

**Paterson Habitat for Humanity, Inc. and Subsidiary**

Consolidated Financial Statements

June 30, 2014 and 2013

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Consolidated Financial Statements

June 30, 2014 and 2013

### CONTENTS

	<b>Page</b>
<b>Independent Auditor's Report</b>	1-2
<b>Financial Statements</b>	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statement of Functional Expenses - Current Year	5
Consolidated Statement of Functional Expenses - Prior Year	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-17
<b>Supplementary Information</b>	
Consolidated Schedule of Expenditures of Federal and State Awards	18
Notes to Consolidated Schedule of Federal and State Awards	19
Independent Auditor's 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	20-21
Independent Auditor's Report on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance	22-23
Schedule of Findings and Questioned Costs	24
Schedule of Prior Audit Findings	25



## Independent Auditor's Report

Board of Directors  
Paterson Habitat for Humanity, Inc. and Subsidiary  
[a Non-Profit Organization]

### 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 statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 auditor's 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 Paterson Habitat for Humanity, Inc. and Subsidiary as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Prior Year Auditor

The financial statements of Paterson Habitat for Humanity, Inc. and Subsidiary, as of and for the year ended June 30, 2013, were audited by Sax Macy Fromm & Co., PC, whose practice was consolidated with Bollam, Sheedy, Torani & Co., L.L.P. to form SaxBST LLP as of January 1, 2014 and whose report, dated October 21, 2013, expressed an unmodified opinion on those statements.

**Report on Supplementary Information in Relation to the Consolidated Financial Statements as a Whole**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and New Jersey OMB Circular 04-04, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2014 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 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.

*SaxBST LLP*

Clifton, New Jersey  
October 20, 2014

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Consolidated Statements of Financial Position

	<b>June 30,</b>	
<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 609,726	\$ 232,673
Escrows and security deposits	319,691	194,027
Mortgages receivable, net	2,573,157	2,968,541
Grants and accounts receivable	150,499	180,338
Prepaid expenses	34,660	15,719
Inventory - buildings	1,830,385	2,542,997
Inventory - property development costs	1,188,590	1,852,695
Property and equipment, net	324,579	346,943
Investment in joint ventures	5,501,278	2,908,906
Deferred financing fees, net	356,385	138,313
<b>TOTAL ASSETS</b>	<b>\$ 12,888,950</b>	<b>\$ 11,381,152</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 107,659	\$ 197,751
Tithe payable	65,677	34,427
Escrow payable	144,323	67,904
Deferred revenue	155,019	47,600
Lines of credit	-	1,100,000
Notes payable	7,292,560	3,801,175
Total liabilities	7,765,238	5,248,857
<b>NET ASSETS</b>		
Unrestricted	5,123,712	6,132,295
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 12,888,950</b>	<b>\$ 11,381,152</b>

See accompanying Notes to Consolidated Financial Statements.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Consolidated Statements of Activities and Changes in Net Assets

	<b>Years Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>		
Federal and state awards	\$ 931,859	\$ 1,427,486
Contributions and private grants	604,491	707,437
Donated services and materials	123,330	127,901
Transfers to homeowners	1,575,000	1,120,000
Mortgage loan discount amortization	939,909	202,748
Gain on sale and purchase of mortgages	-	86,367
Special events	308,605	284,470
Less donor received benefit	(12,496)	(13,324)
Loss on Restore operations	(28,845)	(177,480)
Income from investment in joint ventures	97,659	84,912
Other income	73,700	51,404
Net revenues, gains, and other support	<u>4,613,212</u>	<u>3,901,921</u>
<b>EXPENSES</b>		
Program services	5,156,904	3,674,069
Fundraising	212,532	180,266
Management and general	252,359	332,282
Total expenses	<u>5,621,795</u>	<u>4,186,617</u>
<b>NET (DECREASE) IN NET ASSETS BEFORE MORTGAGE DEBT REDUCTION</b>	(1,008,583)	(284,696)
Mortgage debt reduction	<u>-</u>	<u>(1,568,583)</u>
<b>NET (DECREASE) IN NET ASSETS</b>	(1,008,583)	(1,853,279)
<b>NET ASSETS, <i>beginning of year</i></b>	<u>6,132,295</u>	<u>7,985,574</u>
<b>NET ASSETS, <i>end of year</i></b>	<u>\$ 5,123,712</u>	<u>\$ 6,132,295</u>

See accompanying Notes to Consolidated Financial Statements.

## Paterson Habitat for Humanity, Inc. and Subsidiary

### Consolidated Statement of Functional Expenses Year Ended June 30, 2014

	<b>Program Services</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total Expenses</b>
Salaries and wages	\$ 631,907	\$ 128,359	\$ 86,134	\$ 846,400
Payroll taxes and employee benefits	110,587	25,756	21,295	157,638
Subtotal	742,494	154,115	107,429	1,004,038
Construction costs	3,062,228	-	-	3,062,228
Community building	800	-	-	800
Tithe	65,987	-	-	65,987
Office	2,535	-	37,216	39,751
Postage	3,000	10,267	-	13,267
Telephone and utilities	23,157	-	17,739	40,896
Insurance	22,765	-	-	22,765
Real estate taxes	114,368	-	-	114,368
Interest expense	98,225	-	-	98,225
Professional fees	34,059	1,365	59,877	95,301
Depreciation and amortization	48,402	-	16,414	64,816
Discounts on mortgages	938,884	-	-	938,884
Miscellaneous	-	-	13,684	13,684
Special events	-	46,785	-	46,785
	<b>\$ 5,156,904</b>	<b>\$ 212,532</b>	<b>\$ 252,359</b>	<b>\$ 5,621,795</b>
Total functional expenses				

See accompanying Notes to Consolidated Financial Statements.

## Paterson Habitat for Humanity, Inc. and Subsidiary

### Consolidated Statement of Functional Expenses Year Ended June 30, 2013

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and wages	\$ 544,991	\$ 101,234	\$ 113,174	\$ 759,399
Payroll taxes and employee benefits	99,273	21,669	27,332	148,274
Subtotal	<u>644,264</u>	<u>122,903</u>	<u>140,506</u>	<u>907,673</u>
Construction costs	2,029,424	-	-	2,029,424
Community building	4,006	-	-	4,006
Tithe	66,479	-	-	66,479
Office	2,955	-	40,756	43,711
Postage	1,956	7,542	-	9,498
Telephone and utilities	11,474	-	17,733	29,207
Insurance	25,219	-	-	25,219
Real estate taxes	72,106	-	-	72,106
Interest expense	54,565	-	-	54,565
Professional fees	46,678	1,331	103,164	151,173
Depreciation and amortization	31,091	-	19,042	50,133
Discounts on mortgages	683,852	-	-	683,852
Miscellaneous	-	-	11,081	11,081
Special events	-	48,490	-	48,490
	<u>-</u>	<u>48,490</u>	<u>-</u>	<u>48,490</u>
Total functional expenses	<u><b>\$ 3,674,069</b></u>	<u><b>\$ 180,266</b></u>	<u><b>\$ 332,282</b></u>	<u><b>\$ 4,186,617</b></u>

See accompanying Notes to Consolidated Financial Statements.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Consolidated Statements of Cash Flows

	<b>Years Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
(Decrease) in net assets	\$ (1,008,583)	\$ (1,853,279)
Adjustments to reconcile (decrease) in net assets to net cash provided by (used for) operating activities		
Depreciation and amortization	68,237	57,598
Amortization of discounts on mortgages, net	790,909	482,145
Transfers to homeowners in return for mortgages	(1,575,000)	(1,120,000)
Write off of discounts for mortgages sold	(791,933)	-
Investment income in joint ventures	(97,659)	(84,912)
(Gain) loss on sale and purchase of mortgages	-	(86,367)
Mortgage debt reduction	-	1,340,045
Reclass to mortgages receivable	234,168	-
(Increase) decrease in assets		
Escrow and security deposits	(125,664)	25,087
Payments on mortgages from homeowners	1,737,240	593,755
Grants and accounts receivable	29,839	504,935
Prepaid expenses	(18,941)	20,645
Inventory - buildings	712,612	(84,242)
Inventory - property development costs	664,105	(132,784)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(90,092)	(111,385)
Tithe payable	31,250	5,186
Escrow payable	76,419	13,098
Deferred revenue	107,419	10,123
	<b>744,326</b>	<b>(420,352)</b>
<b>CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>		
Investment in joint venture	(2,535,500)	-
Distributions received from joint venture	40,787	28,111
Deferred financing costs	(251,092)	-
Purchase of mortgage	-	(163,086)
Purchase of property and equipment	(12,853)	(46,189)
	<b>(2,758,658)</b>	<b>(181,164)</b>
<b>CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>		
Borrowings on notes payable	3,504,640	-
Repayments on notes payable	(13,255)	(17,844)
Payments on lines of credit	(1,100,000)	(1,200,000)
Proceeds from lines of credit	-	1,900,000
	<b>2,391,385</b>	<b>682,156</b>
<b>Net increase in cash and cash equivalents</b>	<b>377,053</b>	<b>80,640</b>
<b>CASH AND CASH EQUIVALENTS, <i>beginning of year</i></b>	<b>232,673</b>	<b>152,033</b>
<b>CASH AND CASH EQUIVALENTS, <i>end of year</i></b>	<b>\$ 609,726</b>	<b>\$ 232,673</b>
<b>Supplemental Information</b>		
Cash paid for interest	\$ 98,225	\$ 54,565
Cash paid for income taxes	\$ -	\$ -

See accompanying Notes to Consolidated Financial Statements.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 1 - Summary of Significant Accounting Policies

#### *a. Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Paterson Habitat for Humanity, Inc. ("PHFH") and Paterson Habitat Restore, LLC ("Restore"). Hereinafter, the consolidated entities are referred to as "The Organization". Restore is a wholly-owned subsidiary of PHFH. All material inter-company accounts and transactions have been eliminated.

#### *b. Nature of Organization*

Paterson Habitat for Humanity, Inc., an Affiliate of Habitat for Humanity International, was organized as a non-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, the Organization 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. Contributions of money and materials are the principal funding sources of PHFH operations. Volunteer labor is also central to the Organization'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. The Organizations' financial counseling and mentoring programs address personal debt and money management issued for homeowner families, and the Organization continues to excel in foreclosure prevention with only three foreclosures in its 25-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 the Organization.

#### *c. Basis of Presentation*

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted Net Assets** - Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Unrestricted net assets are those currently available for use by the Organization's Board of Directors.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 1 - Summary of Significant Accounting Policies - Continued

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

#### *d. Cash and Cash Equivalents*

The Organization considers all cash on hand, in bank, and in money market funds to be cash and cash equivalents. Cash does not include amounts held in escrow, such as potential homeowner's monies pending closing.

#### *e. Escrows and Security Deposits*

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

#### *f. Transfers to Homeowners/Mortgages Receivable*

Transfers to homeowners are 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 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.

The Organization 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 enable the Organization to realize the mortgages receivable without any allowance. A provision for impairment of loans has not been recorded since the Organization holds the trust deeds as security on the mortgages.

#### *g. Grants and Accounts Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization charges uncollectible accounts receivable to operations when determined to be uncollectible. The balance of accounts receivable has been determined to be collectible. Therefore, no allowance has been recorded.

Financial assistance received from federal, state, and local governmental entities in the form of grants are recognized on a cost reimbursements basis and are recorded in grants and fees from governmental agencies on the statements of activities and changes in net assets. Grants receivable from government agencies are periodically reviewed by management for collectability. Consequently, no allowance has been recorded.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 1 - Summary of Significant Accounting Policies - Continued

#### *h. Inventory*

Buildings - Buildings consist of completed homes, and are stated at cost.

Property development costs - Property development cost consists of material, labor, and equipment costs related to home construction such as indirect labor, supplies, and tool costs. These costs are recorded as property development costs on the statements of financial position as they are incurred. Land costs is included in property development costs and is 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 statements of activities and changes in net assets as program services under the caption construction costs.

#### *i. Property and Equipment*

Property and equipment purchased are stated at cost. Replacements, betterments, and additions to property and equipment are capitalized. The Organization capitalizes all property and equipment with a value of \$1,000 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 the estimated useful lives ranging from 5 to 39 years.

Donations of property 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 unrestricted contributions 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 and equipment are reported as temporarily restricted contributions.

#### *j. Investment in Joint Ventures*

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

#### *k. Deferred Financing Fees*

Deferred financing fees represent costs incurred to obtain financing. Amortization of those costs is provided on the straight-line method over the remaining term of the applicable indebtedness. Accumulated amortization amounted to \$91,869 and \$58,849 as of June 30, 2014 and 2013, respectively.

#### *l. Deferred Revenue*

Deferred revenue represents revenues received in advance not yet earned.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 1 - Summary of Significant Accounting Policies - Continued

#### *m. Grant Revenues, Contributions, and Restrictions*

The Organization receives some of its grant revenues from 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 the Organization 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 promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions with restrictions that are met in the same reporting period as they are received are reported as unrestricted support.

#### *n. Donated Services and Materials*

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated 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 financial statements since these services do not require specialized skills. Volunteers worked approximately 30,914 and 35,618 hours for the years ended June 30, 2014 and 2013, respectively.

#### *o. Functional Allocation of Expenses*

Program services, management and general, and fundraising expenses have been recorded in the statements of activities and changes in net assets and on the statements of functional expenses based on both a direct costing method for those expenses directly attributable to a particular program or on an allocation based on the salary percentage of each program to total salaries for joint costs attributable to all functions. The Organization's management allocated general and administrative expenses based upon management's best estimates.

#### *p. Income Taxes*

PHFH is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

Restore is a single member LLC of PHFH.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 1 - Summary of Significant Accounting Policies - Continued

Management has evaluated the Organization's tax positions in accordance with Accounting Standards Codification 740 "Uncertainty for Income Taxes" and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Organization files income tax returns in the U.S. Federal jurisdiction, as well as in one state jurisdiction. With few exceptions, the Organization is not subject to income tax examinations by the U.S. federal, state, or local tax authorities unless the Organization was engaged in activities that would generate unrelated business income.

#### q. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### r. Concentration of Credit Risk

From time to time, the Organization has cash balances that exceed federally insured limits.

#### s. Subsequent Events

The Organization evaluated subsequent events for potential recognition and disclosure through October 20, 2014, the date the financial statements were available to be issued.

### Note 2 - 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, 2014 and 2013 were discounted at the HFHI stipulated interest rate of 7.58% and 7.39%, respectively.

	June 30,	
	2014	2013
Face value of mortgages	\$ 5,519,378	\$ 5,915,786
Less unamortized discount	2,946,221	2,947,245
Mortgages receivable, net	<u>\$ 2,573,157</u>	<u>\$ 2,968,541</u>

Future maturities of mortgages receivable are as follows:

For the years ending June 30,	
2015	\$ 325,000
2016	350,000
2017	382,000
2018	380,000
2019	380,000
2020 and thereafter	3,702,378
	<u>\$ 5,519,378</u>

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 3 - Investment in Joint Ventures

In November 2010, the Organization 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 the Organization and the five Habitat Affiliates, with building new low-income housing in the neighborhoods they individually serve. USBCDC contributed these funds to the Organization and five Habitat Affiliates in order to take advantage of New Markets Tax Credits (NMTC). The Organization transferred property, with an aggregate value of \$2,824,434, as an initial capital contribution to obtain a 17.13783% ownership interest in the joint venture. In addition to investing in the joint venture, the Organization 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). In July 2018, the Organization has the ability to exercise a put option, which would enable the Organization to terminate this transaction or, if the put option is exercised, the Organization would be fully forgiven the total amount of the loan payable at the end of the 15 year period.

In December 2013, the Organization entered into a joint venture agreement, along with two other Habitat Affiliates, with HFH Northeast 1 Leverage Lender, LLC ("Joint Venture") in order to receive funding from Citibank (CITI) to financially assist the Organization and the two Habitat Subsidiaries with building new low-income housing in the neighborhoods they individually serve. CITI contributed these funds to the Organization and two Habitat Affiliates in order to take advantage of New Markets Tax Credits (NMTC). The Organization transferred property, with an aggregate value of \$2,535,500, as an initial capital contribution to obtain a 44.697575% ownership interest in the joint venture. In addition to investing in the joint venture, the Organization was able to secure a 30 year loan payable in the amount of \$3,504,640 with Citi NMTC Subsidiary XVI, LLC (a community development entity). In July 2020, the Organization has the ability to exercise a put option, which would enable the Organization to terminate this transaction or, if the put option is exercised, the Organization would be fully forgiven the total amount of the loan payable at the end of the 30 year period.

Under the terms of both new market tax credit joint ventures, the Organization is required to build one home per year in the city of Paterson for the next seven years.

### Note 4 - Property and Equipment

Property and equipment consist of the following:

	June 30,	
	2014	2013
Building and improvements	\$ 358,453	\$ 358,453
Construction equipment	89,565	77,565
Furniture and equipment	63,688	62,835
Vehicles	29,269	29,269
Total	540,975	528,122
Less accumulated depreciation	216,396	181,179
Property and equipment, net	\$ 324,579	\$ 346,943

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 5 - Lines of Credit

The Organization has an available secured line of credit with Columbia Bank in the amount of \$500,000. The line of credit is collateralized by the administrative office of the Organization. Interest is payable monthly at the bank's prime rate less 2% not to fall below 4%. The effective interest rate as of June 30, 2014 and 2013 was 4%. The line of credit matures in January 2015. As of June 30, 2014 and 2013 outstanding borrowings on the line of credit amounted to \$0 and \$500,000, respectively.

The Organization 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. The effective interest rate as of June 30, 2014 and 2013 was 4.5%. The line of credit matures in January 2015. As of June 30, 2014 and 2013 outstanding borrowings on the line of credit were \$0 and \$400,000, respectively.

The Organization 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. The effective interest rate at June 30, 2014 and 2013 was 4.125%. The line of credit matures in April 2015. As of June 30, 2014 and 2013 outstanding borrowings on the line of credit were \$0 and \$200,000, respectively.

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 6 - Notes Payable

Notes payable at June 30, 2014 and 2013 consists of the following:

	June 30,	
	2014	2013
Interest free note payable to HUD/SHOP, due in January 2014, payable in monthly installments of \$781	\$ -	\$ 4,698
Mortgage note payable to New Jersey Housing Mortgage Finance Agency (NJHMFA) in monthly installments of \$742 including 1% interest through December 2017, collateralized by certain mortgages receivable. This note contains restrictive covenants, including among other things, certain financial reporting requirements and maintaining minimum tangible net assets. As of June 30, 2014 and 2013, the Organization complied with all covenants.	29,889	38,446
Note payable due to a community development entity (HFHI-SA NMTC IV, LLC). Debt requires interest only payments until June 2018 at .75%. The loan matures in January 2026. 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 2018. Under the terms of the put option agreement, HFHI-SA Leverage VII, LLC is expected to purchase the ownership interest. Exercise of the option will effectively allow PHFH to extinguish its outstanding debt owed to HFHI-SA Investment Fund, LLC. The value of the put option is not material to the financial statements and therefore is not recorded in the books and records.	3,758,031	3,758,031
Note payable due to a community development entity (Citi NMTC Subsidiary XVI, LLC). Debt requires interest only payments until June 2020 at 1.029680%. The loan matures in December 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 financial statements and therefore is not recorded in the books and records.	3,504,640	-
Total notes payable	\$ 7,292,560	\$ 3,801,175

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 6 - Notes Payable - Continued

Maturities of notes payable consist of the following:

For the years ending June 30,		
2015	\$	8,643
2016		8,729
2017		8,817
2018		3,700
2019		-
Thereafter		7,262,671
	\$	<u>7,292,560</u>

### Note 7 - Gain (Loss) on Sale and Purchase of Mortgages

During the year ended June 30, 2013, the Organization purchased two mortgages from a local bank with a total face value of approximately \$249,000 for \$163,000, resulting in a net gain of approximately \$86,000. Such gain is included as part of gain (loss) on sale and purchase of mortgages on the statements of activities and changes in net assets for the year ended June 30, 2013.

During the year ended June 30, 2014, the Organization sold 16 mortgages to a local financial institution for face value of approximately \$1,346,000 therefore there was no gain or loss on the transaction. The sale of the mortgages resulted in the reversal of \$792,000 of previously recorded mortgage discount expense. The \$792,000 is included in mortgage loan discount amortization revenue in the statement of activities.

### Note 8 - Commitments and Contingencies

On September 30, 2011, the Organization entered into a 5 year lease agreement for an operating facility in Wayne, NJ for the Organization's ReStore. The Organization did not occupy the space until May 2012 and did not begin paying rent until June 2012. Under the conditions of the lease agreement, the Organization is responsible for its monthly rent and its pro-rata share of the properties real estate taxes and operating expenses. Total rent and common area maintenance charges paid for the year ended June 30, 2014 and 2013 was \$237,459 and \$275,958, respectively.

Future minimum lease payments on the ReStore are as follows:

For the years ending June 30,		
2015	\$	223,104
2016		243,500
2017		223,208
	\$	<u>689,812</u>

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Notes to Consolidated Financial Statements June 30, 2014 and 2013

### Note 9 - Mortgage Debt Reduction

In March of 2012, in an effort to create home ownership opportunities that were more affordable, PHFH established a new policy for determining house prices. PHFH homes would be priced such that the monthly payments for a household at the median income level of Paterson would not exceed 30% of gross income with a term not to exceed 30 years. This new pricing policy significantly reduced the general price level of PHFH homes and the corresponding homeowner monthly payments. In an effort to bring forty past purchasers in line with these new more affordable monthly payments, PHFH decided, as of April 30, 2013, to reduce the debt on forty obligations via a mortgage modification (specifically, in cases where homes were purchased at a price greater than would have otherwise resulted under the new house pricing policy). The amount of the debt reduction is the difference between the actual price and the price calculated under the new house pricing policy. Mortgage debt reduction as of June 30, 2013 included the following:

Mortgage debt reduction on receivables held	\$ (2,325,321)
Reversal of discount on mortgage debt reduction on receivables held	985,276
Cash paid for debt reduction on mortgages previously sold	<u>(228,538)</u>
Net mortgage reduction	<u>\$ (1,568,583)</u>

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Consolidated Schedule of Expenditures of Federal and State Awards Year Ended June 30, 2014

<u>Grantor/Program</u>	<u>CFDA # Contract #</u>	<u>Expenditures</u>
<b>Federal</b>		
US Department of Housing and Urban Development: Neighborhood Stabilization 3 2011	14.228	\$ 515,223
Passed through the City of Paterson:		
2012 HOME Investment Partnerships Program	14.239	151,624
2012 Community Housing Development Organization (CHDO)	14.218	174,268
2013 HOME Investment Partnerships Program	14.239	67,044
<b>State</b>		
New Jersey Department of Community Affairs: Passed through the NJ Division of Housing and Community Resources Neighborhood Revitalization Tax Credit Program	2014-02240-0317-00	<u>23,700</u>
Total federal and state awards		<u><u>\$ 931,859</u></u>

# **Paterson Habitat for Humanity, Inc. and Subsidiary**

## **Notes to Consolidated Schedule of Federal and State Awards Year Ended June 30, 2014**

### **Note 1 - General Information**

The accompanying consolidated schedule of expenditures of federal and state awards presents the activities in all the federal financial award programs of Paterson Habitat for Humanity, Inc. and Subsidiary. All financial awards received directly from federal agencies as well as financial awards passed through other governmental agencies or not-for-profit organizations are included on the schedule.

### **Note 2 - Basis of Accounting**

The accompanying consolidated schedule of expenditures of federal and state awards includes the federal grant activity of Paterson Habitat for Humanity, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and NJ 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

### **Note 3 - Relationship to Basic Consolidated Financial Statements**

Federal and state awards and contracts expenditures are reported on the statements of activities and changes in net assets as functional and supporting expenses. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the schedule of federal awards due to program expenditures exceeding grant limitations or capitalization policies required by accounting principles generally accepted in the United States of America.



**Independent Auditor's 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**

**Independent Auditor's Report**

Board of Directors  
Paterson Habitat for Humanity, Inc. and Subsidiary  
[a Non-Profit Organization]

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 financial statements of Paterson Habitat for Humanity, Inc. and Subsidiary ("the Organization"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 20, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 the Organization's financial statements are free of 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SaxBST LLP

Clifton, New Jersey  
October 20, 2014



## **Independent Auditor's Report on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance**

### **Independent Auditor's Report**

Board of Directors  
Paterson Habitat for Humanity, Inc. and Subsidiary  
[a Non-Profit Organization]

#### **Report on Compliance for Each Major Federal or State Program**

We have audited Paterson Habitat for Humanity, Inc. and Subsidiary's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and that could have a direct and material effect on each of Paterson Habitat for Humanity, Inc. and Subsidiary's major federal and state programs for the year ended June 30, 2014. Paterson Habitat for Humanity, Inc. and Subsidiaries' major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Paterson Habitat for Humanity, Inc. and Subsidiary's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and NJ OMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Paterson Habitat for Humanity, Inc. and Subsidiary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of Paterson Habitat for Humanity, Inc. and Subsidiary's compliance.

#### **Opinion on Each Major Federal and State Program**

In our opinion, Paterson Habitat for Humanity, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of Paterson Habitat for Humanity, Inc. and Subsidiary is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Paterson Habitat for Humanity, Inc. and Subsidiary's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paterson Habitat for Humanity, Inc. and Subsidiary's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*SaxBST LLP*

Clifton, New Jersey  
October 20, 2014

# Paterson Habitat for Humanity, Inc. and Subsidiary

## Schedule of Findings and Questioned Costs Year Ended June 30, 2014

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued:	unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No

#### Federal Awards

Internal control over the program:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor's report issued on compliance for the program:	unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

#### Identification of major federal programs:

<u>Program</u>	<u>CFDA #</u>
US Department of Housing and Urban Development Neighborhood Stabilization Grant	14.228
Dollar threshold to distinguish between Type A and Type B Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

### Section II - Financial Statement Findings

None

### Section III - Findings and Questioned Costs for Federal Awards and Contracts

None

# **Paterson Habitat for Humanity, Inc. and Subsidiary**

## Schedule of Prior Audit Findings Year Ended June 30, 2014

There were no prior year audit findings.