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, 2021 and 2020 were discounted at the HFHI stipulated interest rate of 7.23% and 7.38%, respectively.

	<u>2021</u>	<u>2020</u>
Face value of mortgages	\$ 5,850,727	\$ 5,371,584
Less unamortized discount	<u>2,767,744</u>	<u>1,964,470</u>
Mortgages receivable, net	<u>\$ 3,082,983</u>	<u>\$ 3,407,114</u>

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

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

6. Property, land, and equipment

Property, land, and equipment consist of the following:

	<u>2021</u>	<u>2020</u>
Building, land, and improvements	\$ 466,276	\$ 460,380
Construction equipment	49,877	49,877
Furniture and equipment	5,776	8,343
Vehicles	<u>62,616</u>	<u>62,616</u>
	584,545	581,216
Less accumulated depreciation	<u>261,771</u>	<u>232,271</u>
	<u>\$ 322,774</u>	<u>\$ 348,945</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$32,066 and \$38,638, respectively.

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 10 for details on the loan. Embedded in this transaction was a put option feature that was exercised by PHFH in December 2020 that enabled PHFH to terminate the transaction. PHFH surrendered its interest in the joint venture which at the time totaled \$2,535,568 and the loan payable of \$3,504,640 was fully forgiven. As the result of the exercise of the put in option, a gain of \$969,587 was recognized during the year ended June 30, 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 10 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.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

7. Investments in joint ventures (continued)

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 10 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.

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

	<u>2021</u>	<u>2020</u>
Balance at July 1	\$ 7,523,129	\$ 3,805,207
Income from investment in joint venture	121,210	76,625
Distributions received from joint venture	(134,058)	(89,473)
New joint venture investment		3,730,770
Exercise of put option to terminate joint venture	<u>(2,535,568)</u>	
Balance at June 30	<u>\$ 4,974,713</u>	<u>\$ 7,523,129</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 a government grant, and as such it has recorded the proceeds of the loan as a government grant income and has included it in revenues as of June 30, 2021, when all conditions were met and the loan was fully forgiven by the Small Business Administration (SBA). The loan and related interest were forgiven in February 2021.

In January 2021, PHFH was granted a second PPP loan in the amount of \$337,205 pursuant to the Paycheck Protection Program under the CARES Act. Under the terms of this loan, loans could be fully forgiven when used for payroll costs, interest on mortgages, rent and utilities. PHFH intends to use the entire loan amount for qualifying expenses. At the time of the issuance of this report, the application for forgiveness is pending SBA approval. 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, 2021 and 2020

9. Lines of credit

Lines of credit consist of the following at June 30:

	<u>2021</u>	<u>2020</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, 2021 and 2020 was 4.00% and 5.125%, respectively. The line of credit matures in March 1, 2022.</p>	\$ 500,000	\$ 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 was 5.125% for each of the years ending June 30, 2021 and 2020. The line of credit expired in January 2021 and is in the process of being renewed.</p>	499,949	
<p>PHFH had an available unsecured line of credit with Columbia 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 was 4.00%. The line of credit was converted to a term loan on February 22, 2021. (See Note 10.)</p>		<u>750,000</u>
<p>Lines of credit</p>	<u>\$ 999,949</u>	<u>\$ 1,250,000</u>
<p>Amount available and unused</p>	<u>\$ 51</u>	<u>\$ 500,000</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

10. Notes payable

Notes payable consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
<p>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. Subsequent to year end, in July 2021, the loan was increased to \$500,000. (See Note 16.)</p>	\$ 150,000	\$ 150,000
<p>On October 9, 2020, PHFH entered into a loan with the Habitat Mortgage Solutions (HMS) in the amount of \$500,000. The originating affiliate shall pay interest only through the term as long as half of the principal is paid by September 30, 2023. The interest shall be payable in 16 quarterly installments of \$4,250 commencing on the initial payment date and on the last day of each succeeding quarter through maturity date, calculated on the basis of actual days elapsed in a 360-day year from the closing date to the day of the first payment at a rate per annum equal to 3.40%. Each installment shall be applied first to the interest and the balance to the principal. If at least half of the principal balance is not paid by September 30, 2023, the loan will convert to a fully amortizing loan at the term rate subject to HMS at that time.</p>	500,000	
<p>On February 22, 2021, PHFH entered into business loan agreement with Columbia Bank in the amount of \$750,000 at an interest rate of 4.50% per annum based on a year of 360 days. PHFH will pay this loan in 60 payments of \$13,990 payable every 15th of the month, starting March 15, 2021, and all subsequent payments after that with a final payment due on February 15, 2026.</p>	705,631	

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

10. Notes payable (continued)

	<u>2021</u>	<u>2020</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 required 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 was a put option feature that was exercised in December 2020. Under the terms of the put option agreement, HFH Northeast 1 Leverage Lender, LLC (Joint Venture), purchased the ownership interest. Exercise of the option effectively allowed PHFH to extinguish its outstanding debt owed to HFH NMTC Investment Fund, LLC. (See Note 7.)		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.)	<u>5,200,000</u>	<u>5,200,000</u>
Unamortized deferred financing fees	8,447,916 <u>(667,295)</u>	10,746,925 <u>(890,256)</u>
Notes payable	<u>\$ 7,780,621</u>	<u>\$ 9,856,669</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

10. Notes payable (continued)

The following is a schedule of the future minimum principal payments due for the loans as of June 30, 2021:

Year ending June 30:	
2022	\$ 139,110
2023	159,136
2024	415,071
2025	498,836
2026	201,618
Thereafter	<u>7,034,145</u>
	<u>\$ 8,447,916</u>

Interest expense for the years ended June 30, 2021 and 2020 was \$199,259 and \$130,002, respectively.

11. Sale of mortgages

There were no sales of mortgages for the year ended June 30, 2021.

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 was included in mortgage loan discount amortization revenue in the consolidated statement of activities and changes in net assets.

12. 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, 2021 and 2020 amounted to \$49,547 and \$49,119, respectively.

13. 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, 2021 and 2020 was \$280,013 and \$271,077, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

13. Commitments (continued)

Operating lease (continued)

In June 2021, PHFH entered into an agreement to lease additional warehousing space in Little Ferry, NJ. The term is for one year, commencing on August 1, 2021. 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. .

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

Year ending June 30:		
2022	\$	316,390
2023		281,490
2024		<u>208,500</u>
	\$	<u>806,380</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 set 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, 2021. This agreement was terminated subsequent to year end on July 22, 2021. PHFH expects a refund of the advanced payment.

14. Fundraising events

PHFH sponsored several events during the year ended June 30, 2021 and 2020 to raise additional funds for its activities. The events and the net income derived are as follows:

	2021		
	Income	Expenses	Net
Annual dinner and journal	\$ 27,817	\$ 5,500	\$ 22,317
Other special events	<u>54,488</u>	<u>40,852</u>	<u>13,636</u>
	<u>\$ 82,305</u>	<u>\$ 46,352</u>	<u>\$ 35,953</u>
	2020		
	Income	Expenses	Net
Annual dinner and journal	\$ 19,264	\$ 11,407	\$ 7,857
Corporate challenge	215,746	13,631	202,115
Other special events	<u>53,420</u>	<u>14,259</u>	<u>39,161</u>
	<u>\$ 288,430</u>	<u>\$ 39,297</u>	<u>\$ 249,133</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

15. Net assets

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

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Undesignated	\$2,998,072	\$	\$2,998,072	\$5,323,248	\$	\$5,323,248
Lead-Free NJ		96,478	96,478			
George Fernstrom Habitat House Project		75,050	75,050			
Total net assets	<u>\$2,998,072</u>	<u>\$ 171,528</u>	<u>\$3,169,600</u>	<u>\$5,323,248</u>	<u>\$</u>	<u>\$5,323,248</u>

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

Satisfaction of purpose restrictions:	2021	2020
Hamilton 7 & Beyond	\$	\$ 1,177,614
Northside Neighborhood project	575,881	345,310
Paycheck Protection Program	400,000	
Fourth Ward Paterson project		296,940
Lead-Free NJ	5,522	
Affordable Housing Program	25,000	
Passaic Veteran's Project	176,392	
COVID 19 - Grant	20,000	
	<u>\$ 1,202,795</u>	<u>\$ 1,819,864</u>

16. Subsequent events

Subsequent events have been evaluated through November 17, 2021, 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 July 31, 2021, PHFH increased its secured disaster loan with the SBA from \$150,000 to \$500,000. New monthly payment will be \$2,207.

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, 2021, 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 November 17, 2021. 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 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 result of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dorfman Adams Incis, LLC

Saddle Brook, New Jersey

November 17, 2021