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

Financial Statements

For the year ended December 31, 2006
(with comparative totals for 2005)



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, 2006 and the related combined statements of activities, functional expenses 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 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, 2006 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.

N. Cheng & Co., P.C.

New York, New York
September 24, 2007

HABITAT FOR HUMANITY NEW YORK CITY, INC.
Combined Statement of Financial Position
December 31, 2006
(with comparative totals for December 31, 2005)

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Mortgages and advances receivable, at fair value, less unamortized discounts of \$7,707,364 (2006) and \$7,837,313 (2005) – Notes 2 and 3	\$ 6,015,913	\$ 5,869,640
Construction in progress – Notes 4 and 7	3,138,153	2,064,412
Foreclosed homes – Note 15	219,736	
Cash and cash equivalents – Note 2	3,070,679	1,934,546
Cash - Homeowners' escrow – Note 10	116,640	88,538
Cash - Homeowners' reserve – Note 10	162,539	133,142
Grants and contributions receivable	283,674	570,520
Fixed assets - at cost, net of accumulated Depreciation and amortization of \$96,854 (2006) and \$ 66,360 (2005) – Note 2	34,659	52,626
Prepaid expenses	19,128	61,901
Loan reserve receivable – Note 13	<u>41,591</u>	<u>41,591</u>
Total assets	<u>\$ 13,102,712</u>	<u>\$ 10,816,916</u>
<u>Liabilities and net assets</u>		
<u>Liabilities</u>		
Homeowners' escrow payable – Note 10	(\$ 1,056)	\$ 25,854
Homeowners' reserve payable – Note 10	178,078	133,142
Savings plan contribution for family members – Note 16	22,520	
Notes payable – Note 6	929,771	1,253,307
Accounts and accrued expenses payable	<u>543,253</u>	<u>167,663</u>
Total liabilities	<u>1,672,566</u>	<u>1,579,966</u>
Commitment and contingency – Note 5		
<u>Net assets</u>		
Unrestricted	6,799,268	5,374,176
Unrestricted board designated – Note 14		500,000
Temporarily restricted – Note 8	<u>4,630,878</u>	<u>3,362,774</u>
Total net assets	<u>11,430,146</u>	<u>9,236,950</u>
Total liabilities and net assets	<u>\$ 13,102,712</u>	<u>\$ 10,816,916</u>

See notes to financial statements.



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

For the year ended December 31, 2006

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>2006</u>	<u>2005</u>
Revenue				
Contributions and grants	\$ 2,153,265	\$ 2,869,106	\$ 5,022,371	\$ 4,319,070
Government subsidies – Note 9		897,500	897,500	790,524
Mortgage discount amortization – Note 3	472,726		472,726	436,357
Interest income	73,615		73,615	19,542
Rent income				893
Special event	627,353		627,353	1,009,950
Less: Direct expenses	(129,790)		(129,790)	(125,261)
Other income	19,375		19,375	19,011
Gain on sale of property – Note 11				4,406
Total revenue	<u>3,216,544</u>	<u>3,766,606</u>	<u>6,983,150</u>	<u>6,474,492</u>
Net assets released from restrictions	<u>2,498,502</u>	(<u>2,498,502</u>)		
Total revenue and support	<u>5,715,046</u>	<u>1,268,104</u>	<u>6,983,150</u>	<u>6,474,492</u>
Expenses				
Program services	3,641,437		3,641,437	3,039,067
Management and general	473,027		473,027	417,272
Fund-raising	675,490		675,490	625,961
Total expenses	<u>4,789,954</u>		<u>4,789,954</u>	<u>4,082,300</u>
Change in net assets	925,092	1,268,104	2,193,196	2,392,192
Net assets at beginning of year	<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	<u>\$ 6,799,268</u>	<u>\$ 4,630,878</u>	<u>\$ 11,430,146</u>	<u>\$ 9,236,950</u>

See notes to financial statements.



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

For the year ended December 31, 2006

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

	*	Program services	Management and general	Fund raising	Total 2006	Total 2005
Salaries and wages	\$	847,908	\$ 245,311	\$ 74,608	\$ 1,167,827	\$ 1,120,158
Payroll taxes and fringe benefits		246,505	71,328	21,729	339,562	260,694
Total personnel costs		1,094,413	316,639	96,337	1,507,389	1,380,852
Americorp / Vista Program expense		155,126			155,126	
Professional fees		85,602	72,700	16,606	174,908	139,186
Occupancy costs		58,754	17,030	9,367	85,151	96,337
Insurance		36,574	5,224	1,591	43,389	24,656
Interest expense		14,657	4,241	1,292	20,190	25,560
Office equipment rental		22,045	5,573	1,698	29,316	31,903
Office expenses		25,742	6,507	1,982	34,231	16,362
Computer maintenance and software		25,688	6,494	1,978	34,160	43,213
Advertisement		3,602	910	277	4,789	3,793
Staff training and education		8,326	3,354	2,108	13,788	12,435
Homeowner education and credit reports		4,898			4,898	6,432
Postage		12,255	3,098	944	16,297	13,869
Printing and duplicating		9,850	3,959	8,164	21,973	13,429
Special event indirect costs		5,736	3,699	72,556	81,991	41,654
Warranty items		24,999			24,999	26,492
Telephone		20,370	5,149	1,569	27,088	27,949
Travel and meetings		49,212	12,440	3,789	65,441	66,130
Newsletters and direct mail		113,199		452,798	565,997	408,499
Public relations		18,021			18,021	11,159
Tithe		59,134			59,134	44,375
Loss on sale of residences - Note 9		1,288,041			1,288,041	1,009,375
Mortgage discount expense - Note 3		586,417			586,417	667,179
Indirect cost allocation - Note 12	(105,000)			(105,000)	(120,000)
Uncollected receivable						56,000
Depreciation and amortization expense		22,932	5,797	1,765	30,494	28,040
Miscellaneous		844	213	669	1,726	7,421
Total expenses	\$	<u>3,641,437</u>	<u>\$ 473,027</u>	<u>\$ 675,490</u>	<u>\$ 4,789,954</u>	<u>\$ 4,082,300</u>

* Habitat NYC had a program expense rate of 76% in 2006 and 74% in 2005 over to total expenses.

Habitat had a construction in progress balance of \$3,138,153 as of December 31, 2006 and \$2,064,412 for the year ended December 31, 2005. 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, 2006
(with comparative totals for the year ended December 31, 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Change in net assets	\$ 2,193,196	\$ 2,392,192
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	30,494	28,040
Mortgage discount expense	586,417	667,179
Mortgage discount amortization	(472,726)	(436,357)
Change in mortgage and advances receivable	831	(24,428)
Amortization of mortgage receivables	(1,184,015)	(1,632,813)
New mortgage receivables	923,220	1,067,704
Change in cash - homeowners' escrow	(28,102)	(1,702)
Change in cash - homeowners' reserve	(29,397)	(51,852)
Change in homeowner's escrow receivable		3,931
Change in grants and contributions receivable	286,846	159,206
Change in prepaid expenses	42,773	(25,217)
Change in accounts payable	375,590	34,579
Change in savings plan contributions	22,520	
Change in homeowner's escrow payable	(26,910)	25,854
Change in homeowner's reserve payable	44,936	38,507
Change in construction in progress	(1,073,741)	(606,362)
Change in foreclosed homes	(219,736)	
Net cash provided by operating activities	<u>1,472,196</u>	<u>1,638,461</u>
Cash flows from investing activities		
Sale of investments		317,411
Acquisition of fixed assets	(12,527)	(13,710)
Net cash provided by/ (used in) investing activities	<u>(12,527)</u>	<u>303,701</u>
Cash flows from financing activities		
Payments of notes payable	(323,536)	(665,281)
Net increase in cash and cash equivalents	1,136,133	1,276,881
Cash and cash equivalents at beginning of year	<u>1,934,546</u>	<u>657,665</u>
Cash and cash equivalents at end of year	<u>\$ 3,070,679</u>	<u>\$ 1,934,546</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	<u>\$ 20,190</u>	<u>\$ 25,560</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, 2006

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"). The 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 the 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, 2005, 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.

Investments. Investments, if any, are recorded at fair value.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2006

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.

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 and advances receivable. Such receivables are recorded at fair value. Mortgage receivables 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.



HABITAT FOR HUMANITY NEW YORK CITY, INC.

Notes to Combined Financial Statements

December 31, 2006

Note 2 Summary of significant accounting policies - (continued)

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 functional expenses. 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:

	<u>2006</u>	<u>2005</u>
Marcus Garvey Blvd., Brooklyn	\$ 1,111,183	\$ 243,409
Willoughby Avenue, Brooklyn		24,418
West 128th Street, Manhattan		353,467
Atlantic Avenue, Brooklyn	312,229	95,005
Union Hall - 110 th Avenue, Queens		1,219,510
East 156 th Street, Bronx	1,674,753	128,603
Simpson Street, Bronx	6,552	
Lafayette Avenue, Brooklyn	9,801	
Hart Street, Brooklyn	8,002	
Mother Gaston Blvd, Brooklyn	4,586	
St. Johns Place, Brooklyn	6,387	
107th Avenue, Queens	<u>4,660</u>	
Total	<u>\$ 3,138,153</u>	<u>\$ 2,064,412</u>



HABITAT FOR HUMANITY NEW YORK CITY, INC.
Notes to Combined Financial Statements
December 31, 2006

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 November 2006 with Braun Management Inc.; this is a ten year lease starting April 2007 and ending April 2017. Future payments for the lease are as follows:

Lease years	<u>Amount</u>
2007	\$ 171,396
2008	175,660
2009	180,930
2010	186,358
2011	191,949
Lease balance thereafter	<u>1,067,408</u>
 Total lease	 <u>\$ 1,973,701</u>

Note 6 Notes payable

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

	<u>Terms</u>	<u>Rate</u>	<u>12/31/06</u>	<u>12/31/05</u>
HFH International	12/31/10	0%	\$ 390,000	\$ 510,000
HFH International - Shop loan grants:				
2001	Various	0%	8,058	20,682
2002	Various	0%	15,598	23,374
2003	Various	0%	51,258	60,000
HFH International - Accelerated asset recovery programs:*				
2000	12/31/07	3.98%	41,964	82,301
2001	12/31/08	4.28%	44,000	76,713
2002	12/31/09	3.85%	51,210	67,092
2003	12/31/10	3.25%	168,916	207,836
2004	12/31/11	3.25%	148,099	174,640
Various individuals	On demand	0%	<u>10,668</u>	<u>30,669</u>
Total			<u>\$ 929,771</u>	<u>\$ 1,253,307</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, 2006

Note 7 Statement of functional expenses

Habitat had a construction in progress balance of \$3,138,153 as of December 31, 2006 and \$2,064,412 for the year ended December 31, 2005. 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>12/31/05</u>	<u>Additions</u>	<u>Releases</u>	Balance as of <u>12/31/06</u>
Willoughby Avenue, Brooklyn		\$ 136,000	\$ 136,000	
237 West 134th Street, Manhattan		450,000	450,000	
Atlantic Avenue projects	\$ 137,500	2,222,505		\$ 2,360,005
Halsey-Marus Garvey, Brooklyn	930,619	10,751		941,370
143 West 128th Street	5,414	250,000	255,414	
110th Street, Union Hall, Queens	1,366,713	290,375	1,657,088	
E. 156 th Street, Bronx	862,528	265,975		1,128,503
Habitat for Humanity – Staten Island *	5,000			5,000
Advocacy		60,000		60,000
Green Build	55,000	81,000		136,000
	<u>\$ 3,362,774</u>	<u>\$ 3,766,606</u>	<u>\$ 2,498,502</u>	<u>\$ 4,630,878</u>

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

Contributions restricted for construction 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 construction 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, 2006

Note 10 Homeowners' reserve and escrow payable accounts

In addition to the monthly mortgage payment, the homeowner pays additional charges for reserve and escrow. Homeowners' reserves were set up to deal with major equipment replacement and emergency repairs. Homeowners' escrows were set up to pay for real estate taxes, water charges, and insurance.

	<u>Beginning balance</u>	<u>Additions</u>	<u>Withdrawals</u>	<u>Ending balance</u>
Homeowners' escrow	\$ 25,854	\$ 140,553	(\$ 167,463)	(\$ 1,056)*
Homeowners' reserve	<u>133,142</u>	<u>49,571</u>	<u>(4,635)</u>	<u>178,078</u>
Total liability	<u>\$ 158,996</u>	<u>\$ 190,124</u>	<u>(\$ 172,098)</u>	<u>\$ 177,022</u>

Homeowners' escrow with a negative balance of (\$1,056) is as follows:

Due to homeowners	\$ 75,865
Due from homeowner	<u>(76,921)</u>
Total net homeowners escrow balance	<u>(\$ 1,056)*</u>

For the homeowners with negative balance, Habitat is in the process of increasing the escrow payment requirement.

Escrow exposure:

Restricted cash accounts	
Escrow	\$ 116,640
Reserve	<u>162,539</u>
Total cash accounts	279,179

Due to homeowners for:

Reserve	\$ 178,078	
Escrow	75,865	
Families savings plan [1]	<u>22,520</u>	
Total due to homeowners		<u>(276,463)</u>
Exposure balance is positive		<u>\$ 2,716</u>

[1] After homeowners are approved to own a Habitat home, they are enrolled in this savings plan. The plan consist on making monthly contributions before the family moves in; and later the money is used to cover part of the family's share of closing costs. This cash is deposited into the escrow and reserve bank account. As of December 31, 2006, the cash balance in this account is \$22,520.

HABITAT FOR HUMANITY NEW YORK CITY, INC.
Notes to Combined Financial Statements
December 31, 2006

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, 2006 total indirect cost allocation was \$105,000 and for 2005 this amount was \$120,000.

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, 2006, the balance on this account was \$41,591.

Note 14 Unrestricted board designated

At the end of 2005, the board created a reserve of \$500,000 to be designated for the Atlantic Avenue project. This project was started during 2006.

Note 15 Foreclosed Homes

The following properties were foreclosed during 2006 and are recorded at book value at the time of foreclosure as follows:

Location	<u>Date foreclosed</u>	<u>Amount</u>
147TH STREET, SOUTH OZONE PARK, NY	October 31, 2006	\$ 82,642
150TH STREET, BRONX	September 12, 2006	69,191
128TH STREET, New York, NY	October 31, 2006	<u>67,903</u>
Total homes foreclosed		<u>\$ 219,736</u>

