
**HABITAT FOR HUMANITY NEW YORK
CITY, INC.**

Financial Statements

For the year ended December 31, 2004
(with comparative totals as of December 31, 2003
for the eleven months then ended)



HABITAT FOR HUMANITY NEW YORK CITY, INC.

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Independent Auditors' Report

To the Board of Directors
Habitat for Humanity New York City, Inc.
New York, New York

We have audited the accompanying combined statement of financial position of Habitat for Humanity New York City, Inc. and affiliated organizations ("Habitat") as of December 31, 2004 and the related combined statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Habitat's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Habitat for Humanity New York City, Inc. and affiliated organizations as of December 31, 2004 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

N. Cheng & Co., P.C.

New York, New York
March 21, 2005

HABITAT FOR HUMANITY NEW YORK CITY, INC.
Combined Statement of Financial Position
December 31, 2004
(with comparative totals for December 31, 2003)

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Mortgages and advances receivable, at fair value, less unamortized discounts of \$7,606,478 (2004) and \$5,977,149 (2003) - Notes 2 and 3	\$ 5,510,925	\$ 4,329,762
Construction in progress - Notes 4 and 7	1,458,050	2,061,375
Cash and cash equivalents - Note 2	825,791	1,002,385
Investment	317,411	
Homeowner's escrow receivable - Note 10	3,931	
Grants and contributions receivable	729,726	623,812
Fixed assets - at cost, net of accumulated depreciation of \$24,285 (2004) and \$ 13,116 (2003)	66,956	35,402
Prepaid expenses	36,684	36,602
Loan reserve receivable	<u>41,591</u>	<u>22,161</u>
 Total assets	 <u>\$ 8,991,065</u>	 <u>\$ 8,111,499</u>
<u>Liabilities and net assets</u>		
<u>Liabilities</u>		
Homeowners' escrow - Note 10		\$ 52,316
Homeowners' reserve - Note 10	\$ 94,635	71,167
Notes payable - Note 6	1,918,588	1,683,695
Accounts payable	<u>133,084</u>	<u>154,930</u>
 Total liabilities	 <u>2,146,307</u>	 <u>1,962,108</u>
 Commitment and contingency - Note 6		
<u>Net assets</u>		
Unrestricted	5,522,959	5,102,568
Temporarily restricted - Note 8	<u>1,321,799</u>	<u>1,046,823</u>
 Total net assets	 <u>6,844,758</u>	 <u>6,149,391</u>
 Total liabilities and net assets	 <u>\$ 8,991,065</u>	 <u>\$ 8,111,499</u>

See notes to financial statements.



HABITAT FOR HUMANITY NEW YORK CITY, INC.**Combined Statement of Activities**

For the year ended December 31, 2004

(with comparative totals for the eleven months ended December 31, 2003)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>2004 (12 months)</u>	<u>2003 (11 months)</u>
Revenue				
Contributions and grants	\$ 1,083,265	\$ 2,407,954	\$ 3,491,219	\$ 2,949,843
Subsidies - Note 9	325,000	400,000	725,000	689,000
Mortgage discount amortization - Note 3	345,222		345,222	256,430
Interest income	5,284		5,284	3,525
Rent income	9,721		9,721	24,176
Special event	676,800		676,800	400,823
Less: Direct expenses	(97,559)		(97,559)	(73,771)
Other income	21,273		21,273	29,511
Gain on sale of property - Note 11	33,083		33,083	14,202
Property management income	<u>7,860</u>		<u>7,860</u>	<u>5,260</u>
Total revenue	2,409,949	2,807,954	5,217,903	4,298,999
Net assets released from restrictions	<u>2,532,978</u>	<u>(2,532,978)</u>		
Total revenue and support	<u>4,942,927</u>	<u>274,976</u>	<u>5,217,903</u>	<u>4,298,999</u>
Expenses				
Program services	3,528,015		3,528,015	3,396,064
Management and general	431,034		431,034	189,656
Fund-raising	<u>563,487</u>		<u>563,487</u>	<u>458,541</u>
Total expenses	<u>4,522,536</u>		<u>4,522,536</u>	<u>4,044,261</u>
Change in net assets	420,391	274,976	695,367	254,738
Net assets at beginning of year	<u>5,102,568</u>	<u>1,046,823</u>	<u>6,149,391</u>	<u>5,894,653</u>
Net assets at end of year	<u>\$ 5,522,959</u>	<u>\$ 1,321,799</u>	<u>\$ 6,844,758</u>	<u>\$ 6,149,391</u>

See notes to financial statements



HABITAT FOR HUMANITY NEW YORK CITY, INC.
Combined Statement of Functional Expenses
For the year ended December 31, 2004
(with comparative totals for the eleven months ended December 31, 2003)

	Program services	Management and general	Fund raising	Total 2004 (12 months)	Total 2003 (11 months)
Salaries and wages	\$ 692,887	\$ 214,370	\$ 122,005	\$ 1,029,262	\$ 788,434
Payroll taxes and fringe benefits	223,367	69,107	39,331	331,805	219,686
Total personnel costs	916,254	283,477	161,336	1,361,067	1,008,120
Professional fees	46,208	33,845	26,648	106,701	62,797
Occupancy costs	39,535	12,232	6,961	58,728	95,921
Insurance	22,686	2,917	1,660	27,263	47,775
Office expenses	238,205	73,698	41,944	353,847	244,040
Telephone	25,030	7,744	4,407	37,181	29,902
Travel and meetings	38,047	11,771	6,699	56,517	44,486
Newsletters and direct mail	54,845		310,786	365,631	272,432
Public relations	16,261			16,261	2,378
Tithe	39,000			39,000	20,000
Loss on sales of residences - Note 9	395,535			395,535	897,619
Mortgage discount expense - Note 3	1,979,115			1,979,115	1,589,009
Indirect cost allocation - Note 12	(300,000)			(300,000)	(285,000)
Depreciation expense	16,967	5,249	2,988	25,204	13,116
Miscellaneous	327	101	58	486	1,666
Total expenses	\$ 3,528,015	\$ 431,034	\$ 563,487	\$ 4,522,536	\$ 4,044,261

See notes to financial statements.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Combined Statement of Cash Flows

For the year ended December 31, 2004

(with comparative totals for the 11 months ended December 31, 2003)

	2004 <u>(12 months)</u>	2003 <u>(11 months)</u>
Cash flows from operating activities		
Change in net assets	\$ 695,367	\$ 254,738
Adjustments to reconcile change in net assets to net cash (used in)/provided by operating activities:		
Depreciation	25,204	13,116
Mortgage discount expense	1,975,075	1,582,986
Mortgage discount amortization	(345,222)	(256,430)
Change in mortgage advance receivable	(31,878)	(7,033)
Receipts from mortgages receivable	401,252	283,928
Mortgages received	(3,180,390)	(2,550,738)
Change in homeowner's escrow receivable	(3,931)	
Change in grants and contributions receivable	(105,914)	206,932
Change in loan reserve receivable	(19,430)	(22,161)
Change in prepaid expenses	(82)	25,510
Change in accounts payable	(21,846)	46,129
Change in homeowner's escrow payable	(52,316)	5,294
Change in homeowner's reserve payable	23,468	26,275
Change in construction in progress	<u>603,325</u>	<u>551,459</u>
Net cash (used in)/provided by operating activities	<u>(37,318)</u>	<u>160,005</u>
Cash flows from investing activities		
Acquisition of investments	(317,411)	
Acquisition of fixed assets	<u>(56,758)</u>	<u>(27,548)</u>
Net cash used in investing activities	<u>(374,169)</u>	<u>(27,548)</u>
Cash flows from financing activities		
Payment on notes payable	(233,076)	(197,038)
Proceeds from notes payable	<u>467,969</u>	<u> </u>
Net cash provided by/(used in) financing activities	<u>234,893</u>	<u>(197,038)</u>
Net decrease in cash and cash equivalents	(176,594)	(64,581)
Cash and cash equivalents at beginning of year	<u>1,002,385</u>	<u>1,066,966</u>
Cash and cash equivalents at end of year	<u>\$ 825,791</u>	<u>\$ 1,002,385</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	<u>\$ 22,407</u>	<u>\$ 15,588</u>
Cash paid during the year for taxes	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2004

Note 1 Organization

Habitat for Humanity New York City, Inc. ("Habitat") is a not-for-profit interdenominational organization whose purpose is to encourage, promote and assist in the building and rehabilitation of housing for ownership by low income persons in New York City. Habitat is an affiliate of Habitat for Humanity International, Inc. ("HFH International") located in Americus, Georgia.

Habitat is a privately operated and financed program that transfers such housing to low income persons (its "family partners") at less than the cost of construction, providing them with no-interest mortgages. Habitat expects to continue to finance its operations through continuing contributions and mortgage receipts.

Habitat is exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code and has been classified as a publicly supported organization as described in Code Sections 509(a)(1) and 170(b)(A)(VI).

Note 2 Summary of significant accounting policies

Accrual basis. The financial statements have been prepared using the accrual basis of accounting.

Method of consolidation. The accompanying combined financial statements present the assets, liabilities, net assets, financial activities and cash flows of Habitat. Also included within the combined financial statements are the assets, liabilities, net assets and changes in net assets of Habitat for Humanity Housing Development Fund Company (HDFC). Habitat for Humanity HDFC was formed as a partner organization to Habitat under the New York State Private Housing Finance Law to develop housing for persons of low income.

Combined reporting with Habitat for Humanity HDFC is presented due to the significant degree of managerial control which Habitat currently exercises over this entity. All significant inter-company accounts and transactions have been eliminated in the combination.

Comparative information. The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2003, from which the summarized information was derived.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2004

Note 2 Summary of significant accounting policies - (continued)

Change in year end. Habitat has changed its year end to December 31 in 2003 and the related financial statements cover the period February 1, 2003 to December 31, 2003 (11 months).

Cash and cash equivalents. Habitat considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentrations of credit and market risk. Financial instruments which potentially subject Habitat to a concentration of credit risk are cash accounts with a major financial institution in excess of FDIC insurance limits. This financial institution has a strong credit rating and management believes that credit risk related to these accounts is minimal.

Investments. Investments are recorded at fair value.

Support. Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In the absence of explicit donor stipulations about how long those long-lived assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Net assets. Net assets are classified as follows:

Unrestricted - this class includes net assets from unrestricted contributions and from other sources not subject to donor-imposed restrictions.

Temporarily restricted - this class includes net assets from restricted contributions (temporary restrictions) whose donor-imposed restrictions have not been met due to actions of Habitat and/or the passage of time.

Construction in progress. Construction in progress is recorded at cost and includes capitalization of real estate taxes, insurance and interest.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2004

Note 2 Summary of significant accounting policies - (continued)

Donated services. A substantial number of volunteers have made significant contributions of their time to the organization's program and supporting services. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Mortgages receivable. Mortgages receivable are recorded at fair value. Mortgages receivable with interest rates at less than market value are discounted accordingly and reported at present value.

Fixed assets. Fixed asset acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets and is computed using the straight-line method. Leasehold improvements are amortized over the life of the lease or asset whichever is shorter. This amortization expense is reported as part of occupancy costs.

Use of estimates. 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 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.

Functional allocation of expenses. The cost of providing the various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

Note 3 Mortgages and advances receivable

All expenditures related to the various projects are recorded as construction in progress. When a project is sold, the "subsidized" sale price is recorded as mortgage receivable and the related construction costs are removed from the books accordingly (Note 9).

The various mortgages receivable (up to 30 years) which are interest free, have been discounted using an annual interest rate of 8%. These original discounted amounts are reflected in the financial statements as "mortgage discount expense" in the year the mortgage is closed. The annual amortization of the discount is recorded as "mortgage discount amortization" income.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2004

Note 4 Construction in progress

Real estate costs, building materials, general contractor fees and contract labor are recorded at cost when incurred. A portion of the cost of construction management (which is handled by Habitat staff) is allocated to the respective projects.

Construction in progress consists of the following projects in New York City:

	December 31, <u>2004</u>	December 31, <u>2003</u>
150-21 Yates Road, Queens		\$ 121,836
150-28 Yates Road, Queens	\$ 320	320
199 West 134 th Street, Manhattan		6,655
814-818 East 150 th Street, Bronx	543,018	1,480,157
405-415 Marcus Garvey Blvd., Brooklyn	119,489	32,176
680 Willoughby Avenue, Brooklyn		174,781
143 W. 128th Street, Manhattan	217,353	15,086
237 West 134 th Street, Manhattan	508,896	196,318
Atlantic Avenue, Brooklyn	30,712	13,209
Union Hall - 110 th Avenue, Queens	30,237	9,512
170 th Street, Queens		3,300
East 156 th Street, Bronx	8,025	8,025
Total	<u>\$ 1,458,050</u>	<u>\$ 2,061,375</u>

Note 5 Commitment and contingency

Grants require the fulfillment of certain conditions as set forth in the agreement. Failure to fulfill the conditions could result in the return of the funds to grantors. Habitat deems the contingency remote, since by accepting the gifts and their terms, it has conformed the objectives of Habitat to the provisions of the gift.

Habitat entered into a lease for office space in January 1998 with a not-for-profit organization which was renewed in July 2002. Habitat is not required to pay rent under this lease agreement; however, the organization is responsible for all of the related operating costs, repairs, maintenance, utilities and improvements.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2004

Note 6 Notes payable

Various individuals and organizations have provided loans to Habitat as follows:

	<u>Terms</u>	<u>Rate</u>	<u>12/31/04</u>	<u>12/31/03</u>
Community Preservation Corporation *	On demand	0%	\$ 460,000	\$ 460,000
HFH International	2010	0%	620,000	717,500
HFH International - Shop loan grants:				
1999	Various	0%	3,178	24,958
2001	Various	0%	32,880	41,202
2002	Various	0%	22,250	
2003	2004	0%		31,000
HFH International - Accelerated asset recovery programs:**				
2000	12/31/07	3.98%	121,074	158,343
2001	12/31/08	4.28%	100,186	122,680
2002	12/31/09	3.85%	82,632	97,343
2003	12/31/10	3.25%	245,519	
2004	12/31/11	3.25%	200,200	
Various individuals	On demand	0%	<u>30,669</u>	<u>30,669</u>
Total			<u>\$ 1,918,588</u>	<u>\$ 1,683,695</u>

* The note payable to Community Preservation Corporation is a mortgage on the Willoughby Avenue property used to construct 20 Habitat homes. Habitat's obligation is to make repayments equal to a pro-rated share of the original \$500,000 loan each time the title on a completed home is transferred to the homebuyer. The process of transferring title on the 20 homes was started before the end of 2004, but it had not yet been completed.

** The Accelerated asset recovery program notes payable have set up certain mortgage receivables as collaterals.

Note 7 Statement of functional expenses

Habitat had spent an additional \$1,458,050 on construction projects (program services) as of December 31, 2004. These costs are not reflected in the statement of functional expenses but are capitalized and identified as construction in progress in accordance with generally accepted accounting principles.



HABITAT FOR HUMANITY NEW YORK CITY, INC.
Notes to Combined Financial Statements
December 31, 2004

Note 8 Temporarily restricted net assets

Temporarily restricted net assets include those funds received or promised specifically for construction and development which have not yet been spent in fulfillment of those donor restrictions as well as some grants that are time-restricted.

	Temporarily restricted net assets as of <u>12/31/03</u>	<u>Additions</u>	<u>Releases</u>	Balance as of <u>12/31/04</u>
Willoughby Avenue, Brooklyn		\$ 436,349	\$ 436,349	
East 150th Street, Bronx	\$ 294,123	534,005	828,128	
237 West 134th Street, Manhattan	504,568	240,929	745,497	
2024 Morris Avenue, Bronx	16,000		16,000	
199 West 134th Street, Manhattan	80,000		80,000	
Halsey-Marus Garvey, Brooklyn	27,141	490,415	87,312	\$ 430,244
143 West 128th Street		411,905	202,267	209,638
110th Street, Union Hall, Queens	24,991	669,351	17,425	676,917
Clark Foundation	100,000		100,000	
Mellam Family Foundation		20,000	20,000	
Habitat for Humanity – Staten Island *		5,000		5,000
	<u>\$ 1,046,823</u>	<u>\$ 2,807,954</u>	<u>\$ 2,532,978</u>	<u>\$ 1,321,799</u>

* Purpose restricted – intended for legal expense on the merger with HFH Staten Island.

Note 9 Subsidy income and sales of residences

Selling price subsidy grants are recognized as income when construction of a home is complete and the family has moved in. At this point, the sales price of the residence sold is set up as mortgage receivable and this amount is subtracted from the construction in progress account for that project. The difference between the sales price and the cost of construction is recognized as gain or loss on sale of residences. If additional construction costs are incurred after the gain or loss has been recognized, these costs will be recorded as a reduction of the gain or as additional loss on sale of residences.

Note 10 Homeowners' reserve

In addition to monthly mortgage payment, homeowner should pay for monthly charges which represent reserve and an escrow. Homeowners' reserves were set up to deal with major equipment replacement and emergency repair required in houses. Homeowners' escrows were set up to pay for real estate taxes, water charges, and insurance.



HABITAT FOR HUMANITY NEW YORK CITY, INC.
Notes to Combined Financial Statements
December 31, 2004

Note 11 Gain on sale of property

When “family partners” resell their Habitat homes within a time period specified in their deed of sale, Habitat is entitled to recapture a portion of the subsidy it provided to help fund the construction. This recapture of \$33,083 was recorded as a gain on sale of property. For the year ended December 31, 2003, this recaptured was \$14,202.

Note 12 Indirect cost allocation

To properly record the substantial amount of staff time devoted to planning and completing its capital projects, Habitat allocates \$15,000 of operating expenses per housing unit completed to the capital cost of the construction. This figure is an estimate based on the salary expense of staff whose primary responsibility is planning and supervising construction work.

