



Paterson

Habitat
for Humanity[®]

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

YEARS ENDED JUNE 30, 2022 AND 2021

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Consolidated Financial Statements:	
Balance Sheets	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	7 - 21
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 <i>Government Auditing Standards</i>	22 - 23

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

Opinion

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, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Paterson Habitat for Humanity, Inc. and Subsidiary as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Paterson Habitat for Humanity, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Paterson Habitat for Humanity, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Paterson Habitat for Humanity, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Musis, LLC

Saddle Brook, New Jersey

December 1, 2022

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30,	
	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 6,579,844	\$ 1,794,705
Escrows and security deposits	56,631	145,722
Mortgages receivable, net	1,016,692	3,082,983
Grants and other receivables	824,570	149,412
Prepaid expenses	153,149	277,656
Houses available for sale	1,371,915	1,178,614
Houses under construction	4,093,387	1,349,715
ReStore inventory	141,020	102,688
Property, land, and equipment, net	326,364	322,774
Investment in joint ventures	4,961,865	4,974,713
Total assets	<u>\$ 19,525,437</u>	<u>\$ 13,378,982</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 379,393	\$ 465,445
Refundable advance - Paycheck Protection Program		337,205
Homeowners' deposits	45,504	143,375
Deferred revenue	308,877	482,787
Lines of credit		999,949
Notes payable, net	8,528,462	7,780,621
Total liabilities	<u>9,262,236</u>	<u>10,209,382</u>
Net assets:		
Without donor restrictions	10,184,451	2,998,072
With donor restrictions	78,750	171,528
Total net assets	<u>10,263,201</u>	<u>3,169,600</u>
Total liabilities and net assets	<u>\$ 19,525,437</u>	<u>\$ 13,378,982</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, 2022		Year ended June 30, 2021	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
Support and revenues:				
Public support:				
Contributions and private grants	\$ 6,281,162	\$ 387,649	\$ 6,668,811	\$ 248,442
Donated services, property and materials	25,065		25,065	150,000
Special events, net of expenses of \$2,863 and \$46,352 for 2022 and 2021, respectively	68,797		68,797	
Total public support	6,375,024	387,649	6,762,673	398,442
Governmental support:		1,751,750	1,751,750	975,881
Federal, state, and local awards				
Other revenues:				
Sale of houses	150,000		150,000	1,085,641
Mortgage loan discount amortization	1,546,020		1,546,020	124,975
Investment in joint ventures	109,049		109,049	121,210
ReStore sales	1,019,450		1,019,450	1,149,439
Rental income	47,524		47,524	57,031
Gain on termination of joint venture	(59,259)		(59,259)	969,587
Loss on sales of mortgages	175,667		175,667	83,349
Other				
Total other operating revenues	2,988,451		2,988,451	3,591,232
Net assets released from restrictions	2,232,177	(2,232,177)		(1,202,795)
Total support and revenues	11,595,652	(92,778)	11,502,874	5,700,220
Expenses:				
Program services:				
Housing and community engagement	2,353,825		2,353,825	6,130,680
ReStore	1,029,499		1,029,499	965,221
Total program services	3,383,324		3,383,324	7,095,901
Supporting services:				
Management and general Fundraising	802,892		802,892	754,032
	223,057		223,057	175,463
Total supporting services	1,025,949		1,025,949	929,495
Total expenses	4,409,273		4,409,273	8,025,396
Change in net assets	7,186,379	(92,778)	7,093,601	171,528
Net assets, beginning of year	2,998,072	171,528	3,169,600	5,323,248
Net assets, end of year	\$ 10,184,451	\$ 78,750	\$ 10,263,201	\$ 2,998,072
				\$ 171,528
				\$ 3,169,600

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

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,093,601	\$ (2,153,648)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	135,079	255,868
Discounts on mortgages receivable, net	320,447	860,733
Write-off of discounts for mortgages sold/repurchased	(1,381,584)	(57,458)
Transfers to homeowners in return for mortgages	(150,000)	(835,000)
Payments on mortgages from homeowners	314,632	248,079
Sale of mortgages	2,903,540	
Loss on sales of mortgages	59,259	
Foreclosures/repurchases		107,777
Bad debt expense	3,556	
Investment income in joint ventures	(109,049)	(121,210)
Gain on termination of joint ventures		(969,587)
Changes in assets and liabilities:		
(Increase) decrease in:		
Escrow and security deposits	89,091	(6,237)
Grants and other receivables	(678,714)	(112,685)
Prepaid expenses	124,507	(9,596)
Houses available for sale	(193,301)	293,501
Houses under construction	(2,743,672)	494,584
ReStore inventory	(38,332)	(28,372)
Increase (decrease) in:		
Accounts payable and accrued expenses	(86,052)	187,159
Refundable advance - government grant		(163,000)
Homeowners' deposits	(97,871)	15,634
Deferred revenue	(173,910)	(333,994)
Refundable advance - Paycheck Protection Program	(337,205)	(62,795)
Net cash provided (used) by operating activities	<u>5,054,022</u>	<u>(2,390,247)</u>
Cash flows from investing activities:		
Distributions received from joint venture	121,897	133,634
Purchase of property, land and equipment	(35,200)	(3,056)
Net cash provided by investing activities	<u>86,697</u>	<u>130,578</u>
Cash flows from financing activities:		
Proceeds from line of credit		500,000
Proceeds from notes payable	1,850,000	1,250,000
Debt issuance costs		(2,741)
Repayments on loan payable	(1,205,631)	(44,369)
Repayments on line of credit	(999,949)	(750,051)
Net cash provided (used) by financing activities	<u>(355,580)</u>	<u>952,839</u>
Net increase (decrease) in cash and cash equivalents	4,785,139	(1,306,830)
Cash and cash equivalents, beginning of year	<u>1,794,705</u>	<u>3,101,535</u>
Cash and cash equivalents, end of year	<u>\$ 6,579,844</u>	<u>\$ 1,794,705</u>

Supplemental Schedule of Non-Cash Investing and Financing Activities

Termination of joint venture agreement by exercise of put option	<u>\$</u>	<u>\$ 2,535,568</u>
Cancellation of note payable related to terminated joint venture agreement	<u>\$</u>	<u>\$ 3,504,640</u>

Supplemental Cash Flow Information

Cash paid for interest	<u>\$ 117,907</u>	<u>\$ 199,259</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, 2022 and 2021

	Program services				Supporting services				Total program and supporting services				
	Housing and Community Engagement		ReStore		Total program services		Management and general		Fundraising		Total supporting services		
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	
Salaries and wages	\$ 375,458	\$ 328,244	\$ 412,324	\$ 394,532	\$ 787,782	\$ 722,776	\$ 283,122	\$ 285,460	\$ 167,522	\$ 142,590	\$ 428,050	\$ 1,238,426	\$ 1,150,826
Payroll taxes and employee benefits	100,784	78,105	126,988	114,512	227,772	192,617	98,111	115,994	54,871	31,583	147,577	380,754	340,194
Total salaries and related expenses	476,242	406,349	539,312	509,044	1,015,554	915,393	381,233	401,454	222,393	174,173	575,627	1,619,180	1,491,020
Construction costs	814,320	4,177,603			814,320	4,177,603						814,320	4,177,603
Discounts on mortgages	484,883	928,249			484,883	928,249						484,883	928,249
Facilities expenses	4,070	8,122	382,781	354,362	386,851	362,484	12,178	9,460			9,460	399,029	371,944
Professional fees	148,834	43,515			148,834	43,515	218,936	218,719	243		218,962	367,770	262,477
Depreciation and amortization	104,653	214,317	14,506	13,284	119,159	227,601	15,920	28,267			28,267	135,079	255,868
Interest expense	117,907	123,188			117,907	123,188						117,907	123,188
Office expenses	26,556	19,839			26,556	19,839			664	1,047	84,956	187,437	104,795
Real estate taxes	115,926	105,326			115,926	105,326						115,926	105,326
Title	58,413	100,459			58,413	100,459						58,413	100,459
Marketing and other expenses			71,213	72,204	71,213	72,204						71,213	72,204
Insurance	2,021	3,713	21,687	16,327	2,021	3,713						2,021	3,713
Donation pickup expense							3,556					3,556	
Bad debt expense							10,852	12,223				10,852	12,223
Miscellaneous													
Total expenses	\$ 2,353,825	\$ 6,130,680	\$ 1,029,499	\$ 965,221	\$ 3,383,324	\$ 7,095,901	\$ 802,892	\$ 754,032	\$ 223,057	\$ 175,463	\$ 929,495	\$ 4,409,273	\$ 8,025,396

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, 2022 and 2021

1. Nature of the Organization

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

Since 1984, PHFH has completed 286 new homes and 40 home rehabs in the City of Paterson, providing safe stable affordable housing to over 320 families. Families and individuals in need of a hand up partner with PHFH to build or improve a place they can call home. Through the merger of affordable home ownership and community redevelopment efforts, PHFH works to revitalize distressed neighborhoods and create communities people want to call home. In 2012, PHFH opened its ReStore in Wayne, NJ. In 2022, PHFH broke ground on its first project outside of Paterson, a mixed-use development in the City of Passaic, and also launched a critical repair program as part of its Northside Neighborhood Revitalization efforts.

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). ReStore is a wholly-owned subsidiary of PHFH. All material intercompany balances and transactions have been eliminated in consolidation.

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. PHFH did not have net assets with donor restrictions that are perpetual in nature as of June 30, 2022 and 2021.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

2. Summary of significant accounting policies (continued)

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 PHFH's 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 when the terms of the grants have been met and are recorded in federal, state, and local awards on the consolidated statement 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, 2022 and 2021

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 costs related to land and development, material, labor, equipment, supplies, and tools. These costs are recorded as houses under construction on the consolidated balance sheets as they are incurred. When homes are sold, the corresponding costs are then expensed in the consolidated statement 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 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 - 10 years

Donations of property, land, and equipment are recorded as contributions at the fair value of the asset, at the date of the gift.

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 statement 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, 2022 and 2021 was \$103,472 and \$226,641, 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, 2022 and 2021

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.

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, and local government entities contracts and grants, which are conditioned upon certain program 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 revenues are recognized at the point of sale with the customer.

Income from rental properties 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 3,344 and 1,343 hours for the years ended June 30, 2022 and 2021, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

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.

Reclassifications

Certain amounts in the fiscal year 2021 financial statements have been reclassified to conform to the fiscal year 2022 financial statements 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.

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 ongoing response to the Pandemic, management continues to monitor and modified certain business, workforce, and volunteer practices, implementing new protocols as necessary to promote and enhance health and safety measures in its offices, construction sites, and ReStore. 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 PHFH.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

4. Availability and liquidity

The following represents PHFH's financial assets at June 30, 2022:

Financial assets at year end

Cash and cash equivalents	\$ 6,579,844
Mortgages receivable, one year or less	118,066
Grants and other receivables, one year or less	<u>824,570</u>
Total financial assets	7,522,480
Less amounts not available to be used within one year	
Net assets with donor restrictions	78,750
Less net assets with purpose restrictions to be met in less than a year	<u>(78,750)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,522,480</u>

PHFH's goal is generally to maintain financial assets to meet 90 days of operating expenses, net of in-kind donations (approximately \$1,096,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

During fiscal year 2022, PHFH received a significant donation in the amount of \$4,500,000, which is not expected to be received in future years. See Note 17.

PHFH also has \$1,000,000 of lines of credit available to meet short-term needs. See Note 10 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, 2022 and 2021 were discounted at the HFH stipulated interest rate of 7.49% and 7.23%, respectively.

	<u>2022</u>	<u>2021</u>
Face value of mortgages	\$ 2,723,300	\$ 5,850,727
Less unamortized discount	<u>1,706,608</u>	<u>2,767,744</u>
Mortgages receivable, net	<u>\$ 1,016,692</u>	<u>\$ 3,082,983</u>

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

During fiscal year 2022, PHFH sold mortgages to a local financial institution for a 2% discount of the outstanding face value of \$2,962,796. See Note 12.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

6. Property, land, and equipment

Property, land, and equipment consist of the following:

	<u>2022</u>	<u>2021</u>
Buildings, land, and improvements	\$ 490,986	\$ 466,276
Construction equipment	49,877	49,877
Furniture and equipment	8,798	5,776
Vehicles	<u>72,466</u>	<u>62,616</u>
	622,127	584,545
Less accumulated depreciation	<u>295,763</u>	<u>261,771</u>
	<u>\$ 326,364</u>	<u>\$ 322,774</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$33,992 and \$32,066, 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 11 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 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.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

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 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 a low income census tract during the compliance period of each transaction.

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

	<u>2022</u>	<u>2021</u>
Balance at July 1	\$ 4,974,713	\$ 7,523,129
Income from investment in joint venture	109,049	121,210
Distributions received from joint venture	(121,897)	(134,058)
Exercise of put option to terminate joint venture		<u>(2,535,568)</u>
Balance at June 30	<u>\$ 4,961,865</u>	<u>\$ 4,974,713</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. The loan and related interest were fully forgiven in June 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. The loan and related interest were fully forgiven on December 17, 2021.

PHFH’s has determined the PPP to be government grants, and, as such, has recorded the proceeds of the loans as government grant income and has included them in revenues as of June 30, 2022 and 2021, respectively, when all conditions were met and the loans were fully forgiven by the Small Business Administration (SBA).

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

9. Employee retention credit

The CARES Act had a provision within for an employee retention credit (ERC), which is a refundable credit against certain employment taxes. The legislation provides for a tax credit of 50% on qualified wages, up to \$10,000 per employee, paid between March 13, 2020 through December 31, 2020. Therefore, the maximum credit that can be claimed by an eligible employer is \$5,000 per employee.

The ERC, as it existed under the CARES Act, was not available to those who received a PPP loan. The Consolidated Appropriations Act of 2021 extended and expanded the availability of the ERC by removing the PPP barrier to allow organizations to qualify to retroactively for ERC's as long as the same wages were not used for both PPP forgiveness and the calculation of qualified wages for the ERC. This new legislation amended the ERC to be equal to 70% of qualified wages paid to employees after December 31, 2020 and before September 30, 2021. During calendar year quarters in 2021, a maximum of \$10,000 in qualified wages for each employee per qualifying calendar quarter may be counted in determining the 70% credit. Therefore, the maximum tax credit that can be claimed by an eligible employer is \$7,000 per employee per qualifying calendar quarter of 2021.

PHFH believes it has met the eligibility requirements to claim the credits for calendar year 2020 quarters two; and quarter one, two and three of calendar year 2021, and in accordance with Subtopic 958-605, recognized \$745,947 as government grant income during the year ended June 30, 2022.

Laws and regulations on the CARES Act are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge PHFH's claim to the ERC and it is not possible to determine the impact (if any) this would have upon PHFH. However, in the opinion of management, adjustments, if any, resulting from future audits, should not have a material impact on PHFH's financial position or changes in its net assets.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

10. Lines of credit

Lines of credit consist of the following at June 30:

	<u>2022</u>	<u>2021</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, 2022 and 2021 was 5.5% and 4%, respectively. The line of credit matures on November 1, 2023.</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 was 6.125% and 5.125% as of June 30, 2022 and 2021, respectively. The line of credit matures in February 2023.</p>	<u> </u>	<u>499,949</u>
Lines of credit	<u>\$</u>	<u>\$ 999,949</u>
Amount available and unused	<u>\$ 1,000,000</u>	<u>\$ 51</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

11. Notes payable

Notes payable consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
On June 14, 2020, PHFH entered into a secured disaster loan with the SBA in the amount of \$150,000. During fiscal year 2022, the loan was increased to \$2,000,000. Monthly payments of \$8,662 began in May 2022. The loan accrues interest at a rate of 2.75%. Loan matures in June 2050.	\$ 2,000,000	\$ 150,000
On October 9, 2020, PHFH entered into a loan with the Habitat Mortgage Solutions (HMS) in the amount of \$500,000. Loan was paid off in April 2022.		500,000
On February 22, 2021, PHFH entered into a business loan agreement with Columbia Bank in the amount of \$750,000. Loan was paid off in April 2022.		705,631

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

11. Notes payable (continued)

	<u>2022</u>	<u>2021</u>
<p>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.)</p>	\$ 1,892,285	\$ 1,892,285
<p>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.)</p>	<u>5,200,000</u>	<u>5,200,000</u>
Unamortized deferred financing fees	<u>9,092,285</u> <u>(563,823)</u>	<u>8,447,916</u> <u>(667,295)</u>
Notes payable	<u>\$ 8,528,462</u>	<u>\$ 7,780,621</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

11. Notes payable (continued)

The following is a schedule of the future minimum principal payments due for the loans as of June 30, 2022:

Year ending June 30:	
2023	\$ 47,408
2024	48,952
2025	50,360
2026	128,093
2027	130,103
Thereafter	<u>8,687,369</u>
	<u>\$ 9,092,285</u>

Interest expense for the years ended June 30, 2022 and 2021 was \$128,719 and \$199,259, respectively.

12. Sale of mortgages

During the year ended June 30, 2022, PHFH sold mortgages to a local financial institution for 2% discount of the outstanding face value of \$2,962,796; resulting in a loss of \$59,259 recognized on the transaction. The sale of mortgages resulted in the reversal of \$1,381,584 of previously recorded mortgage discount expense. The \$1,381,584 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, 2021.

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, 2022 and 2021 amounted to \$55,916 and \$49,547, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

14. Commitments

Operating lease

In August 2018, PHFH amended the existing lease for an operating facility in Wayne, NJ for the ReStore. The lease expires in 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, 2022 and 2021 was \$276,183 and \$280,013, respectively.

In June 2021, PHFH entered into an agreement to lease warehousing space in Little Ferry, NJ for the ReStore. The lease expires in November 2023. 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:		
2023	\$	320,860
2024		<u>226,650</u>
	\$	<u>547,510</u>

15. Fundraising events

PHFH sponsored several events during the years ended June 30, 2022 and 2021 to raise additional funds for its activities. The events and the net income derived are as follows:

	2022		
	Revenue	Expenses	Net
Annual dinner and journal	\$ 64,153	\$	\$ 64,153
Other special events	<u>7,507</u>	<u>2,863</u>	<u>4,644</u>
	<u>\$ 71,660</u>	<u>\$ 2,863</u>	<u>\$ 68,797</u>
	2021		
	Revenue	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>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

16. Net assets

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

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Undesignated	\$10,184,451	\$	\$10,184,451	\$2,998,072	\$	\$2,998,072
Lead-Free NJ		48,750	48,750		96,478	96,478
Clinton Street Park House Project		30,000	30,000			
George Fernstrom Habitat House Project					75,050	75,050
Total net assets	\$10,184,451	\$ 78,750	\$10,263,201	\$2,998,072	\$ 171,528	\$3,169,600

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

Satisfaction of purpose restrictions:

	2022	2021
Northside Neighborhood Plan	\$ 660,495	\$ 575,881
Paycheck Protection Program	337,205	400,000
Employee Retention Credit	745,947	
Lead-Free NJ	85,830	5,522
Affordable Housing Program	50,000	25,000
135 Summer St., Passaic	45,395	176,392
George Fernstrom Habitat House Project Construction Program	131,205	
COVID 19 - Grant	92,000	20,000
Other	84,100	
	\$ 2,232,177	\$ 1,202,795

17. Significant sources of support

During the year ended June 30, 2022, PHFH received \$4,500,000 which represents approximately 39% of its total support and revenue from one donor.

18. Subsequent events

Subsequent events have been evaluated through December 1, 2022, which is the date the consolidated financial statements were available to be issued. PHFH is not aware of any material subsequent events.

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, 2022, 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 December 1, 2022. 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.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Paterson Habitat for Humanity, Inc.'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.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Paterson Habitat for Humanity, Inc.'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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paterson Habitat for Humanity, Inc.'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 Paterson Habitat for Humanity, Inc.'s internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Doyleman Adams Incis, LLC

Saddle Brook, New Jersey

December 1, 2022