

**NAZARETH HOUSING, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**NAZARETH HOUSING, INC.**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Nazareth Housing, Inc.  
New York, New York

We have audited the accompanying statement of financial position of Nazareth Housing, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nazareth Housing, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*D'Arcangelo & Co., LLP*

Rye Brook, New York

November 2, 2011

NAZARETH HOUSING, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 227,534	\$ 199,889
Due from government agencies	82,595	91,656
Other receivables	73,683	45,279
Prepaid expenses	19,323	14,232
Total current assets	<u>403,135</u>	<u>351,056</u>
Property and equipment, net	<u>137,595</u>	<u>114,620</u>
Restricted asset:		
Restricted cash	<u>1,866</u>	<u>149,041</u>
Other assets:		
Other investment	-	65,942
Certificates of deposit	522,063	481,474
Due from affiliate	113,037	114,037
	<u>635,100</u>	<u>661,453</u>
Total assets	<u>\$ 1,177,696</u>	<u>\$ 1,276,170</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accrued expenses	\$ 56,754	\$ 39,592
Deferred income	7,500	5,169
Due to affiliate	1,866	149,041
Total current liabilities	<u>66,120</u>	<u>193,802</u>
Net assets:		
Unrestricted	<u>1,111,576</u>	<u>1,082,368</u>
Total liabilities and net assets	<u>\$ 1,177,696</u>	<u>\$ 1,276,170</u>

See notes to financial statements.

**NAZARETH HOUSING, INC.**

**STATEMENT OF ACTIVITIES**

**YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
<b>Revenue and support:</b>		
Revenue:		
Fees from governmental sources:		
City of New York Department of Homeless Services	\$ 452,526	\$ 475,330
NYS Adolescent Pregnancy and Prevention Services	10,105	20,210
NYS Office of Temporary and Disability Assistance	113,391	137,581
Emergency food and shelter income	-	22,700
Other New York City grants	3,500	15,500
Harlem landlord income	197,098	65,331
Investment income	15,359	6,019
Support:		
Contributions, Foundations	100,818	154,980
Contributions, Individuals	13,513	12,704
Donated services	66,552	-
Miscellaneous income	667	905
Fundraising from special events, net of \$50,248 (2011) and \$89,276 (2010) in expenses	187,057	225,176
Total revenue and support	1,160,586	1,136,436
<b>Expenses:</b>		
Program Services:		
City of New York Department of Homeless Services	442,790	438,255
Other program services	549,959	408,260
Total program services	992,749	846,515
Supporting services:		
Management and general	138,629	92,482
Total expenses	1,131,378	938,997
Change in net assets	29,208	197,439
Net assets, beginning of year	1,082,368	884,929
Net assets, end of year	\$ 1,111,576	\$ 1,082,368

See notes to financial statements.

**NAZARETH HOUSING, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2011**

	City of New York Dept. of Homeless Services	All other Program Services	Total Program Services	Management and General	Total
<b>Personnel services:</b>					
Salaries and wages	\$ 232,526	\$ 212,787	\$ 445,313	\$ 74,762	\$ 520,075
Consultants and contracted security	-	127,654	127,654	10,875	138,529
Employees health and welfare benefits	17,514	18,108	35,622	5,493	41,115
Payroll taxes and payroll related expenses	23,200	15,746	38,946	7,476	46,422
Total personnel services	<u>273,240</u>	<u>374,295</u>	<u>647,535</u>	<u>98,606</u>	<u>746,141</u>
<b>Other costs:</b>					
Shelter apartment rental	95,867	-	95,867	-	95,867
Professional fees	9,000	72,802	81,802	4,847	86,649
Office supplies	5,000	1,447	6,447	1,047	7,494
Telephone	9,800	940	10,740	169	10,909
Postage	1,165	1,529	2,694	27	2,721
Office rental	1,439	21,726	23,165	13,465	36,630
Transportation	4,850	2,175	7,025	2,597	9,622
Program expense	2,695	29,820	32,515	10,128	42,643
Repairs and maintenance	6,105	1,520	7,625	-	7,625
Shelter utilities	6,853	-	6,853	-	6,853
Assistance to individuals	-	29,207	29,207	800	30,007
Insurance	14,666	2,068	16,734	1,250	17,984
Miscellaneous	-	31	31	1,368	1,399
Total other costs	<u>157,440</u>	<u>163,265</u>	<u>320,705</u>	<u>35,698</u>	<u>356,403</u>
Total expenses before depreciation	430,680	537,560	968,240	134,304	1,102,544
Depreciation	12,110	12,399	24,509	4,325	28,834
Total expenses	<u>\$ 442,790</u>	<u>\$ 549,959</u>	<u>\$ 992,749</u>	<u>\$ 138,629</u>	<u>\$ 1,131,378</u>

See notes to financial statements.

**NAZARETH HOUSING, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2010**

	City of New York Dept. of Homeless Services	All other Program Services	Total Program Services	Management and General	Total
<b>Personnel services:</b>					
Salaries and wages	\$ 225,669	\$ 231,866	\$ 457,535	\$ 29,994	\$ 487,529
Consultants and contracted security	-	47,671	47,671	-	47,671
Employees health and welfare benefits	17,702	24,801	42,503	2,237	44,740
Payroll taxes and payroll related expenses	23,682	17,818	41,500	2,999	44,499
	<u>267,053</u>	<u>322,156</u>	<u>589,209</u>	<u>35,230</u>	<u>624,439</u>
<b>Total personnel services</b>					
	<u>267,053</u>	<u>322,156</u>	<u>589,209</u>	<u>35,230</u>	<u>624,439</u>
<b>Other costs:</b>					
Shelter apartment rental	97,407	-	97,407	-	97,407
Professional fees	9,000	4,815	13,815	6,158	19,973
Office supplies	6,247	1,255	7,502	970	8,472
Telephone	7,408	1,500	8,908	500	9,408
Postage	947	560	1,507	14	1,521
Office rental	6,633	15,207	21,840	12,643	34,483
Transportation	6,838	513	7,351	375	7,726
Program expense	1,212	8,027	9,239	24,617	33,856
Repairs and maintenance	6,131	1,868	7,999	851	8,850
Shelter utilities	5,460	-	5,460	-	5,460
Assistance to individuals	-	36,600	36,600	5,027	41,627
Insurance	11,834	4,199	16,033	1,834	17,867
Miscellaneous	-	-	-	1,636	1,636
	<u>159,117</u>	<u>74,544</u>	<u>233,661</u>	<u>54,625</u>	<u>288,286</u>
<b>Total other costs</b>	<u>159,117</u>	<u>74,544</u>	<u>233,661</u>	<u>54,625</u>	<u>288,286</u>
<b>Total expenses before depreciation</b>	<u>426,170</u>	<u>396,700</u>	<u>822,870</u>	<u>89,855</u>	<u>912,725</u>
Depreciation	<u>12,085</u>	<u>11,560</u>	<u>23,645</u>	<u>2,627</u>	<u>26,272</u>
<b>Total expenses</b>	<u>\$ 438,255</u>	<u>\$ 408,260</u>	<u>\$ 846,515</u>	<u>\$ 92,482</u>	<u>\$ 938,997</u>

See notes to financial statements.

**NAZARETH HOUSING, INC.**

**STATEMENT OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 29,208	\$ 197,439
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	28,834	26,272
Unrealized loss on other investment	95	-
(Increase) decrease in operating assets:		
Due from government agencies	9,061	10,868
Other receivables	(28,404)	(36,490)
Prepaid expenses	(5,091)	21,147
Increase in operating liabilities:		
Accrued expenses	17,162	8,800
Deferred income	2,331	5,169
Net cash provided by operating activities	53,196	233,205
Cash flows from investing activities:		
Purchase of property and equipment	(51,809)	-
Proceeds from sale of other investment	75,567	-
Purchase of other investment	(9,720)	(630)
Proceeds from maturing certificates of deposit	601,000	328,526
Purchase of certificates of deposit	(641,589)	(757,000)
Due to affiliate	(146,175)	(18,659)
Net cash (used in) investing activities	(172,726)	(447,763)
Net (decrease) in cash	(119,530)	(214,558)
Cash and cash equivalents, beginning of year	348,930	563,488
Cash and cash equivalents, end of year	\$ 229,400	\$ 348,930
Cash consists of:		
Cash and cash equivalents	\$ 227,534	\$ 199,889
Restricted cash	1,866	149,041
	\$ 229,400	\$ 348,930

See notes to financial statements.

# NAZARETH HOUSING, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

### 1. **Organization:**

Nazareth Housing, Inc. ("Nazareth") is a nonprofit organization established to provide both temporary and permanent housing to those individuals and families in financial need in New York City.

### 2. **Summary of significant accounting policies:**

#### Basis of accounting:

The accounting and reporting policies of the Organization conform to accounting principles generally accepted in the United States of America (GAAP).

#### **Basis of presentation:**

Nazareth reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by actions of Nazareth and/or the passage of time.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently.

At June 30, 2011 and 2010, Nazareth did not have any temporarily or permanently restricted net assets.

#### **Contributions:**

Contributions are recorded at fair value when received as: unrestricted, temporarily restricted, or if applicable permanently restricted support depending on the existence and/or nature of any donor restrictions.

#### **Revenue:**

A significant part of Nazareth's operations are funded by various governmental agencies. Revenue provided by these agencies may be subject to predetermined budgets or provisional rates. Amounts reported as revenue from governmental agencies are subject to possible adjustment after audit by the funding agencies.

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**2. Summary of significant accounting policies (continued):**

**Fair value measurements:**

The Organization adopted GAAP concept of *Fair Value Measurements*. In accordance with GAAP, fair value is defined as the price that the Organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. GAAP establishes a three-tier hierarchy for measuring fair value of assets and liabilities. The three-tier hierarchy of inputs is summarized in three broad levels: Level 1 - quoted prices in active markets for identical securities, Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments).

**Donated services:**

The value of donated volunteer services is recognized as support in accordance with generally accepted accounting principles, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. For 2011, donated legal services amounting to \$66,552 were recorded as both support and professional fees expense.

Members of the governing board and other volunteers donate time to provide managerial and fund-raising services used in the administration of Nazareth, which are not recognized since the above recognition criteria are not met.

**Use of estimates in the preparation of financial statements:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**2. Summary of significant accounting policies (continued):**

**Concentration of credit risk:**

Nazareth's cash management policy is to mitigate the Organization's credit risks by investing in or through major financial institutions.

**Cash and cash equivalents:**

Cash and cash equivalents consists of checking and money market accounts.

**Reclassifications:**

Certain items in the fiscal 2010 financial statements have been reclassified for comparative purposes only.

**Tax exempt status:**

Nazareth is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and is not deemed a private foundation.

The Organization evaluates the effect of uncertain tax positions in accordance with the provisions of GAAP. The Organization discloses material adjustments resulting from tax examinations, if any, and reports interest and penalties resulting from such adjustments as interest expense or other expense. There were no tax examinations or adjustments relating therefrom. Tax returns for the fiscal years 2007 through 2010 are subject to audit by the applicable taxing jurisdictions.

**Property and equipment:**

Furniture and equipment is recorded at cost upon purchase or at fair value if contributed. Expenditures for repairs and maintenance are charged to expense as incurred, whereas renewals and betterments that extend the lives of property and equipment are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the asset, ranging from 3-10 years. Depreciation expense amounted to \$16,702 for 2011 and \$14,140 for 2010.

Leasehold improvements are stated at cost. Amortization is computed on a straight line basis over various useful lives. Amortization expense amounted to \$12,132 for 2011 and 2010.

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**2. Summary of significant accounting policies (continued):**

**Property and equipment (continued):**

Property and equipment consists of the following:

	2011	2010
Furniture and equipment	\$ 163,844	\$ 112,035
Leasehold improvements	105,240	105,240
	269,084	217,275
Less accumulated depreciation and amortization	(131,489)	(102,655)
	\$ 137,595	\$ 114,620

**3. Restricted cash:**

Included in restricted cash is the remaining balance of funds received from the 2008 \$250,000 O'Toole Foundation grant amounting to \$1,866. The purpose of the grant was to renovate a fourteen unit low income residential apartment building at 721 E. 6<sup>th</sup> Street owned by affiliate 721 E. 6<sup>th</sup> Street Housing Development Fund Corporation. The renovation work has been substantially completed.

**4. Certificates of deposit:**

Certificates of deposits consist of the following:

Fiscal 2011	Maturity date	Amount
Beal Bank Nevada	September 28, 2011	\$ 100,000
Ally Bank	November 21, 2011	32,063
Bank of Baroda	December 5, 2011	100,000
Bank of China	December 8, 2011	100,000
Beal Bank Nevada	December 28, 2011	100,000
Bank of China	March 8, 2012	90,000
		\$ 522,063

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**4. Certificates of deposit (continued):**

Fiscal 2010	Maturity date	Amount
Bank of China	November 19, 2010	\$ 99,839
Bank of China	February 18, 2011	99,837
American Express	March 16, 2011	150,267
Compass Bank	May 20, 2011	99,642
Ally Bank	November 21, 2011	31,889
		\$ 481,474

**5. Fair value measurements:**

In accordance with generally accepted accounting principles, *Fair Value Measurements*, the following are the Organization's financial assets presented at fair value:

Fair Value Measurements at Reporting Date Using

<u>Description</u>	<u>6/30/11</u>	<u>Quoted Prices In Active Markets for Identical assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets:</b>				
Restricted cash	\$ 1,866	\$ 1,866	\$ -	\$ -
Certificates of deposit	522,063	-	522,063	-
<b>Total</b>	<b>\$ 523,929</b>	<b>\$ 1,866</b>	<b>\$ 522,063</b>	<b>\$ -</b>

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**5. Fair value measurements (continued):**

Fair Value Measurements at Reporting Date Using

<u>Description</u>	<u>6/30/10</u>	<u>Quoted Prices In Active Markets for Identical assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets:</b>				
Restricted cash	\$ 149,041	\$ 149,041	\$ -	\$ -
Other investment	65,942	65,942	-	-
Certificates of deposit	481,474	-	481,474	-
<b>Total</b>	<b>\$ 696,457</b>	<b>\$ 214,983</b>	<b>\$ 481,474</b>	<b>\$ -</b>

**6. Retirement plan:**

Nazareth has a 403 (b) retirement savings plan for its eligible employees. Employees can elect to defer up to the maximum allowed by the Internal Revenue Code per year to the plan. A discretionary employer contribution of \$11,500 was made in fiscal 2011.

**7. Related parties:**

Due from affiliate consists of advances by Nazareth to its affiliate Nazareth House Housing Development Fund Corp. for the renovation of a building located on East 4th Street in lower Manhattan. The site consists of 13 units of permanent housing and 2 units of transitional housing for qualified tenants. The Board of Directors of both organizations have established a periodic repayment policy as funds to repay the loan become available.

Due to affiliate consists of the pass through grant monies from The 2008 Theresa and Edward O'Toole Foundation grant described in Note 3 due to affiliate 721 E. 6<sup>th</sup> Street HDFC for planned renovation costs of the 721 E. 6<sup>th</sup> Street Apartment building.

**8. Commitments:**

Nazareth entered into a lease for office space at 519 E. 11<sup>th</sup> Street effective November 1, 2006, and expiring on October 31, 2011, at which time Nazareth has an option to renew for another five year term.

# NAZARETH HOUSING, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

### 8. Commitments (continued):

Nazareth Housing is awaiting a formal lease document from the landlord and will be renewing the lease under its current terms. Rent expense was \$25,835 in 2011 and \$24,608 in 2010.

Nazareth also entered into a facilities use agreement for office space at 137 E. 2<sup>nd</sup> Street with Catholic Charities of the Archdiocese of New York effective December 1, 2010 and expiring November 30, 2013, at which time Nazareth has an option to renew for another three year term. Rent expense was \$7,262 in 2011 and \$6,916 in 2010.

#### Related party leases:

Nazareth entered into apartment lease agreements with its affiliate Nazareth House HDFC for two shelter apartments and six lease agreements with its affiliate 721 E. 6<sup>th</sup> Street HDFC for six shelter apartments for families participating in the New York City shelter system. The leases, which expire through various dates to March 31, 2013, require Nazareth to pay the following lease commitments:

<u>June 30,</u>	<u>Nazareth House HDFC</u>	<u>721 E. 6<sup>th</sup> St. HDFC</u>
2012	\$ 12,362	\$ 42,386
2013	-	8,750
	<u>\$ 12,362</u>	<u>\$ 51,136</u>

Several other shelter apartment rents were paid by Nazareth under leases with expiration dates to July 31, 2014 to unrelated parties. The rents were reimbursed through funds received from the City of New York Department of Homeless Services. Shelter apartment rental expense was \$95,867 (including \$24,724 paid to affiliate Nazareth House HDFC and \$44,309 paid to 721 E. 6<sup>th</sup> Street HDFC) in 2011 and \$97,407 (including \$24,024 paid to affiliate Nazareth House HDFC and \$42,153 paid to 721 E. 6<sup>th</sup> Street HDFC) in 2010.

**NAZARETH HOUSING, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**8. Commitments (continued):**

**Related party leases (continued):**

Future minimum lease commitments for the office spaces and the non-affiliate shelter apartments are as follows:

<u>June 30,</u>	<u>Office space</u>	<u>Shelter apartments</u>
2012	\$ 16,859	\$ 16,632
2013	8,000	16,632
2014	3,400	16,632
2015	-	1,386
	<u>\$ 28,259</u>	<u>\$ 51,282</u>

**9. Subsequent events:**

Management has evaluated subsequent events through November 2, 2011, which is the date the financial statements are available for issuance.