FOOD FIRST HOUSING DEVELOPMENT FUND COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

FOOD FIRST HOUSING DEVELOPMENT FUND COMPANY, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Food First Housing Development Fund Company, Inc.

We have audited the accompanying consolidated financial statements of Food First Housing Development Fund Company, Inc. (a nonprofit organization) and Subsidiary (a for-profit company) (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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. 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 Organization'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 Organization'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.

(Continued)

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 financial position of Food First Housing Development Fund Company, Inc. and Subsidiary as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Friedman LLP

December 16, 2020

FOOD FIRST HOUSING DEVELOPMENT FUND COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2020	2019
ASSETS		
Current assets		
Cash	$ 39,141	$ 27,906
Restricted cash, tenants' security deposits	59,314	-
Tenant accounts receivable, net	114,732	102,835
Other receivables	4,047	4,047
Prepaid expenses and other current assets	38,055	47,289
Total current assets	255,289	182,077
Property and equipment - at cost		
Land	178,250	178,250
Buildings	5,070,129	5,070,129
Building improvements	544,710	544,710
Equipment	17,665	17,665
	5,810,754	5,810,754
Less - Accumulated depreciation	4,531,968	4,346,488
Property and equipment, net	1,278,786	1,464,266
Investments in limited partnerships and limited liability companies	1,147,802	1,225,551
Due from affiliates	245,477	256,467
	$ 2,927,354	$ 3,128,361
LIABILITIES, RETAINED EARNINGS AND NET ASSETS		
Current liabilities		
Loans payable, affiliates	$ 41,823	$ 72,602
Accounts payable and accrued expenses	218,577	214,540
Security deposits payable	62,025	61,668
Total current liabilities	322,425	348,810
Mortgage payable	40,054	40,054
Loans payable, affiliates, less current portion	150,464	192,307
Due to affiliates	545,174	618,861
HTFC mortgage interest payable	98,924	94,118
	1,157,041	1,294,150
Commitments and contingencies		
Retained earnings and net assets		
Retained earnings of New Start Group, Inc.	139,139	118,333
Net assets without donor restrictions - Food First Housing Development Fund Company, Inc.	1,631,174	1,715,878
	1,770,313	1,834,211
	$ 2,927,354	$ 3,128,361

See notes to consolidated financial statements.

FOOD FIRST HOUSING DEVELOPMENT FUND COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS AND RETAINED		
Revenues		
Rental income	$ 736,199	$ 773,631
Management fees	99,547	83,492
Other income	6,210	7,256
Total revenues	841,956	864,379
Expenses		
Program services	794,482	853,094
General and administrative	113,128	109,409
Total expenses	907,610	962,503
Change in net assets without donor restrictions and retained earnings before loss on investments in limited partnerships and limited liability companies	(65,654)	(98,124)
Gain (loss) on investments in limited partnerships and limited liability companies	1,756	(1,758)
Change in net assets without donor restrictions and retained earnings	(63,898)	(99,882)
Net assets without donor restrictions and retained earnings, beginning of year	1,834,211	1,934,093
Net assets without donor restrictions and retained earnings, end of year	$ 1,770,313	$ 1,834,211

See notes to consolidated financial statements.

FOOD FIRST HOUSING DEVELOPMENT FUND COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended June 30, 2020		
	Program Expenses	General and Administrative	Total
Salaries and related expenses			
Salaries and fringe benefits	$ 163,266	$ 76,450	$ 239,716
Other expenses			
Property and security expense reimbursements	40,425	-	40,425
Office rent	36,000	-	36,000
Insurance	35,707	666	36,373
Repairs and maintenance	67,587	82	67,669
Utilities - apartments	155,936	-	155,936
Real estate taxes - apartments	53,411	-	53,411
Rental expenses	-	738	738
Telephone	888	10,152	11,040
Professional fees	23,561	11,518	35,079
Travel, entertainment and automobile	44	1,438	1,482
Office expense	1,451	5,321	6,772
Interest	21,217	-	21,217
Depreciation	185,480	-	185,480
Provision for doubtful accounts	7,968	-	7,968
Miscellaneous	1,541	6,763	8,304
Total expense	$ 794,482	$ 113,128	$ 907,610

See notes to consolidated financial statements.

FOOD FIRST HOUSING DEVELOPMENT FUND COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended June 30, 2019		
	Program Expenses	General and Administrative	Total
Salaries and related expenses			
Salaries and fringe benefits	$ 222,272	$ 43,005	$ 265,277
Other expenses			
Property and security expense reimbursements	44,100	44,100	88,200
Office rent	18,000	-	18,000
Insurance	23,471	-	23,471
Repairs and maintenance	81,719	891	82,610
Utilities - apartments	160,748	-	160,748
Real estate taxes - apartments	27,401	-	27,401
Telephone	1,230	7,988	9,218
Professional fees	24,577	1,241	25,818
Travel, entertainment and automobile	157	2,597	2,754
Office expense	1,574	3,405	4,979
Interest	24,531	-	24,531
Depreciation	186,592	-	186,592
Provision for doubtful accounts	26,555	-	26,555
Income tax expense	530	-	530
Miscellaneous	9,637	6,182	15,819
Total expense	$ 853,094	$ 109,409	$ 962,503

See notes to consolidated financial statements.

FOOD FIRST HOUSING DEVELOPMENT FUND COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities		
Change in net assets without donor restrictions and retained earnings	$ (63,898)	$ (99,882)
Adjustments to reconcile change in net assets without donor restrictions and retained earnings to net cash provided by operating activities		
Gain (loss) on investments in limited partnerships and limited liability companies	(1,756)	1,758
Depreciation	185,480	186,592
Provision for doubtful accounts	7,968	26,555
Changes in assets and liabilities		
Tenant accounts receivable	(19,865)	(1,495)
Other receivables	-	15,479
Due from affiliates	10,990	(207,432)
Prepaid expenses and other current assets	9,234	(18,134)
Accounts payable and accrued expenses	4,037	29,367
Security deposits payable	357	4,861
Due to affiliates	(73,687)	150,918
HTFC mortgage interest payable	4,806	4,806
Net cash provided by operating activities	63,666	93,393
Cash flows from investing activities		
Distributions received from investments in limited partnerships and limited liability companies	5,100	1,500
Cash flows from financing activities		
Repayment of loans payable, affiliates	(72,622)	(87,013)
Investment in limited partnerships, net	74,405	-
Net cash provided by (used in) financing activities	1,783	(87,013)
Net increase in cash and restricted cash	70,549	7,880
Cash and restricted cash, beginning of year	27,906	20,026
Cash, cash equivalents, and restricted cash, end of year	98,455	27,906
Reconciliation of cash, cash equivalents and restricted cash, end of year		
Cash and cash equivalents	39,141	27,906
Restricted cash, tenants' security deposits	59,314	-
Cash, cash equivalents and restricted cash, end of year	$ 98,455	$ 27,906
Supplemental cash flow disclosures		
Interest paid	$ 16,411	$ 19,725

See notes to consolidated financial statements.

1 - DESCRIPTION OF ORGANIZATION

Food First Housing Development Fund Company, Inc. (“FFHDFC”) is a Type D corporation, incorporated in New York under Section 201 of the Not-for-Profit Corporation Law. FFHDFC has undertaken to own, rehabilitate and lease existing buildings in Brooklyn, New York in order to provide low-income housing. FFHDFC’s major source of revenue is rental income through noncancelable residential operating leases.

New Start Group, Inc. (the “Company” or “NSG”) is a New York corporation located in Brooklyn, New York. The Company, which is wholly owned by FFHDFC, provides real estate management services to properties owned by its parent and other affiliated organizations.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements include the accounts of the parent company, FFHDFC, and its wholly owned subsidiary, NSG (collectively “the Organization”). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation
The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Organization classifies all revenue as without donor restrictions.

The consolidated financial statement presentation is in accordance with Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) 958, Not-for-Profit Entities. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: those without donor restrictions and those with donor restrictions. Net assets without donor restrictions are those net assets that are not subject to donor-imposed restrictions. Net assets with donor restrictions are subject to donor stipulations that limit the use of their contributions, which either expire by the passage of time or when used for specified purposes. As of June 30, 2020 and 2019, all of the Organization’s net assets were without donor restrictions.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates
Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents
Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Long-Lived Assets
The Organization reviews the carrying values of its long-lived assets whenever events or changes in circumstances indicate that the carrying values may no longer be appropriate. Recoverability of carrying values is assessed by estimating future net cash flows from the assets. Based on management's evaluations, no impairment charge was deemed necessary at June 30, 2020.

Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact management's assumptions as to rental rates, costs, holding periods or other factors that may result in changes in the Organization's estimates of future cash flows. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result.

Tenant Accounts Receivable
Tenant accounts receivable are recorded at the amount management expects to collect. An allowance for doubtful accounts is recorded based on a combination of historical experience, aging analysis and other information on specific accounts. Account balances are written off after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on individual contractual terms and how recently payments have been received. Management has determined that an allowance is required at June 30, 2020 and 2019 of $98,446.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition
Revenue is recognized as earned over the noncancelable terms of the leases. Residential operating leases generally have initial terms of one year. Rents due under commercial leases that require scheduled rent increases are recognized on a straight-line basis over the terms of the respective leases.

Revenue from Contracts with Customers
The Organization adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" (Topic 606) as amended, for the year ended June 30, 2020, using the modified retrospective transition method in connection with the Organization's fee income. This new accounting standard outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. This standard supersedes existing revenue recognition requirements and eliminates most industry-specific guidance from GAAP. The core principle of the new accounting standard is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management has determined that no judgement is necessary in the recognition of fee income. Revenue from fees are recognized at the point in time when the related services have been rendered.

Investments in Limited Partnerships and Limited Liability Companies
The investments in limited partnerships and limited liability companies are accounted for under the equity method because, in the opinion of management, the Organization is not able to exercise significant influence over the investees. Original cost is adjusted for additional capital contributions, distributions received, and net income and losses of the investees.

Investments in Limited Partnerships and Limited Liability Companies (Continued)
FFHDFC holds a 1.05% general partnership interest in 165 Conover Street Associates, LP, a limited partnership, and a .01% membership interest in 3716 Third Avenue LLC, a limited liability company.

NSG owns a 1% general partnership interest in 1374 Boston Road Associates, LP and 1452 Bedford Avenue Associates, LP, a .01% general partnership interest in Studebaker, LP and Knox Homes, LP, and a .005% general partnership interest in 1515-1517 St. Johns Place, LP. NSG also owns a .2% interest in Fulton Classon Condo, LLC, a limited liability company.

At December 31, 2019 and 2018, these limited partnerships and limited liability companies reported total assets of approximately $16,381,000 and $17,383,000, respectively, and total liabilities of approximately $18,812,000 and $19,496,000, respectively. For the year ended December 31, 2019 and 2018, these entities reported net income of approximately $113,000 and $55,000, respectively.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment
Buildings, improvements and equipment are recorded at cost and are depreciated on the straight-line basis over their estimated useful lives, which range from 5 to 27.5 years.

Functional Expenses
The cost of providing the program and supporting activities has been summarized on a functional basis in the statements of activities. The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. There are no expenses that are allocated between programs and supporting services.

Income Taxes
FFHDFC is tax exempt under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and, accordingly, no provision has been made for income taxes.

NSG is a C Corporation and provisions are made for federal, state and city income taxes.

Restricted Cash
In November 2016, the FASB issued ASU No. 2016-18 (“ASU 2016-18”), “Statement of Cash Flows” (Topic 230), for the presentation of restricted cash in the consolidating statements of cash flows. ASU 2016-18 applies to all entities that have restricted cash or restricted cash equivalents, and are required to present a statement of cash flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. A retrospective method of adoption is required under ASU 2016-18. Management has elected to adopt ASU 2016-18 for the year ended June 30, 2020, with retrospective application to the fiscal year ended 2019 consolidating statement of cash flows. Accordingly, the consolidating statements of cash flows present a reconciliation of the changes in cash and cash equivalents and restricted cash. Restricted cash consists of tenant security deposits.

Subsequent Events
These consolidated financial statements were approved by management and available for issuance on December 16, 2020. Management has evaluated subsequent events through this date.

3 - MORTGAGE PAYABLE

In December 1999, the organization borrowed $1,200,000 from the New York State Housing Trust Fund Corporation ("NYSHTFC"). Simultaneously, a significant portion of this loan was converted to a grant. The remaining mortgage balance of $40,054 is due in December 2029 and bears interest at 12% a year. Interest is not payable until the thirtieth anniversary of the date of the note. Included in accounts payable and accrued expenses is accrued interest for the years ended June 30, 2020 and 2019 of $98,924 and $94,118, respectively. For each of the years ended June 30, 2020 and 2019, interest expense of $4,806 has been accrued.

4 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the consolidating statements of financial position date for general expenditures are as follows:

	June 30,	
	2020	2019
Cash	$ 39,141	$ 27,906
Restricted cash, tenants' security deposits	59,314	-
Rent receivable	114,732	102,835
Prepaid expenses and other current assets	38,055	47,289
Total current financial assets as of June 30, 2020 and 2019	251,242	178,030
Less - good faith deposits	9,350	9,350
Less - prepaid expenses	11,820	29,337
Less - security deposits	1,797	1,397
Total financial assets available within one year	$ 228,275	$ 137,946

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition to the current financial assets above, in the event of financial distress or an unanticipated liquidity need, management believes it has the ability to borrow from affiliates if cash generated from operating activities is insufficient to meet its obligations.

5 - PENSION PLAN

The Organization participates in an affiliate-sponsored defined contribution profit sharing plan qualifying under Section 401(k) of the Code which permits eligible employees to voluntarily contribute a percentage of their compensation to the plan, not to exceed the maximum allowed under the Code. The Organization at its option may contribute additional amounts to the plan. The Organization also participates in an affiliate-sponsored thrift plan qualifying under Section 403(b) of the Code, which permits eligible employees to voluntarily contribute a percentage of their compensation to the plan, not to exceed the maximum allowed under the Code. The Organization at its option may contribute additional amounts to the plan. For the years ended June 30, 2020 and 2019, the Organization's contributions to both plans were approximately $1,000 and $2,000, respectively.

6 - RELATED PARTY TRANSACTIONS

Due to/from Affiliates
The Organization advances funds to and receives funds from affiliates. Due from affiliates and due to affiliates are noninterest-bearing and have no specified due dates. The affiliates have agreed not to seek repayment of funds advanced totaling $545,174 prior to July 1, 2021 and, therefore, these amounts due to affiliates have been classified as long term. The Organization has agreed not to seek repayment of advances totaling $245,477 prior to July 1, 2021 and, therefore, has classified these amounts due from affiliates as long term.

Loans Payable, Affiliates
In January 2014, the Organization entered into a loan with an affiliate, who paid off one of the Organization's mortgages in the amount of $260,000, requiring monthly payments of $2,413, including interest at 7.52% a year, through maturity on January 1, 2029. Interest expense for the years ended June 30, 2020 and 2019 was $14,252 and $15,314, respectively. The unpaid principal balance at June 30, 2020 and 2019 was approximately $166,000 and $181,000, respectively.

In March 2016, the Organization entered into a loan with an affiliate to pay off one of the Organization's mortgages in the amount of $200,000, requiring monthly payments of $3,683, including interest at 4% a year, through maturity on February 1, 2021. Interest expense for the years ended June 30, 2020 and 2019 was $2,061 and $4,221, respectively. The unpaid principal balance at June 30, 2020 and 2019 was approximately $26,000 and $68,000, respectively.

In March 2016, the FFHDFC entered into a loan with NSG to pay off one of FFHDFC's mortgages in the amount of $60,000, requiring monthly payments of $1,105, including interest at 4% a year, through maturity on February 1, 2021. The loan and corresponding interest expense and income has been eliminated in consolidation.

6 - RELATED PARTY TRANSACTIONS (Continued)

In December 2016, the Organization entered into a loan with an affiliate in the amount of $100,000, requiring monthly payments of $2,952, including interest at 4% a year, through maturity on November 1, 2019. Interest expense for the years ended June 30, 2020 and 2019 was $98 and $1,452, respectively. The unpaid principal balance at June 30, 2019 was approximately $16,000. As of June 30, 2020, loan was paid in full.

Rental Expense and Income
Rent expense of $36,000 and $18,000 for each of the fiscal years ended June 30, 2020 and 2019, respectively, consisted of a rent allocation from an affiliate in Brooklyn, New York. Rental income includes $21,000 and $54,000 for each of the fiscal years ended June 30, 2020 and 2019, respectively from two affiliates who lease space from the organization on a month-to-month basis.

Legal Fees
Legal fees of $7,500 for the year ended June 30, 2019 were reimbursed to an affiliate.

Management Fee Revenues
Management fee revenue is derived from entities which are affiliated with the Organization through common ownership.

Salaries and Employee Benefits
The Organization reimburses an affiliate for salaries and employee benefits. Reimbursed payroll and related expenses of $55,894 and $36,920 were incurred by an affiliate for the fiscal years ended June 30, 2020 and 2019, respectively.

7 - RETAINED EARNINGS AND NET ASSETS

Changes in retained earnings and net assets are as follows:

	NSG	FFHDFC
	Retained Earnings	Net Assets without donor restrictions
Balance, June 30, 2018	$ 169,788	$ 1,764,305
Change	(51,455)	(48,427)
Balance, June 30, 2019	118,333	1,715,878
Change	20,806	(84,704)
Balance, June 30, 2020	$ 139,139	$ 1,631,174

8 - LEASING ARRANGEMENTS

The Organization leases commercial space under a noncancelable operating lease to a tenant through August 2021.

Approximate minimum future rental income due under the noncancelable operating lease is as follows:

Year Ending June 30,	
2021	$ 21,000
2022	3,500
	$ 24,500

9 - RISKS AND UNCERTAINTIES

The spread of a novel strain of coronavirus ("COVID-19") around the world in 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Organization is unable to determine if it will have a material impact on its operations.