



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

YEARS ENDED JUNE 30, 2019 AND 2018

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Balance Sheets	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 19
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>	20 - 21

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, 2019 and 2018, 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, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, in 2018 the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*.

Other Matters:

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2019 on our consideration of Paterson Habitat for Humanity, Inc. and Subsidiary'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. and Subsidiary'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. and Subsidiary's internal control over financial reporting and compliance.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey

November 11, 2019

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30,	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,240,072	\$ 2,217,786
Escrows and security deposits	156,450	196,969
Mortgages receivable, net	3,238,226	2,156,703
Grants and other receivables	272,031	201,477
Prepaid expenses	91,027	81,745
Houses available for sale	1,820,771	1,837,382
Houses under construction	1,481,750	2,065,741
ReStore inventory	58,399	74,589
Property, land, and equipment, net	380,833	305,962
Investment in joint ventures	3,805,207	3,818,055
	<u>3,805,207</u>	<u>3,818,055</u>
Total assets	<u>\$ 12,544,766</u>	<u>\$ 12,956,409</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 381,597	\$ 267,622
Tithe payable		30,947
Deferred revenue	598,941	232,437
Notes payable	5,051,637	5,009,636
	<u>5,051,637</u>	<u>5,009,636</u>
Total liabilities	<u>6,032,175</u>	<u>5,540,642</u>
Net assets:		
Without donor restrictions	5,799,877	7,415,767
With donor restrictions	712,714	
	<u>712,714</u>	<u>7,415,767</u>
Total net assets	<u>6,512,591</u>	<u>7,415,767</u>
Total liabilities and net assets	<u>\$ 12,544,766</u>	<u>\$ 12,956,409</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, 2019			Year ended June 30, 2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenues:						
Private support:						
Contributions and private grants	\$ 697,796	\$ 712,714	\$ 1,410,510	\$ 826,171	\$	\$ 826,171
Donated services and materials	106,910		106,910	93,266		93,266
Special events, net of expenses of \$84,343 and \$59,972 for 2019 and 2018, respectively	350,480		350,480	306,651		306,651
Total private support	1,155,186	712,714	1,867,900	1,226,088		1,226,088
Governmental support:						
Federal and state awards	798,196		798,196	668,845		668,845
Total governmental support	798,196		798,196	668,845		668,845
Other operating revenues:						
Sale of houses	1,428,000		1,428,000	2,161,600		2,161,600
Mortgage loan discount amortization	57,801		57,801	539,979		539,979
Investment in joint ventures	38,200		38,200	115,116		115,116
ReStore sales	1,018,389		1,018,389	1,027,079		1,027,079
Gain on termination of joint venture				555,593		555,593
Other	83,826		83,826	9,003		9,003
Total other operating rev	2,626,216		2,626,216	4,408,370		4,408,370
Total support and revenues	4,579,598	712,714	5,292,312	6,303,303		6,303,303
Expenses:						
Program services:						
Housing and community engagement	4,570,310		4,570,310	6,189,190		6,189,190
ReStore	796,992		796,992	725,804		725,804
Total program services	5,367,302		5,367,302	6,914,994		6,914,994
Supporting services:						
Management and general	508,597		508,597	433,099		433,099
Fundraising	319,589		319,589	306,931		306,931
Total supporting services	828,186		828,186	740,030		740,030
Total expenses	6,195,488		6,195,488	7,655,024		7,655,024
Change in net assets	(1,615,890)	712,714	(903,176)	(1,351,721)		(1,351,721)
Net assets, beginning of year	7,415,767		7,415,767	8,767,488		8,767,488
Net assets, end of year	\$ 5,799,877	\$ 712,714	\$ 6,512,591	\$ 7,415,767	\$	\$ 7,415,767

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,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (903,176)	\$ (1,351,721)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	73,234	97,533
Gain on termination of joint venture		(555,593)
Amortization of discounts on mortgages receivable, net	656,855	603,098
Write-off of discounts for mortgages sold		(480,884)
Transfers to homeowners in return for mortgages	(1,942,240)	(2,161,600)
Payments on mortgages from homeowners	203,862	189,036
Sale of mortgages		735,724
Loss on sale of mortgages		81,747
Investment income in joint ventures	(25,352)	(110,264)
Changes in assets and liabilities:		
(Increase) decrease in:		
Escrow and security deposits	40,519	(99,433)
Grants and other receivables	(70,554)	210,182
Prepaid expenses	(9,282)	8,763
Houses available for sale	16,611	1,903,444
Houses under construction	583,991	146,958
ReStore inventory	16,190	13,063
Increase (decrease) in:		
Accounts payable and accrued expenses	113,975	25,290
Tithe payable	(30,947)	12,418
Deferred revenue	366,504	133,355
Net cash used by operating activities	<u>(909,810)</u>	<u>(598,884)</u>
Cash flows from investing activities:		
Distributions received from joint venture	38,200	46,506
Investment in joint venture		(1,285,056)
Purchase of property, land and equipment	<u>(111,810)</u>	<u>(9,083)</u>
Net cash used by investing activities	<u>(73,610)</u>	<u>(1,247,633)</u>
Cash flows from financing activities:		
Proceeds from loan payable		1,892,285
Reimbursement of debt issuance costs	5,706	
Debt issuance costs		(220,947)
Repayments on notes payable		<u>(3,700)</u>
Net cash provided by financing activities	<u>5,706</u>	<u>1,667,638</u>
Net decrease in cash and cash equivalents	(977,714)	(178,879)
Cash and cash equivalents, beginning of year	<u>2,217,786</u>	<u>2,396,665</u>
Cash and cash equivalents, end of year	<u>\$ 1,240,072</u>	<u>\$ 2,217,786</u>

Supplemental Schedule of Non-Cash Investing and Financing Activities

Termination of joint venture agreement by exercise of put option	<u>\$</u>	<u>\$ 3,202,438</u>
Cancellation of note payable related to terminated joint venture agreement	<u>\$</u>	<u>\$ 3,758,031</u>

Supplemental Cash Flow Information

Cash paid for interest	<u>\$ 61,788</u>	<u>\$ 59,764</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, 2019 and 2018

	Program services						Supporting services						Total program and supporting services	
	Housing and Community Engagement		ReStore		Total program services		Management and general		Fundraising		Total supporting services			
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Salaries and wages	\$ 722,761	\$ 699,455	\$ 284,025	\$ 282,795	\$ 1,006,786	\$ 982,250	\$ 125,881	\$ 141,211	\$ 245,856	\$ 232,582	\$ 371,737	\$ 373,793	\$ 1,378,523	\$ 1,356,043
Payroll taxes and employee benefits	235,897	240,358	103,382	77,444	339,279	317,802	96,369	98,745	70,122	69,110	166,491	167,855	505,770	485,657
Total salaries and related expenses	958,658	939,813	387,407	360,239	1,346,065	1,300,052	222,250	239,956	315,978	301,692	538,228	541,648	1,884,293	1,841,700
Construction costs	2,348,765	4,085,398			2,348,765	4,085,398							2,348,765	4,085,398
Tithe	113,603	136,244			113,603	136,244							113,603	136,244
Office	11,230	13,045			11,230	13,045	64,291	53,511			64,291	53,511	75,521	66,556
Postage	3,364	4,747			3,364	4,747			1,610	4,043	1,610	4,043	4,974	8,790
Telephone and utilities	31,690	24,319			31,690	24,319	16,059	16,778			16,059	16,778	47,749	41,097
Insurance	23,802	28,714			23,802	28,714							23,802	28,714
Real estate taxes	141,260	104,305			141,260	104,305							141,260	104,305
Interest expense	61,788	59,764			61,788	59,764							61,788	59,764
Professional fees	113,991	55,413			113,991	55,413	130,821	91,055	2,001	1,196	132,822	92,251	246,813	147,664
Depreciation and amortization	45,861	74,530	4,077	5,067	49,938	79,597	23,296	17,936			23,296	17,936	73,234	97,533
Discounts on mortgages	714,656	662,193			714,656	662,193							714,656	662,193
Facilities expenses	1,642	705	303,095	296,153	304,737	296,858							304,737	296,858
Marketing and other expenses			83,592	44,305	83,592	44,305							83,592	44,305
Donation pickup expense			18,821	20,040	18,821	20,040							18,821	20,040
Miscellaneous							51,880	13,863			51,880	13,863	51,880	13,863
Total expenses	<u>\$ 4,570,310</u>	<u>\$ 6,189,190</u>	<u>\$ 796,992</u>	<u>\$ 725,804</u>	<u>\$ 5,367,302</u>	<u>\$ 6,914,994</u>	<u>\$ 508,597</u>	<u>\$ 433,099</u>	<u>\$ 319,589</u>	<u>\$ 306,931</u>	<u>\$ 828,186</u>	<u>\$ 740,030</u>	<u>\$ 6,195,488</u>	<u>\$ 7,655,024</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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.

When PHFH began operating in 1984, eligible homeowner incomes were adequate to purchase homes at PHFH's cost. Since the 1990's, PHFH's building costs have increased far more rapidly than the income of eligible homeowners. 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 ten foreclosures in its 30-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.

Beginning in May 2012, PHFH opened the ReStore to sell 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 Paterson Habitat for Humanity, Inc. and Subsidiary 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.

New accounting pronouncement

During fiscal year 2019, the PHFH adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

New accounting pronouncement (continued)

As a result of the adoption of ASU, net assets as of June 30, 2018, were reclassified as follows:

	ASU Classifications		
	Without donor restrictions	With donor restrictions	Total net assets
Net asset classifications			
As previously presented:			
Unrestricted	\$ 7,415,767	\$	\$ 7,415,767
Temporarily restricted			
Permanently restricted			
Total net assets	<u>\$ 7,415,767</u>	<u>\$</u>	<u>\$ 7,415,767</u>

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.

Basis of presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Organization 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 the Organization. These net assets may be used at the discretion of the Organization'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 the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

Measure of operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing services and interest and dividends earned on investments. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Estimates

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

Cash and cash equivalents

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

Escrows and security deposits

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

Sale of houses/mortgages receivable

Sale of houses is recognized when the home is complete and risk of ownership has transferred to the new homeowner. 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, 2019 and 2018

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	15 - 39 years
Construction equipment	5 - 10 years
Furniture and equipment	3 - 10 years
Vehicles	2 - 10 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 New Market Tax Credit notes payable. During the year ended June 30, 2018, PHFH adopted FASB guidance regarding the presentation on the balance sheet of the costs of issuance of debt and related amortization expense in the statement of activities. The new guidance requires presenting such unamortized cost 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, 2019 and 2018 was \$36,294 and \$63,743, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

Deferred revenue

Deferred revenue represents revenues received in advance not yet earned.

Grant revenues, contributions, and restrictions

PHFH receives some of its grant revenues from the federal, state, county, and city agencies. Revenue from grants is recognized upon performance of the granting activity and recognition of the related program expenditures. Amounts received from granting agencies in excess of expenditures incurred to date are recorded as deferred revenue.

Any of the funding sources, may at their discretion perform an audit which could result in the return of funds, as a result of non-compliance by PHFH with the terms of the grant agreements. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

Contributions, including unconditional pledges 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. Conditional pledges are recognized when the conditions on which they depend are substantially met. 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.

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

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 20,325 and 29,840 hours for the years ended June 30, 2019 and 2018, respectively.

Estimates

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

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

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 2018 financial statements have been reclassified to conform to the fiscal year 2019 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. The Organization 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. The Organization 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. Concentrations of credit risk

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.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

4. Availability and liquidity

The following represents the Organization's financial assets at June 30, 2019:

Financial assets at year end

Cash	\$ 1,240,072
Mortgages receivable, one year or less	150,394
Grants and other receivables, one year or less	<u>272,031</u>
Total financial assets	<u>1,662,497</u>

Less amounts not available to be used within one year:

Net assets with donor restrictions	712,714
Less net assets with purpose restrictions to be met in less than a year	<u>(712,714)</u>
	<u>-</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,662,497</u>
---	---------------------

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

The Organization also has lines of credits available to meet short-term needs. See note 8 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, 2019 and 2018 were discounted at the HFHI stipulated interest rate of 7.66% and 7.57%, respectively.

	<u>2019</u>	<u>2018</u>
Face value of mortgages	\$ 5,051,649	\$ 3,313,271
Less unamortized discount	<u>1,813,423</u>	<u>1,156,568</u>
Mortgages receivable, net	<u>\$ 3,238,226</u>	<u>\$ 2,156,703</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, 2019 and 2018

6. Property, land, and equipment

Property, land, and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Building, land, and improvements	\$ 460,380	\$ 407,695
Construction equipment	52,773	64,773
Furniture and equipment	21,552	38,192
Vehicles	<u>55,866</u>	<u>10,775</u>
	590,571	521,435
Less accumulated depreciation	<u>209,738</u>	<u>215,473</u>
	<u>\$ 380,833</u>	<u>\$ 305,962</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$36,940 and \$33,790, respectively.

7. Investments in joint ventures

In November 2010, PHFH entered into a joint venture agreement, along with five other Habitat Affiliates, with HFHI-SA Leverage VII, LLC ("Joint Venture") in order to receive funding from U.S. Bancorp Community Development Corp. (USBCDC) to financially assist PHFH and five other Habitat Affiliates, with building new low-income housing in the neighborhoods they individually serve. USBCDC contributed these funds to PHFH and five Habitat Affiliates in order to take advantage of New Markets Tax Credits (NMTC). PHFH transferred property, with an aggregate value of \$2,824,434, as an initial contribution to obtain a 17.14% ownership interest in the joint venture. In addition to investing in the joint venture, the PHFH was able to secure a 15 year loan payable in the amount of \$3,758,031 with HFHI-SA NMTC IV, LLC (a community development entity). Embedded in this transaction was a put option feature that was exercised by PHFH in January 2018 that enabled PHFH to terminate the transaction. PHFH surrendered its interest in the joint venture which at the time totaled \$3,202,438 and the loan payable of \$3,758,031 was fully forgiven. As a result of the exercise of the put option, a gain of \$555,593 was recognized during the year ended June 30, 2018.

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, the 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). In July 2020, PHFH has the ability to exercise a put option, which would enable PHFH to terminate this transaction or, if the put option is not exercised, PHFH would be fully forgiven of the total amount of the loan payable at the end of the 30 year period.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

7. Investments in joint ventures (continued)

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). In April 2025, PHFH has the ability to exercise a put option, which would enable PHFH to terminate this transaction or, if the put option is not exercised, PHFH would be fully forgiven of the total amount of the loan payable at the end of the 30 year period.

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 for the next seven years.

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

	<u>2019</u>	<u>2018</u>
Balance at July 1	\$ 3,818,055	\$ 5,671,679
Income from investment in joint venture	25,352	110,264
Distributions received from joint venture	(38,200)	(46,506)
New joint venture investment		1,285,056
Exercise of put option to terminate joint venture		(3,202,438)
	<u> </u>	<u> </u>
Balance at June 30	<u>\$ 3,805,207</u>	<u>\$ 3,818,055</u>

8. Lines of credit

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, 2019 and 2018 was 5.50% and 5.00%, respectively. The line of credit matures in December 2019. There were no borrowings against the line during either of the years ended June 30, 2019 or 2018 and there are no commitment fees on unused balances.

PHFH has an available unsecured line of credit with Valley National Bank in the amount of \$500,000. Interest is payable monthly at the bank's prime rate as published in the Wall Street Journal. The effective interest rate as of June 30, 2019 and 2018 was 6.375% and 5.875%, respectively. The line of credit expired in January 2019 and is currently being renewed for another one year term. There were no borrowings against the line during either of the years ended June 30, 2019 or 2018 and there are no commitment fees on unused balances.

PHFH has an available unsecured line of credit with Atlantic Stewardship Bank in the amount of \$750,000. Interest is payable monthly at the bank's prime rate as published in the Wall Street Journal. The effective interest rate as of June 30, 2019 and 2018 was 6.00% and 5.50%, respectively. The line of credit matures in July 2020. There were no borrowings against the line during either of the years ended June 30, 2019 or 2018 and there are no commitment fees on unused balances.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

9. Notes payable

Notes payable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Note payable due to a community development entity (HFHI NMTC SUB-CDE III, LLC). Debt requires interest only payments until April 2025 at .068%. The loan matures in April 2048. The loan is secured by substantially all the assets acquired by PHFH from the project loan proceeds. The note is subject to certain financial and non-financial covenants. Embedded in the note payable agreement is a put option feature that is exercisable in April 2025. Under the terms of the put option agreement, HFHI NMTC Leverage Lender 2018, LLC, is expected to purchase the ownership interest. Exercise of the option will effectively allow PHFH to extinguish its outstanding debt owed to HFHI NMTC SUB-CDE III, LLC. The value of the put option is not material to the consolidated financial statements and therefore is not recorded in the books and records. (See Note 7)	\$ 1,892,285	\$ 1,892,285
Note payable due to a community development entity (Citi NMTC Subsidiary XVI, LLC). Debt requires interest only payments until June 2020 at 1.03%. The loan matures in January 2043. The loan is secured by substantially all the assets acquired by PHFH from the project loan proceeds. The note is subject to certain non-financial covenants. Embedded in the note payable agreement is a put option feature that is exercisable in July 2020. Under the terms of the put option agreement, HFH Northeast 1 Leverage Lender, LLC, is expected to purchase the ownership interest. Exercise of the option will effectively allow PHFH to extinguish its outstanding debt owed to HFH NMTC Investment Fund, LLC. The value of the put option is not material to the consolidated financial statements and therefore is not recorded in the books and records. (See Note 7)	<u>3,504,640</u>	<u>3,504,640</u>
Unamortized deferred financing fees	<u>5,396,925</u> <u>(345,288)</u>	<u>5,396,925</u> <u>(387,289)</u>
Notes payable	<u>\$ 5,051,637</u>	<u>\$ 5,009,636</u>

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

Interest expense for the years ended June 30, 2019 and 2018 was \$61,788 and \$59,764, respectively.

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

10. Sale of mortgages

During the year ended June 30, 2018, PHFH sold mortgages to a local financial institution for 90% of the outstanding face value of \$817,471; therefore, there was a loss of \$81,747 on the transaction. The sale of mortgages resulted in the reversal of \$480,884 of previously recorded mortgage discount expense. The \$480,884 is included in mortgage loan discount amortization revenue in the consolidated statement of activities and changes in net assets.

There were no sale of mortgages during the year ended June 30, 2019.

11. 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, 2019 and 2018 amounted to \$46,764 and \$52,887, respectively.

12. Commitments

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, 2019 and 2018 was \$251,937 and \$252,333, respectively.

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

Year ending June 30:	
2020	\$ 278,000
2021	278,000
2022	278,000
2023	278,000
2024	<u>208,500</u>
	<u>\$ 1,320,500</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

13. Fundraising events

The Organization sponsored several events during the year ended June 30, 2019 and 2018 to raise additional funds for its activities. The events and the net income derived are as follows:

	2019		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Annual dinner and journal	\$ 63,142	\$ 22,813	\$ 40,329
Corporate challenge	320,294	55,459	264,835
Other special events	<u>51,387</u>	<u>6,071</u>	<u>45,316</u>
	<u>\$ 434,823</u>	<u>\$ 84,343</u>	<u>\$ 350,480</u>
	2018		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Annual dinner and journal	\$ 79,281	\$ 20,525	\$ 58,756
Corporate challenge	255,601	31,940	223,661
Other special events	<u>31,741</u>	<u>7,507</u>	<u>24,234</u>
	<u>\$ 366,623</u>	<u>\$ 59,972</u>	<u>\$ 306,651</u>

PATERSON HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

14. Net assets

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

	2019			2018		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Undesignated	\$5,799,877	\$	\$5,799,877	\$7,415,767	\$	\$7,415,767
Hamilton 7 & Beyond		712,714	712,714			
Total net assets	<u>\$5,799,877</u>	<u>\$ 712,714</u>	<u>\$6,512,591</u>	<u>\$7,415,767</u>	<u>\$</u>	<u>\$7,415,767</u>

The Organization ran a campaign during the year called Hamilton 7 & Beyond, to raise funds to accelerate the development of twenty-three affordable housing units and fund community revitalization efforts in the Organization's focus area in the 4th Ward of Paterson, New Jersey. Donations were solicited for these specific purposes from various corporate and individual donors. An amount of \$712,714 was collected during the year and earmarked for this project. As of June 30, 2019, the construction is underway on five of the homes. The program is expected to be completed over the next two fiscal years.

15. Subsequent events

Subsequent events have been evaluated through November 4, 2019, which is the date the consolidated financial statements were available to be issued. The Organization 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, 2019, 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 4, 2019. The financial statements of Paterson Habitat ReStore, LLC were not audited in accordance with Government Auditing Standards and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable non-compliance associated with Paterson Habitat ReStore, LLC.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Dorfman Abrams Incis, LLC

Saddle Brook, New Jersey

November 4, 2019