

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

**Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity New York City, Inc. and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity New York City, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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 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 of material misstatement, whether due to fraud or error.

Auditor's 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 of 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 entity'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 entity'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.

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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 consolidated financial position of Habitat for Humanity New York City, Inc. and Affiliates as of June 30, 2016 and 2015, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mitchell Titus, LLP

December 9, 2016

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 4,120,192	\$ 4,047,018
Investments - Note 4	4,124,140	6,141,747
Accounts receivable (net of allowance for bad debts)	110,000	62,851
Contributions receivable—current portion - Note 3	-	52,235
Mortgages receivable—current portion - Note 5	369,670	428,186
ReStore inventory	80,027	190,876
Prepaid expenses and other assets	181,240	193,957
Total current assets	<u>8,985,269</u>	<u>11,116,870</u>
<i>Non-current assets</i>		
Restricted cash	2,025,179	2,326,652
Family members' savings plan contributions	41,222	73,087
Homeowners' escrow and reserve funds	26,226	26,416
Investments - Note 4	1,000,000	1,000,000
Contributions receivable—long-term portion - Note 3	-	26,213
Mortgages receivable—long-term portion (net of unamortized discount) - Note 5	4,110,227	4,476,066
Projects under development - Note 6	7,815,526	5,676,516
Property and equipment (net of accumulated depreciation and amortization) - Note 7	306,602	398,189
Security deposit	27,887	27,887
Total non-current assets	<u>15,352,869</u>	<u>14,031,026</u>
Total assets	<u>\$ 24,338,138</u>	<u>\$ 25,147,896</u>

The accompanying notes are an integral part of these consolidated financial statements.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATESConsolidated Statements of Financial Position (*continued*)

As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 1,056,242	\$ 829,826
Line of credit	2,000,000	-
Total current liabilities	<u>3,056,242</u>	<u>829,826</u>
<i>Non-current liabilities</i>		
Deferred revenue - Note 9	355,996	712,131
Deferred developer's fee	-	34,725
Partnership distributions in excess of equity interest - Note 8	198,324	141,340
Family members' savings plan contributions	2,175	73,087
Homeowners' escrow and reserve funds	-	26,416
Deferred rent - Note 13	12,669	36,470
Total non-current liabilities	<u>569,164</u>	<u>1,024,169</u>
Total liabilities	<u>3,625,406</u>	<u>1,853,995</u>
<i>Commitments - Note 13</i>		
<i>Net assets</i>		
<i>Unrestricted</i>		
Board-designated - Note 10	1,000,000	1,000,000
Undesignated	19,642,732	22,212,839
Total unrestricted	<u>20,642,732</u>	<u>23,212,839</u>
<i>Temporarily restricted - Note 11</i>	<u>70,000</u>	<u>81,062</u>
Total net assets	<u>20,712,732</u>	<u>23,293,901</u>
Total liabilities and net assets	<u><u>\$ 24,338,138</u></u>	<u><u>\$ 25,147,896</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Consolidated Statement of Activities

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUE AND RECLASSIFICATIONS			
<i>Support</i>			
Contributions (including in-kind contributions of \$347,038 and contributed services of \$31,851)	\$ 2,151,026	\$ 1,557,792	\$ 3,708,818
Special events	-	70,000	70,000
<i>Revenue</i>			
<i>Sale of housing units</i>			
Proceeds from sales	3,161,644	-	3,161,644
Government subsidies - Note 9	1,368,011	-	1,368,011
Developer's fee	34,725	-	34,725
ReStore sales	336,423	-	336,423
Investment return	71,726	-	71,726
Mortgage discount amortization	541,337	-	541,337
Equity interest in limited partnership - Note 8	(20,171)	-	(20,171)
Other income-net	130,307	-	130,307
Total support and revenue	<u>7,775,028</u>	<u>1,627,792</u>	<u>9,402,820</u>
Net assets released from restrictions - Note 11	1,638,854	(1,638,854)	-
Total support, revenue and reclassifications	<u>9,413,882</u>	<u>(11,062)</u>	<u>9,402,820</u>
EXPENSES			
<i>Program services</i>			
Cost of housing units sold - Note 6	4,233,044	-	4,233,044
Personnel and other expenses	4,450,483	-	4,450,483
Total program services	<u>8,683,527</u>	<u>-</u>	<u>8,683,527</u>
<i>Supporting services</i>			
Management and general	1,992,358	-	1,992,358
Fundraising	1,308,104	-	1,308,104
Total supporting services	<u>3,300,462</u>	<u>-</u>	<u>3,300,462</u>
Total expenses	<u>11,983,989</u>	<u>-</u>	<u>11,983,989</u>
Change in net assets	(2,570,107)	(11,062)	(2,581,169)
Net assets, at beginning of year	<u>23,212,839</u>	<u>81,062</u>	<u>23,293,901</u>
Net assets, at end of year	<u>\$ 20,642,732</u>	<u>\$ 70,000</u>	<u>\$ 20,712,732</u>

The accompanying notes are an integral part of these consolidated financial statements.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Consolidated Statement of Activities (*continued*)
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUE AND RECLASSIFICATIONS			
<i>Support</i>			
Contributions (including in-kind contributions of \$307,438 and contributed services of \$42,000)	\$ 2,732,054	\$ 345,196	\$ 3,077,250
Special events (net of benefit-to-donor costs of \$174,832)	308,775	-	308,775
<i>Revenue</i>			
<i>Sale of housing units</i>			
Proceeds from sales	2,836,990	-	2,836,990
Government subsidies - Note 9	2,479,777	-	2,479,777
Developer's fee	234,970	-	234,970
Investment return	57,290	-	57,290
Mortgage discount amortization	378,168	-	378,168
Equity interest in limited partnership - Note 8	360,309	-	360,309
Other income-net	57,063	-	57,063
Total support and revenue	9,445,396	345,196	9,790,592
Net assets released from restrictions - Note 11	1,012,805	(1,012,805)	-
Total support, revenue and reclassifications	10,458,201	(667,609)	9,790,592
EXPENSES			
<i>Program services</i>			
Cost of housing units sold - Note 6	5,258,857	-	5,258,857
Personnel and other expenses	3,976,747	-	3,976,747
Total program services	9,235,604	-	9,235,604
<i>Supporting services</i>			
Management and general	1,306,929	-	1,306,929
Fundraising	1,237,460	-	1,237,460
Total supporting services	2,544,389	-	2,544,389
Total expenses	11,779,993	-	11,779,993
Change in net assets	(1,321,792)	(667,609)	(1,989,401)
Net assets, at beginning of year	24,534,631	748,671	25,283,302
Net assets, at end of year	<u>\$ 23,212,839</u>	<u>\$ 81,062</u>	<u>\$ 23,293,901</u>

The accompanying notes are an integral part of these consolidated financial statements.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2016

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	
<i>Cost of housing units sold</i>				
Projects under development	\$ 4,233,044	\$ -	\$ -	\$ 4,233,044
<i>Personnel expenses</i>				
Salaries and wages	1,759,985	879,954	455,088	3,095,027
Payroll taxes and fringe benefits	377,548	254,726	93,457	725,731
Total personnel costs	2,137,533	1,134,680	548,545	3,820,758
<i>Other expenses</i>				
Americorps/Vista program expenses	144,327	-	1,261	145,588
Employee relocation	388	28,000	-	28,388
Professional fees (including contributed services of \$20,000)	125,870	285,331	129,692	540,893
Occupancy costs	216,733	54,421	32,088	303,242
Insurance	78,796	24,024	-	102,820
Office expenses	80,302	54,793	3,887	138,982
Computer maintenance and software	76,154	81,633	59,163	216,950
Advertising	58,936	4,734	3,112	66,782
Staff training and education	25,682	14,594	4,705	44,981
Home owner education, credit reports	3,031	-	-	3,031
Postage	5,445	7,153	3,286	15,884
Common charges	27,448	6,630	301	34,379
Printing and duplicating	1,641	2,261	8,936	12,838
Special event indirect costs	9,778	-	85,238	95,016
Repairs and maintenance (including contributed services of \$11,851)	769,345	-	1,414	770,759
Telephone	38,085	10,050	7,134	55,269
Travel and meetings	82,096	23,104	15,583	120,783
Direct mail and newsletters - printing, supplies, postage and delivery	-	-	237,237	237,237
Public relations	124	78,827	68,114	147,065
Tithe	78,000	-	-	78,000
Depreciation and amortization	19,087	74,350	-	93,437
Bad debts expense	-	65,342	-	65,342
HFHI fees	25,000	-	-	25,000
ReStore cost of sales	326,285	-	-	326,285
ReStore sales tax	27,437	-	-	27,437
Real estate transfer tax	21,255	-	-	21,255
Miscellaneous	71,705	42,431	98,408	212,544
Total other expenses	2,312,950	857,678	759,559	3,930,186
Total expenses	\$ 8,683,527	\$ 1,992,358	\$ 1,308,104	\$ 11,983,989

The accompanying notes are an integral part of these consolidated financial statements.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses (*continued*)
For the Year Ended June 30, 2015

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	
<i>Cost of housing units sold</i>				
Projects under development	\$ 5,258,857	\$ -	\$ -	\$ 5,258,857
<i>Personnel expenses</i>				
Salaries and wages	1,833,037	505,033	564,346	2,902,416
Payroll taxes and fringe benefits	358,358	150,994	115,208	624,560
Total personnel costs	2,191,395	656,027	679,554	3,526,976
<i>Other expenses</i>				
AmeriCorps/Vista program expenses	106,192	-	1,014	107,206
Professional fees (including contributed services of \$42,000)	142,603	222,436	18,567	383,606
Occupancy costs	147,266	50,976	22,656	220,898
Insurance	75,837	32,243	-	108,080
Office expenses	58,400	46,341	2,622	107,363
Computer maintenance and software	5,791	119,535	96,926	222,252
Advertising	2,647	1,136	2,615	6,398
Staff training and education	31,928	21,740	2,424	56,092
Homeowner education, credit reports	5,872	-	-	5,872
Postage	1,573	9,357	1,305	12,235
Common charges	82,761	26,544	-	109,305
Printing and duplicating	10,471	3,913	6,094	20,478
Special event indirect costs	19,939	-	50,326	70,265
Repairs and maintenance	913,013	752	-	913,765
Telephone	10,143	9,129	-	19,272
Travel and meetings	60,687	13,995	7,798	82,480
Direct mail and newsletters—printing, supplies, postage and delivery	-	-	216,253	216,253
Public relations (including in-kind contributions of promotional materials of \$65,470)	450	-	77,883	78,333
Tithe	75,000	-	-	75,000
Depreciation and amortization	-	66,457	-	66,457
Bad debts expense	-	18,927	-	18,927
HFHI fees	16,700	-	-	16,700
Miscellaneous	18,079	7,421	51,423	76,923
Total other expenses	1,785,352	650,902	557,906	2,994,160
Total expenses	\$ 9,235,604	\$ 1,306,929	\$ 1,237,460	\$ 11,779,993

The accompanying notes are an integral part of these consolidated financial statements.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,581,169)	\$ (1,989,401)
<i>Adjustments to reconcile change in net assets to net cash used in operations</i>		
Equity interest in limited partnership	20,171	(360,309)
Depreciation and amortization	93,437	66,457
Bad debts expense	65,342	18,927
In-kind contribution of equipment	-	(22,413)
Unrealized (gain) loss on investments	(25,457)	3,247
Mortgage discount amortization	(541,337)	(378,168)
<i>Changes in operating assets and liabilities</i>		
Accounts receivable	(47,149)	112,415
Contributions receivable	13,106	485,931
Prepaid expenses and other assets	12,717	10,519
Family members' savings plan contributions, homeowners' escrow and reserve funds	32,055	(7,771)
Projects under development	(2,139,010)	2,881,439
ReStore inventory	110,849	(190,876)
Accounts payable and accrued expenses	226,416	(602,110)
Deferred revenue	(356,135)	(2,479,777)
Deferred developer's fee	(34,725)	(234,970)
Family members' savings plan contributions, homeowners' escrow and reserve funds	(97,328)	7,771
Deferred rent	(23,801)	(20,276)
Net cash used in operating activities	<u>(5,272,018)</u>	<u>(2,699,365)</u>
CASH FROM INVESTING ACTIVITIES		
Acquisition of furniture and equipment	(1,850)	(217,683)
Collections on mortgages receivable	965,692	532,077
Distributions received from limited partnership	36,813	501,649
Sale (purchase) of investments	2,043,064	(94,748)
Net cash provided by investing activities	<u>3,043,719</u>	<u>721,295</u>
CASH FROM FINANCING ACTIVITIES		
Borrowing under line of credit	2,000,000	-
Net cash provided by financing activities	<u>2,000,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(228,299)	(1,978,070)
Cash and cash equivalents, beginning of year	6,373,670	8,351,740
Cash and cash equivalents, end of year	<u>\$ 6,145,371</u>	<u>\$ 6,373,670</u>
<i>Cash and cash equivalents at end of year consisted of:</i>		
Unrestricted	\$ 4,120,192	\$ 4,047,018
Restricted	2,025,179	2,326,652
Total	<u>\$ 6,145,371</u>	<u>\$ 6,373,670</u>
Interest charged to projects under development	<u>\$ 7,607</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 1 ORGANIZATION

Habitat for Humanity New York City, Inc. (Habitat-NYC) transforms lives and New York City by building quality homes for families in need and uniting all New Yorkers around the cause of affordable housing. Habitat-NYC's work includes the new construction of multi-family homes, rehabilitation of single- and multi-family homes, and community improvement projects, including painting and rehabilitation of community and senior centers. Habitat-NYC also advocates for housing policies that benefit low-income people. Generally, each housing project is undertaken under a separate entity organized under the New York State Private Housing Finance Law and New York State Not-For-Profit Corporation Law, with Habitat-NYC being the sole member. Habitat-NYC's housing projects are undertaken by the following entities:

- Habitat for Humanity Housing Development Fund Company (HDFC)
- Hart Lafayette Housing Development Fund Corporation (Hart-Lafayette)
- Habitat for Humanity St. John's Housing Development Fund Corporation (St. John's)
- Habitat for Humanity Bed-Stuy Homes HDFC (Bed-Stuy I)
- Habitat for Humanity Bed-Stuy Homes II HDFC (Bed-Stuy II)
- Habitat for Humanity Bed-Stuy Homes III HDFC (Bed-Stuy III)
- Habitat for Humanity Bed-Stuy Homes IV HDFC (Bed-Stuy IV)
- Habitat for Humanity Bed-Stuy Homes V HDFC (Bed-Stuy V)
- Habitat for Humanity Bed-Stuy Homes VI HDFC (Bed-Stuy VI)
- Habitat for Humanity Dean Street Housing Development Fund Corporation (Dean Street)
- Habitat for Humanity Latent Thomas Boyland Street Housing Development Fund Corporation (Latent)
- Habitat for Humanity Almat Tilden Street Housing Development Fund Corporation (Almat Tilden)
- Habitat for Humanity Queens Phase II Housing Development Fund Corporation (Queens Phase II)
- Ralph Avenue I Housing Development Fund Corporation (Ralph Avenue I)
- HFH NYC GC LLC (GC)

Habitat-NYC and HDFC are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and have been classified as publicly supported organizations as described in Code Sections 509(a)(1) and 170(b)(a)(vi). Further, Hart-Lafayette, Bed-Stuy I, Bed-Stuy II, Bed-Stuy III, Bed-Stuy IV, Bed-Stuy V, Bed-Stuy VI, St. John's and Dean Street are exempt from federal income taxes under Section 501(c)(4) of the Code. Habitat-NYC expects to receive the determination letters from the Internal Revenue Service (the IRS) for, Latent, Almat Tilden, Queens Phase II, and Ralph Avenue I, which were established to be tax exempt under Section 501(c)(4) of the Code. GC is a domestic limited liability company set up in the state of New York to act as a general contractor on some Habitat-NYC construction projects.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 1 ORGANIZATION *(continued)*

On January 19, 2016, Habitat NYC formed AG Habitat Tilden Street LLC (“LLC”) for the purpose of constructing and selling 57 units of affordable housing for the Sydney House project. On May 11, 2016, Habitat NYC and Almat Group LLC executed an Operating Agreement for the LLC, which provides Habitat NYC with a 51% ownership interest and Almat Group LLC with a 49% ownership interest. On May 12, 2016, Habitat for Humanity Almat Tilden Street HDFC (“Almat Tilden”) acquired title for the land and improvements for the Sydney House project and executed a Nominee Agreement with the LLC that provides the LLC authority to make decisions on behalf of Almat Tilden. Additionally, on the same date, Habitat NYC originated a Sponsor Mortgage and Note in the amount of \$1,969,000 for which the LLC and Almat Tilden were collectively the mortgagor. As of June 30, 2016, the balance of the principal and interest of the loan is \$1,984,214.

On April 1, 2015, Habitat NYC and Latent Productions LLC executed a Joint Venture Agreement (“JVA”) for the purposes of constructing and selling 25 units of affordable housing for the SEED project. The JVA provides Habitat NYC a 65% ownership interest and Latent Productions LLC with a 35% ownership interest in a special purpose entity to be formed for the project.

Habitat-NYC is an affiliate of Habitat for Humanity International, Inc. (HFHI), which is based in Americus, Georgia. As discussed in Notes 2 and 8, certain housing projects of Habitat-NYC receive government subsidies, which include funds from the U.S. Department of Housing and Urban Development (U.S. HUD) through HFHI under the Neighborhood Stabilization Program, Part 2 (NSP2).

Habitat-NYC contributes to HFHI’s tithing and stewardship programs. Tithe contributions amounted to \$78,000 and \$75,000 in fiscal years 2016 and 2015, respectively, while stewardship contributions amounted to \$25,000 and \$16,700 in fiscal years 2016 and 2015, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements consist of the accounts of Habitat-NYC and its affiliates (collectively, Habitat), and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany account balances and transactions have been eliminated.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of Estimates

The preparation of financial statements in accordance with GAAP 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Net Asset Classifications

Habitat's net assets have been presented and classified as unrestricted and temporarily restricted based on the existence or absence of donor-imposed restrictions. Habitat-NYC does not have permanently restricted net assets.

Unrestricted—Resources that are not subject to donor restrictions. Unrestricted amounts may be designated by the Board of Directors (the Board), or management at the Board's direction, to cover any purposes determined by Habitat-NYC.

Temporarily restricted—Funds that Habitat-NYC may use in accordance with donors' restrictions for specific purposes or upon the passage of time (see Note 11).

Revenue Recognition

Contributions—All unconditional contributions are recorded at fair value as revenue when received.

The fair value of long-term contributions receivable is measured based on the present value of future cash flows, with consideration given to the expected possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. Fair value measurements also consider donors' credit risk.

All contributions are considered available for unrestricted use unless restricted specifically by the donor. Habitat-NYC records contributions as temporarily restricted net assets if they are received with donor stipulations that limit their use either through purpose or time. When donor restrictions expire (i.e., when a time or purpose restriction is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition *(continued)*

Government subsidies—Certain housing projects of Habitat-NYC receive government subsidies, such as funds from the U.S. HUD through HFHI under NSP2, and capital project funds awarded by the State of New York and City of New York or for the sale of property received from the State of New York or its agencies (the State) and the City of New York or its agencies (the City) at substantially below fair value. Agencies of the State include the New York State Affordable Housing Corporation (AHC). Agencies of the City include the New York City Department of Housing Preservation and Development (HPD). Generally, the ability to utilize these subsidies is subject to the requirement that housing units are sold only to qualified purchasers, primarily families that do not exceed household income levels prescribed under the terms of the government subsidies. Accordingly, NSP2 funds, cost reimbursements or property received with such requirement are recorded as deferred revenue and are recognized as income when the related housing units are sold to such qualified purchasers.

Deferred developer's fee—Developer's fees received are deferred and recognized as income when the related housing units are sold to qualified purchasers.

Contributed Services

All of Habitat-NYC's Board members have volunteered their time to serve on the Board of Directors. There are partner families (prospective qualified purchasers) and other volunteers who have donated significant time to Habitat-NYC in project construction and its related programs. The value of this contributed time is not reflected in these consolidated financial statements since these services do not meet the following criteria for recognition under GAAP: (a) create or enhance nonfinancial assets or (b) require specialized skills provided by individuals possessing those skills, and (c) would typically need to be purchased if they were not provided by donation.

Contributed services received and recorded during fiscal 2016 and 2015 were not material.

Functional Allocation of Expenses

Costs that are specifically identifiable to programs and supporting services (to fundraising or to management and administration) are charged directly to such functions. Costs incurred for both programs and supporting services are allocated based on certain factors deemed reasonable by management.

Cash and Cash Equivalents

Habitat-NYC considers money market investments and certificates of deposits with a maturity of three months or less on the date of acquisition to be cash equivalents.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and Cash Equivalents *(continued)*

Habitat-NYC maintains its cash in bank deposit accounts that may exceed federally insured limits. Habitat-NYC has not experienced any losses in such accounts. At June 30, 2016, approximately 94% of unrestricted and restricted cash was held by three financial institutions.

Restricted cash consists primarily of funds set aside by Habitat-NYC for projects under development and deposits required under the terms of various project funding agreements.

Allowance for Doubtful Accounts

Habitat-NYC evaluates the collectability of accounts receivable and contributions receivable and provides an allowance for any losses based on collection history and other factors determined by management. Write-offs are charged against the allowance. The allowance for uncollectible accounts receivable amounted to \$9,000 and \$0 at June 30, 2016 and 2015, respectively.

Investments

Investments consist of fixed-income mutual funds and certificates of deposit with maturities in excess of 90 days from the dates of purchase. The mutual funds are carried at fair value based on quoted market prices. The certificates of deposit are carried at cost, which approximates fair value. Dividends and interest income are recognized when earned and are reported as revenue in the consolidated statements of activities. Realized and unrealized gains and losses on fixed-income mutual funds are reported as investment return in the consolidated statements of activities.

Mortgages Receivable

Mortgages receivable do not bear interest and are reported at present value, using a discount rate of 8.00%.

Management considers a loan to be delinquent or past due if a borrower fails to make a contractually scheduled principal payment that is over 120 days past due. Habitat-NYC's management periodically reviews mortgage balances to determine whether an allowance for bad debts should be established for any amounts determined to be unrecoverable. Factors considered by management include principal collections experience, collateral value, borrowers' financial conditions and other factors.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Mortgages Receivable *(continued)*

Habitat-NYC considers a loan to be impaired when it is “probable” that repayment obligations due according to the contractual terms will not be met. The term “probable” is used consistently within Accounting Standards Codification (ASC) 450, *Contingencies*. In this instance, the mortgage carrying value is written down by management, if deemed necessary, based on their review of the collateral and other considerations. The receivables are collateralized by mortgage liens on the underlying housing units.

ReStore Inventory

Habitat-NYC receives donated construction materials, home furnishings, tools and similar items for resale. These are recorded as in-kind contributions upon receipt at the estimated realizable value.

Interest in Limited Partnership

The accompanying consolidated financial statements for the year ended June 30, 2016, include Habitat-NYC’s interest in a limited partnership (the partnership) that holds a property used for a senior housing project in the State of New Jersey. The interest in the partnership was not reported prior to fiscal year ended June 30, 2015, since financial information for the partnership was unavailable and there were ongoing arbitration proceedings among the partners in the partnership.

Habitat-NYC applies the equity method in accounting for its interest in the partnership based on the partnership’s most recent audited financial statements, which are reported on a calendar year basis, and distributions received from the partnership during its fiscal year.

Projects under Development

Projects under development are recorded at the lower of cost or net realizable value. Project costs include expenditures to acquire properties or, if purchased at below fair value, the fair value at the time of receipt, environmental reviews and other activities to prepare the properties for construction, project construction costs and interest and fees incurred to finance the projects.

The total cost of development is funded by proceeds from the sale of the housing units, government subsidies for the housing project, and project-restricted private contributions. Project costs funded by project-restricted private contributions are recognized as program expense (within the costs of housing units sold).

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and Equipment

Property and equipment are carried at cost or, if donated, at fair value at the time of receipt. Property and equipment other than leasehold improvements are depreciated on the straight-line basis over the respective estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over the term of the related lease or the estimated useful life of the improvements, whichever is shorter.

Rent Expense

Rent expense is recorded on the straight-line basis over the term of the lease. The difference between rental payments made under the leases and rent expense calculated on the straight-line basis is recorded as prepaid rent or deferred rent liability.

Income Taxes

As described in Note 1, Habitat-NYC, HDFC, and Hart-Lafayette are exempt from federal income taxes. They are also exempt from state income taxes. All other entities that comprise Habitat-NYC were established to be tax-exempt organizations under Code Section 501(c)(4).

Management evaluated Habitat-NYC's tax positions and concluded that, as of June 30, 2016, there were no uncertain tax positions taken or expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying consolidated financial statements.

Income Taxes

Habitat-NYC is subject to audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that Habitat-NYC is no longer subject to income tax examinations by federal, state or local tax authorities for years ended on or prior to June 30, 2012.

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable are due to be collected as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ -	\$ 52,235
One to five years	-	26,213
Total	<u>\$ -</u>	<u>\$ 78,448</u>

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 3 CONTRIBUTIONS RECEIVABLE *(continued)*

Contributions receivable that are due more than one year at inception are recorded at fair value using the present value technique. They have been discounted to their present value at a rate of 4.25% a year. The related present value discount totaled approximately \$7,000 as of June 30, 2015.

NOTE 4 FAIR VALUE MEASUREMENTS

Habitat-NYC accounts for fair value measurements under the accounting standard that establishes a hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value.

Level 1: Measurements that are most observable are based on quoted prices of identical instruments obtained from principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.

Level 2: Measurements that are derived indirectly from observable inputs or from quoted prices from markets that are less liquid. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks and others.

Level 3: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 4 FAIR VALUE MEASUREMENTS *(continued)*

The following tables provide the fair value hierarchy of Habitat-NYC's investments at June 30, 2016 and 2015. There are no other assets or liabilities that are required to be measured at fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>June 30, 2016</i>				
Cash and cash equivalents	\$ 2,165,577	\$ -	\$ -	\$ 2,165,577
Investments				
<i>Fixed income mutual funds</i>				
Short duration bond funds	1,546,949	-	-	1,546,949
U.S. Treasury and agency funds	1,112,456	-	-	1,112,456
Certificates of deposit	-	2,464,735	-	2,464,735
Total investments	<u>2,659,405</u>	<u>2,464,735</u>	<u>-</u>	<u>5,124,140</u>
Total	<u>\$ 4,824,982</u>	<u>\$ 2,464,735</u>	<u>\$ -</u>	<u>\$ 7,289,717</u>
<i>June 30, 2015</i>				
Cash and cash equivalents	\$ 5,895,601	\$ -	\$ -	\$ 5,895,601
Investments				
<i>Fixed income mutual funds</i>				
Short duration bond funds	1,526,161	-	-	1,526,161
U.S. Treasury and agency funds	1,097,533	-	-	1,097,533
Certificates of deposit	-	4,518,053	-	4,518,053
Total investments	<u>2,623,694</u>	<u>4,518,053</u>	<u>-</u>	<u>7,141,747</u>
Total	<u>\$ 8,519,295</u>	<u>\$ 4,518,053</u>	<u>\$ -</u>	<u>\$ 13,037,348</u>

The investment return in the consolidated statements of activities consisted of interest and dividend income of \$46,269 and \$60,537 during fiscal years 2016 and 2015, respectively, and an unrealized gain on investments of \$25,457 and an unrealized loss of \$3,247 during fiscal years 2016 and 2015, respectively.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 5 MORTGAGES RECEIVABLE

Prior to 2008, Habitat-NYC originated interest-free mortgages to finance the sale of housing units to qualified purchasers. Discounted at an annual rate of 8% a year, the mortgage receivables at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016					Not Yet Due		Total
	Past Due					Current Portion	Noncurrent Portion	
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days			
Face amount	\$ 43,463	\$ 18,209	\$ 8,087	\$ 11,737	\$ 111,777	\$ 508,310	\$ 7,169,841	\$ 7,871,424
Unamortized discount	-	-	-	-	-	(331,913)	(3,059,614)	(3,391,527)
	<u>\$ 43,463</u>	<u>\$ 18,209</u>	<u>\$ 8,087</u>	<u>\$ 11,737</u>	<u>\$ 111,777</u>	<u>\$ 176,397</u>	<u>\$ 4,110,227</u>	<u>\$ 4,479,897</u>

	June 30, 2015					Not Yet Due		Total
	Past Due					Current Portion	Noncurrent Portion	
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days			
Face amount	\$ 54,937	\$ 16,505	\$ 9,950	\$ -	\$ 155,951	\$ 535,522	\$ 8,064,251	\$ 8,837,116
Unamortized discount	-	-	-	-	-	(344,679)	(3,588,185)	(3,932,864)
	<u>\$ 54,937</u>	<u>\$ 16,505</u>	<u>\$ 9,950</u>	<u>\$ -</u>	<u>\$ 155,951</u>	<u>\$ 190,843</u>	<u>\$ 4,476,066</u>	<u>\$ 4,904,252</u>

Commencing in 2008, Habitat-NYC discontinued financing sales as its primary method of providing homeowners' financing and partnered with the State of New York Mortgage Agency (SONYMA) such that banks originate mortgage loans to qualified purchasers. The mortgages are then purchased by SONYMA. However, on a limited basis, Habitat-NYC has provided financing sales for homes when SONYMA mortgages were not feasible.

During fiscal 2014, Habitat-NYC repossessed a housing unit with a delinquent mortgage balance of \$73,808, net of the unamortized discount, which is included in prepaid and other assets in the 2015 consolidated statements of financial position. Habitat-NYC sold the unit in 2016 and the net proceeds are included in proceeds from sales.

The housing units were sold to the Family Partners at below-market values, and therefore, the estimated realized value of the housing units that secure delinquent mortgages generally exceed the delinquent mortgages receivable. The mortgages receivable with amounts over 120 days past due totaled \$1,776,000 and \$1,743,000 at June 30, 2016 and 2015, respectively (net of unamortized discount of \$723,000 and \$697,000 at June 30, 2016 and 2015, respectively), and averaged \$1,759,500 and \$2,234,000 at June 30, 2016 and 2015, respectively (net of unamortized discount of \$710,000 and \$1,112,000 at June 30, 2016 and 2015, respectively). There is no interest accrued on overdue amounts as these mortgages are non-interest bearing.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 6 PROJECTS UNDER DEVELOPMENT

The activity in projects under development during the years ended June 30, 2016 and 2015, consisted of:

<u>Project and location</u>	<u>Balance at June 30, 2015</u>	<u>Fiscal Year 2016 Activity</u>		<u>Balance at June 30, 2016</u>
		<u>Additions</u>	<u>Sales and Adjustments</u>	
Bed-Stuy II - Jefferson Avenue	\$ 341,484	\$ -	\$ (341,484)	\$ -
Bed-Stuy IV - Madison St.	276,437	-	(276,437)	-
NYCHA Queens Phase I	3,833,017	1,667,590	(3,868,783)	1,631,824
NYCHA Queens Phase II	84,258	1,030,565	-	1,114,823
Habitat Passive	9,000	11,751	-	20,751
Sydney	52,375	2,524,111	-	2,576,486
SEED	112,692	207,187	-	319,879
Ralph Avenue I (formerly Ralph II)	16,950	180,350	-	197,300
Dean Street	1,659,844	750,500	-	2,410,344
Total	6,386,057	6,372,054	(4,486,704)	8,271,407
Project cost funded by project-restricted private contributions	(709,541)	-	253,660	(455,881)
Net	\$ 5,676,516	\$ 6,372,054	\$ (4,233,044)	\$ 7,815,526

<u>Project and location</u>	<u>Balance at June 30, 2014</u>	<u>Fiscal Year 2015 Activity</u>		<u>Balance at June 30, 2015</u>
		<u>Additions</u>	<u>Sales and Adjustments</u>	
<i>Bed-Stuy I</i>				
Monroe St.	\$ 809,572	\$ 4,344	\$ (813,916)	\$ -
Bed-Stuy II - Jefferson Avenue	686,876	5,403	(350,795)	341,484
Bed-Stuy III - Ralph Ave.	1,296,904	23,883	(1,320,787)	-
Bed-Stuy IV - Madison St.	1,629,121	17,842	(1,370,526)	276,437
Bed-Stuy IV - St. Mark's	1,144,701	36,451	(1,181,152)	-
NYCHA Queens	2,612,601	1,304,674	-	3,917,275
Brooklyn Small Sites	-	9,000	-	9,000
Sydney	-	52,375	-	52,375
SEED	-	112,692	-	112,692
Ralph II	-	16,950	-	16,950
Dean Street	866,040	793,804	-	1,659,844
Total	9,045,815	2,377,418	(5,037,176)	6,386,057
Project cost funded by project-restricted private contributions	(487,860)	-	(221,681)	(709,541)
Net	\$ 8,557,955	\$ 2,377,418	\$ (5,258,857)	\$ 5,676,516

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
<i>Cost</i>		
Furniture and equipment	\$ 426,278	\$ 426,278
Leasehold improvements	411,855	410,005
	<u>838,133</u>	<u>836,283</u>
<i>Less: Accumulated depreciation and amortization</i>	<u>(531,531)</u>	<u>(438,094)</u>
Net	<u><u>\$ 306,602</u></u>	<u><u>\$ 398,189</u></u>

Habitat-NYC received an in-kind contribution of equipment valued at \$22,413 during fiscal year 2015.

NOTE 8 INTEREST IN LIMITED PARTNERSHIP

Habitat-NYC's interest in the partnership in the 2016 and 2015 consolidated financial statements consisted of:

Equity interest in limited partnership based on the partnership's audited financial statements for the year ended December 31, 2014	\$ 360,309
Partnership distributions received by Habitat-NYC during fiscal year 2015	<u>(501,649)</u>
Partnership distributions in excess of equity interest at June 30, 2015	(141,340)
Equity interest in the loss of the limited partnership for the year ended December 31, 2015	(20,171)
Partnership distributions received by Habitat-NYC during fiscal year 2016	<u>(36,813)</u>
Partnership distributions in excess of equity interest at June 30, 2016	<u><u>\$ (198,324)</u></u>

For fiscal year ended June 30, 2015, the equity interest in limited partnership has been reported as revenue in the 2015 consolidated statement of activities, which includes amounts pertaining to prior periods. A portion of the partnership distributions during fiscal years 2016 and 2015 was received after December 31, 2015 and 2014, respectively. The resulting partnership distributions in excess of equity has been reported as a liability in the 2016 and 2015 consolidated statements of financial position.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 9 DEFERRED REVENUE

Deferred revenue represents government grants and subsidies for projects under development, which will be recognized as revenue when the related housing units are sold to qualified purchasers. Deferred revenue at June 30, 2016 and 2015, consisted of:

	<u>2016</u>	<u>2015</u>
NSP2 grants	\$ -	\$ 366,135
Habitat House Party	10,000	-
Government subsidies	<u>345,996</u>	<u>345,996</u>
Total	<u>\$ 355,996</u>	<u>\$ 712,131</u>

NSP2 Grants

In June 2010, Habitat-NYC entered into a developer's agreement with HFHI, under which HFHI provides NSP2 funds to Habitat-NYC to use in the construction of multi-family housing projects. As amended in February 2013, Habitat-NYC is required to complete 105 housing units at an estimated cost of approximately \$42.9 million, a portion of which is funded from the NSP2 grants. As of June 30, 2013, Habitat-NYC had received all of the NSP2 grants, which totaled \$19.3 million for project acquisition and construction and \$1.7 million for the developer's fee.

The developer's agreement provides, among other things, that the units be sold to qualified low- and moderate-income households (Purchasers, as defined in the agreement). In addition, certain terms of the agreement provide for HFHI's ability to declare default if certain milestones outlined in the agreement are not met by Habitat-NYC. The milestones consist of environmental review, acquisition of properties, selection and training of Purchasers, construction, transfer of title to Purchasers, and occupancy. As of June 30, 2015, Habitat-NYC had sold 103 units. The remaining two units were sold on September 22, 2015.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 9 DEFERRED REVENUE (continued)

NSP2 Grants (continued)

NSP2 funds received are recorded as deferred revenue, and are recognized as income as the units are sold. The activity in the projects funded by NSP2 grants during fiscal year 2016 and 2015 is summarized below:

<u>Project and location</u>	<u>Balance at July 1, 2015</u>	<u>Fiscal Year 2016 Activity</u>		<u>Balance at June 30, 2016</u>
		<u>Amount Received</u>	<u>Amount Recognized as Revenue</u>	
Bed-Stuy II - Jefferson Ave.	\$ 143,552	\$ -	\$ 143,552	\$ -
Bed-Stuy IV - Madison St.	222,583	-	222,583	-
Total	<u>\$ 366,135</u>	<u>\$ -</u>	<u>\$ 366,135</u>	<u>\$ -</u>

<u>Project and location</u>	<u>Balance at July 1, 2014</u>	<u>Fiscal Year 2015 Activity</u>		<u>Balance at June 30, 2015</u>
		<u>Amount Received</u>	<u>Amount Recognized as Revenue</u>	
Bed-Stuy I - Monroe St.	\$ 390,905	\$ -	\$ 390,905	\$ -
Bed-Stuy II - Jefferson Ave.	287,104	-	143,552	143,552
Bed-Stuy III - Ralph Ave.	683,671	-	683,671	-
Bed-Stuy IV - Madison St.	890,332	-	667,749	222,583
Bed-Stuy V - St Mark's	593,900	-	593,900	-
Total	<u>\$ 2,845,912</u>	<u>\$ -</u>	<u>\$ 2,479,777</u>	<u>\$ 366,135</u>

Government Subsidies

Certain projects under development receive subsidies from New York City in the form of loan grants, capital project funds or sale of property at substantially below-market value for the project sites. The subsidies are encumbered by various loan agreements and related security instruments, which require repayment of the subsidies to the City in the event of Habitat-NYC's default on its construction obligations and sale of the units to the qualified purchasers. Habitat-NYC's obligations under the agreements are further collateralized by the projects under development.

Subsidies received are deferred and recognized as income as the housing units are sold to qualified buyers pursuant to the terms of the underlying agreements with the City. At June 30, 2016 and 2015, the deferred project subsidy consisted of \$345,996 for the various properties acquired from the City for the Dean St. project at a nominal price of \$4 under a land disposition agreement and deed executed on June 26, 2014. Collectively, the properties had an appraised value of \$346,000.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 9 DEFERRED REVENUE *(continued)*

Government Subsidies *(continued)*

Under various agreements executed on June 26, 2014, Habitat-NYC also expects to receive additional subsidies in the form of a construction loan grant amounting to \$1,632,000 from the City through the HPD; \$600,000 in a conditional grant from the State of New York AHC and a permanent, non-interest-bearing loan of \$670,859 from the New York State Housing Trust Fund Corporation to finance a portion of the construction cost of the Dean St. project. The construction loan grant and conditional grant will be available in the form of advances in accordance with the order of disbursement and requisition process, among other requirements, which are set forth in the memorandum of understanding dated June 26, 2014, among Habitat-NYC, HPD, and AHC. No loan grant, conditional grant or permanent loan has been drawn or received by Habitat-NYC as of June 30, 2016.

For the NYCHA Queens project, Habitat-NYC received from AHC an award dated September 12, 2013, in an amount not to exceed \$520,000 and a funding commitment from HPD dated May 22, 2015, in the amount of \$890,000, for the acquisition and rehabilitation of approximately 13 housing units in Queens. Habitat-NYC received \$320,000 from AHC and \$540,000 of the commitment from the HPD as of June 30, 2016.

In addition, Habitat-NYC has recognized \$360,000 from AHC and \$610,000 from HPD as of June 30, 2016, associated with the sale of nine units.

For the Sydney project, Habitat-NYC received from HPD two funding commitments dated July 2, 2015, and June 24, 2016, in amounts not to exceed \$800,000 and \$400,000, respectively, for the construction of approximately 57 housing units in the Bronx, New York. Habitat-NYC also received an additional \$800,000 from HPD on September 14, 2016.

NOTE 10 BOARD-DESIGNATED NET ASSETS

The Board of Directors authorized management to establish a Board-designated reserve in the amount of \$1,000,000 to provide a source of funds in times of general economic downturn and meet cash flow requirements as needed. This reserve enables Habitat-NYC to avoid dramatic year-to-year program changes that might arise due to uncertainties associated with government grants and private funding streams.

ASC 958.205.45, *Not-for-Profit Entities—Other Presentation Matters—Reporting Endowment Funds*, provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In September 2010, New York State adopted its version of UPMIFA, the New York Prudent Management of Institutional Funds Act.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 10 BOARD-DESIGNATED NET ASSETS *(continued)*

Habitat-NYC's endowment consists of its Board-designated fund of \$1,000,000. Habitat-NYC has invested its Board-designated fund to provide a predictable stream of funding while preserving the purchasing power of the funds, utilizing a fixed income strategy to accomplish this objective. Investment income related to the Board-designated fund amounted to approximately \$8,400 and \$9,000 in 2016 and 2015, respectively. It is the Board's policy to appropriate such income to support Habitat-NYC's activities. As of June 30, 2016, the Board has not established a spending rate policy for the Board-designated fund.

NOTE 11 TEMPORARILY RESTRICTED NET ASSETS

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

The activity in temporarily restricted net assets is as follows:

	Balance, at June 30, 2015	Fiscal Year 2016 Activity		Balance, at June 30, 2016
		Additions	Releases from Restrictions	
Capital Campaign	\$ 81,062	\$ -	\$ 81,062	\$ -
Queens Phase I	-	1,090,000	1,090,000	-
Queens Phase II	-	25,000	25,000	-
Americorps	-	2,500	2,500	-
Habitat House Party	-	70,000	-	70,000
Hurricane Sandy Project	-	440,292	440,292	-
Total	\$ 81,062	\$ 1,627,792	\$ 1,638,854	\$ 70,000

	Balance, at July 1, 2014	Fiscal Year 2015 Activity		Balance, at June 30, 2015
		Additions	Releases from Restrictions	
Capital Campaign (time-restricted)	\$ 585,920	\$ -	\$ 504,858	\$ 81,062
Brush with Kindness	-	12,501	12,501	-
Gala donation	10,000	-	10,000	-
Dean Street	-	29,500	29,500	-
Hurricane Sandy Project	152,751	303,195	455,946	-
Total	\$ 748,671	\$ 345,196	\$ 1,012,805	\$ 81,062

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 12 EMPLOYEE BENEFIT PLAN

Habitat-NYC has a 403(b) defined contribution retirement plan. Employees become eligible to contribute to the plan upon employment. Participating employees may contribute any amount up to the maximum IRS annual contribution limits. Matching contributions made by Habitat-NYC, which are discretionary, totaled \$74,315 and \$69,536 during the years ended June 30, 2016 and 2015, respectively.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Loans

On February 4, 2016, Habitat-NYC entered into a loan agreement (the Agreement) with JPMorgan Chase Bank (the Bank), whereby the Bank provided Habitat-NYC with a revolving line of credit (the Facility) in the amount of \$2,000,000 (the Facility Commitment). The Facility ends on February 4, 2017 (the Facility Expiration Date), and may be renewed by the Bank prior to the Facility Expiration Date. The Loan bears interest calculated daily using the London Interbank Offered Rate (LIBOR) plus 2.824%. Interest expense in 2016 totaled \$7,607.

Habitat-NYC is in compliance with the terms of the Agreement.

Leases

Habitat-NYC has an operating lease for its office space that expires on March 20, 2017. The payment due in fiscal year 2017 amounts to \$170,000.

Habitat-NYC also entered into a non-cancellable, 39-month operating lease agreement for office equipment, which commenced in December 2014 and expires in March 2018. Payments are \$775 per month.

Additionally, commencing on September 15, 2015, Habitat-NYC entered into a 10-year operating lease agreement for its ReStore space that expires on September 15, 2025. Annual payments range from \$75,850 to \$83,435.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 13 COMMITMENTS AND CONTINGENCIES *(continued)*

Leases *(continued)*

Approximate future minimum lease payments related to the operating leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 255,000
2018	82,000
2019	76,000
2020	76,000
2021	82,000
Thereafter	351,000
	<u>\$ 922,000</u>

Rent expense was approximately \$303,000 and \$220,000 for the years ended June 30, 2016 and 2015, respectively. The cumulative difference between rent expense and amounts paid in accordance with the terms of the lease amounted to \$12,669 and \$36,470 as of June 30, 2016 and 2015, respectively, and has been reflected as deferred rent liability in the accompanying consolidated statements of financial position.

Contingencies

Habitat-NYC, in the normal course of its business, is a party to a legal proceeding that is covered partly by insurance. While it is not feasible to predict the outcome of the proceeding, management does not believe that any adverse effect will have a material effect on Habitat-NYC's consolidated financial position, changes in net assets or cash flows.

NOTE 14 SUBSEQUENT EVENTS

Habitat-NYC evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the consolidated financial statements. Such evaluation was performed through December 9, 2016, the date the consolidated financial statements were approved for issuance. There were no subsequent events that should be accounted for or require disclosure in the accompanying consolidated financial statements, except as noted below.

HABITAT FOR HUMANITY NEW YORK CITY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 14 **SUBSEQUENT EVENTS** *(continued)*

On November 22, 2016 (the “Origination Date”), AG Habitat Tilden Street LLC, an affiliate of Habitat for Humanity New York City, Inc. (“Habitat NYC”), closed on a loan with the New York City Acquisition Fund, LLC (the “Fund”) to borrow \$2,559,700 (the “Loan Amount”). The Loan Amount is to be used to repay a Sponsor Mortgage held by Habitat NYC for the acquisition of Sydney House and expended predevelopment expenses. The Loan Amount is due December 1, 2018 (the “Maturity Date”), and may be extended up to the earlier of (a) thirty six months from the Origination Date, or (b) August 8, 2019. The loan bears interest calculated daily using the greater of (a) the aggregate of (i) One Month London Interbank Offered Rate (LIBOR) and (ii) 4.75% or (b) 5.25%.

