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

Financial Statements

For the year ended December 31, 2005
(with comparative totals for 2004)



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Contents

	Page
Independent Auditors' Report	1
Combined Statements of Financial Position	2
Combined Statements of Activities	3
Combined Statements of Functional Expenses	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6-11



N. CHENG & CO. P.C.
Certified Public Accountants

40 Exchange Place
Suite 12061392
New York, New York 10005
Voice (212) 785 0100
Fax (212) 785 9168
www.ncheng.com



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, 2005 and the related combined statements of activities and cash flows for the years 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 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 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 statements 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, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2006 on our consideration of Habitat for Humanity New York City, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. These reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

New York, New York
March 17, 2006

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

December 31, 2005

(with comparative totals for December 31, 2004)

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Mortgages and advances receivable, at fair value, less unamortized discounts of \$7,837,313 (2005) and \$7,606,478 (2004) - Notes 2 and 3	\$ 5,869,640	\$ 5,510,925
Construction in progress - Notes 4 and 7	2,064,412	1,458,050
Cash and cash equivalents - Note 2	1,934,546	657,665
Investments		317,411
Cash - Homeowners' escrow - Note 10	88,538	86,836
Cash - Homeowners' reserve - Note 10	133,142	81,290
Grants and contributions receivable	570,520	729,726
Fixed assets - at cost, net of accumulated depreciation of \$66,360 (2005) and \$ 38,320 (2004)	52,626	66,956
Prepaid expenses	61,901	36,684
Loan reserve receivable - Note 13	41,591	41,591
Total assets	<u>\$ 10,816,916</u>	<u>\$ 8,987,134</u>
<u>Liabilities and net assets</u>		
Liabilities		
Homeowners' escrow payable - Note 10	\$ 25,854	(\$ 3,931)
Homeowners' reserve payable - Note 10	133,142	94,635
Notes payable - Note 6	1,253,307	1,918,588
Accounts payable	167,663	133,084
Total liabilities	<u>1,579,966</u>	<u>2,142,376</u>
Commitment and contingency - Note 5		
Net assets		
Unrestricted	5,374,176	5,522,959
Unrestricted board designated - Note 14	500,000	
Temporarily restricted - Note 8	3,362,774	1,321,799
Total net assets	<u>9,236,950</u>	<u>6,844,758</u>
Total liabilities and net assets	<u>\$ 10,816,916</u>	<u>\$ 8,987,134</u>

See notes to financial statements.



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

For the year ended December 31, 2005

(with comparative totals for December 31, 2004)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>2005</u>	<u>2004</u>
Revenue				
Contributions and grants	\$ 1,847,687	\$ 2,496,383	\$ 4,344,070	\$ 3,414,120
Government subsidies - Note 9		765,524	765,524	802,099
Mortgage discount amortization - Note 3	436,357		436,357	345,222
Interest income	19,542		19,542	5,284
Rent income	893		893	9,721
Special event	1,009,950		1,009,950	676,800
Less: Direct expenses	(125,261)		(125,261)	(97,559)
Other income	19,011		19,011	21,273
Gain on sale of property - Note 11	4,406		4,406	33,083
Property management income				7,860
	<u>3,212,585</u>	<u>3,261,907</u>	<u>6,474,492</u>	<u>5,217,903</u>
Total revenue				
Net assets released from restrictions	<u>1,220,932</u>	(<u>1,220,932</u>)		
	<u>4,433,517</u>	<u>2,040,975</u>	<u>6,474,492</u>	<u>5,217,903</u>
Total revenue and support				
Expenses				
Program services	3,039,067		3,039,067	3,528,015
Management and general	417,272		417,272	431,034
Fund-raising	<u>625,961</u>		<u>625,961</u>	<u>563,487</u>
	<u>4,082,300</u>		<u>4,082,300</u>	<u>4,522,536</u>
Total expenses				
Change in net assets	351,217	2,040,975	2,392,192	695,367
Net assets at beginning of year	<u>5,522,959</u>	<u>1,321,799</u>	<u>6,844,758</u>	<u>6,149,391</u>
	<u>\$ 5,874,176</u>	<u>\$ 3,362,774</u>	<u>\$ 9,236,950</u>	<u>\$ 6,844,758</u>
Net assets at end of year				

See notes to financial statements.



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

For the year ended December 31, 2005

(with comparative totals for the eleven months ended December 31, 2004)

	Program services	Management and general	Fund raising	Total 2005	Total 2004
Salaries and wages	\$ 775,477	\$ 228,984	\$ 115,697	\$ 1,120,158	\$ 1,029,262
Payroll taxes and fringe benefits	180,476	53,292	26,926	260,694	290,532
Total personnel costs	955,953	282,276	142,623	1,380,852	1,319,794
Professional fees	46,866	20,425	71,895	139,186	106,701
Occupancy costs	66,694	19,693	9,950	96,337	100,001
Insurance	23,069	1,054	533	24,656	27,263
Interest expense		25,560		25,560	22,407
Office equipment rental	22,086	6,522	3,295	31,903	23,145
Office expenses	11,327	3,345	1,690	16,362	26,661
Computer maintenance and software	29,916	8,834	4,463	43,213	36,204
Advertisement		3,793		3,793	1,624
Staff training and education	8,609	2,542	1,284	12,435	5,220
Homeowner education and credit reports	6,432			6,432	5,903
Postage	9,601	2,835	1,433	13,869	17,533
Printing and duplicating	9,297	2,745	1,387	13,429	17,208
Special event indirect costs			41,654	41,654	115,870
Warranty items	26,492			26,492	82,072
Telephone	19,349	5,713	2,887	27,949	37,181
Travel and meetings	45,781	13,519	6,830	66,130	56,517
Newsletters and direct mail	81,700		326,799	408,499	365,631
Public relations	11,159			11,159	16,261
Tithe	44,375			44,375	39,000
Loss on sales of residences - Note 9	1,009,375			1,009,375	395,535
Mortgage discount expense - Note 3	667,179			667,179	1,979,115
Indirect cost allocation - Note 12	(120,000)			(120,000)	(300,000)
Uncollected receivable	39,200	11,200	5,600	56,000	
Depreciation expense	19,412	5,732	2,896	28,040	25,204
Miscellaneous	5,195	1,484	742	7,421	486
Total expenses	<u>\$ 3,039,067</u>	<u>\$ 417,272</u>	<u>\$ 625,961</u>	<u>\$ 4,082,300</u>	<u>\$ 4,522,536</u>

Habitat had a construction in progress balance of \$2,064,412 as of December 31, 2005 and \$1,458,050 for the year end of 2004. While these expenditures are for program services, they are not reflected in the statement above, but are capitalized and identified as construction in progress in accordance with generally accepted accounting principles.

See notes to financial statements.



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

For the year ended December 31, 2005

(with comparative totals for the 11 months ended December 31, 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Change in net assets	\$ 2,392,192	\$ 695,367
Adjustments to reconcile change in net assets to net cash provided by/ (used in) operating activities:		
Depreciation expense	28,040	25,204
Mortgage discount expense	667,179	1,975,075
Mortgage discount amortization	(436,357)	(345,222)
Change in mortgage advance receivable	(24,428)	(31,878)
Amortization of mortgage receivables	(1,632,813)	401,252
New mortgage receivables	1,067,704	(3,180,390)
Change in cash - homeowners' escrow	(1,702)	(86,836)
Change in cash - homeowners' reserve	(51,852)	(81,290)
Change in homeowner's escrow receivable	3,931	(3,931)
Change in grants and contributions receivable	159,206	(105,914)
Change in loan reserve receivable		(19,430)
Change in prepaid expenses	(25,217)	(82)
Change in accounts payable	34,579	(21,846)
Change in homeowner's escrow payable	25,854	(52,316)
Change in homeowner's reserve payable	38,507	23,468
Change in construction in progress	(606,362)	603,325
Net cash provided by/(used in) operating activities	<u>1,638,461</u>	<u>(205,444)</u>
Cash flows from investing activities		
Sales of investments	317,411	
Purchase of investments		(317,411)
Acquisition of fixed assets	(13,710)	(56,758)
Net cash provided by/ (used in) investing activities	<u>303,701</u>	<u>(374,169)</u>
Cash flows from financing activities		
Payments of notes payable	(665,281)	(233,076)
Proceeds from notes payable		<u>467,969</u>
Net cash (used in)/ provided by financing activities	<u>(665,281)</u>	<u>234,893</u>
Net increase (decrease) in cash and cash equivalents	1,276,881	(344,720)
Cash and cash equivalents at beginning of year	<u>657,665</u>	<u>1,002,385</u>
Cash and cash equivalents at end of year	<u>\$ 1,934,546</u>	<u>\$ 657,665</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	<u>\$ 25,560</u>	<u>\$ 22,407</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, 2005

Note 1 Organization

Habitat for Humanity New York City, Inc. ("Habitat") is a nonprofit 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 financing 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, 2004, from which the summarized information was derived.

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



HABITAT FOR HUMANITY NEW YORK CITY, INC.
Notes to Combined Financial Statements
December 31, 2005

Note 2 Summary of significant accounting policies - (continued)

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.

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.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2005

Note 2 Summary of significant accounting policies - (continued)

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.

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, fund raising and management and general support 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.

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:

	2005	2004
150-28 Yates Road, Queens		\$ 320
814-818 East 150 th Street, Bronx		543,018
405-415 Marcus Garvey Blvd., Brooklyn	\$ 243,409	119,489
680 Willoughby Avenue, Brooklyn	24,418	
143 W. 128 th Street, Manhattan	353,467	217,353
237 West 134 th Street, Manhattan		508,896
Atlantic Avenue, Brooklyn	95,005	30,712
Union Hall - 110 th Avenue, Queens	1,219,510	30,237
East 156 th Street, Bronx	128,603	8,025
Total	<u>\$ 2,064,412</u>	<u>\$ 1,458,050</u>



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2005

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, this lease was renewed in July 2002 and then again in February 2005. The new lease will expire in December 2006.

Note 6 Notes payable

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

	<u>Terms</u>	<u>Rate</u>	<u>12/31/05</u>	<u>12/31/04</u>
Community Preservation Corporation	On demand	0%		\$ 460,000
HFH International	12/31/10	0%	\$ 510,000	620,000
HFH International - Shop loan grants:				
1999	Various	0%		3,178
2001	Various	0%	20,682	32,880
2002	Various	0%	23,374	22,250
2003		0%	60,000	
HFH International - Accelerated asset recovery programs:*				
2000	12/31/07	3.98%	82,301	121,074
2001	12/31/08	4.28%	76,713	100,186
2002	12/31/09	3.85%	67,092	82,632
2003	12/31/10	3.25%	207,836	245,519
2004	12/31/11	3.25%	174,640	200,200
Various individuals	On demand	0%	<u>30,669</u>	<u>30,669</u>
Total			<u>\$ 1,253,307</u>	<u>\$ 1,918,588</u>

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



HABITAT FOR HUMANITY NEW YORK CITY, INC.
Notes to Combined Financial Statements
December 31, 2005

Note 7 Statement of functional expenses

Habitat had a construction in progress balance of \$2,064,412 as of December 31, 2005 and \$1,458,050 for the year end of 2004. While these expenditures are for program services, they 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.

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.

	Balance as of <u>12/31/04</u>	<u>Additions</u>	<u>Releases</u>	Balance as of <u>12/31/05</u>
East 150th Street, Bronx		\$ 266,890	\$ 266,890	
237 West 134th Street, Manhattan		56,787	56,787	
Atlantic Avenue projects		137,500		\$ 137,500
Halsey-Marus Garvey, Brooklyn	\$ 430,244	500,375		930,619
143 West 128th Street	209,638	629,031	833,255	5,414
110th Street, Union Hall, Queens	676,917	689,796		1,366,713
E 156 th Street, Bronx		862,528		862,528
Habitat for Humanity – Staten Island *	5,000			5,000
Advocacy		64,000	64,000	
Green Build		55,000		55,000
	<u>\$ 1,321,799</u>	<u>\$ 3,261,907</u>	<u>\$ 1,220,932</u>	<u>\$ 3,362,774</u>

* Purpose restricted – intended expenses related to the merger with HFH Staten Island.

Contributions restricted for constructions are released and recognized as unrestricted income when construction of a home is complete and the family has moved in.

Note 9 Sales of residences

Grants restricted for constructions are released and recognized as unrestricted income when construction of a home is complete and the family has moved in. 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.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2005

Note 10 Homeowners' reserve and escrow account

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Withdrawals</u>	<u>Ending balance</u>
Homeowners' escrow	(\$ 3,931)	\$ 209,758	(\$ 179,973)	\$ 25,854
Homeowners' reserve	<u>94,635</u>	<u>46,294</u>	<u>(7,787)</u>	<u>133,142</u>
Total liability	<u>\$ 90,704</u>	<u>\$ 256,052</u>	<u>(\$ 187,760)</u>	<u>\$ 158,996</u>

The escrow and reserve liabilities are covered by money market accounts with balances of \$88,538 and \$133,142 respectively. These are considered to be restricted funds.

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.

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. For the year ended December 31, 2005 total indirect cost allocation was \$120,000 and for 2004 this amount was \$300,000.

Note 13 Loan reserve receivable

For the Accelerated Asset Recovery Program (AARP) loans from Habitat International, the lender withholds an amount equal to one quarterly payment as a reserve. This amount is a receivable, and is paid to the borrower after the entire loan has being repaid. As of December 31, 2005, the balance on this account was \$41,591.



HABITAT FOR HUMANITY NEW YORK CITY, INC.
Notes to Combined Financial Statements
December 31, 2005

Note 14 Unrestricted board designated

The board created a reserve of \$500,000 to be designated for the Atlantic Avenue project. This project is going to be started during 2006.