

fiscal year 99 financials

The pages that follow are a report to supporters for the 1999 fiscal year of Habitat for Humanity International. The information includes the Independent Auditors' Report, financial statements and various analyses. Please note that the numbers refer only to Habitat for Humanity International. Habitat affiliates and national organizations are independent, autonomous nonprofit corporations and their revenues and expenditures are not included in HFHI's 1999 Auditors' Report.

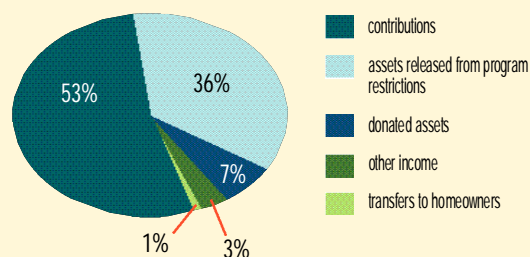
At times, HFHI includes requests for contributions for affiliates or national organizations in its fund-raising appeals. All contributions to HFHI that are designated by a donor for a specific location or project (whether in response to a special appeal or not) are forwarded to that affiliate or national organization, and are included in this report.

Support and Revenue

As a tax-exempt 501(C)(3) nonprofit corporation, HFHI is supported by contributions from individuals, groups and corporations. Additional income is generated by bequests and estate gifts; the sale of Habitat-related merchandise; an annuity program; and earnings on investments. HFHI also receives no-interest loans from contributors who choose not to make an outright gift; and receives substantial support in the form of donated assets and services. Habitat for Humanity International also participates in a small number of government initiatives, including the Self-Help Homeownership Opportunity Program, and the AmeriCorps program in the United States. Government assistance is welcomed to help set the stage for house-building.

Habitat for Humanity International ended 1999 with record total unrestricted revenues, gains, and other support of \$121,109,194. The chart below shows the sources of revenue.

Support and Revenues 1999



Habitat receives some contributions from donors that are restricted to a specific purpose. These contributions are considered unrestricted revenue when spent for intended purpose. See note 2 of the financial statements.

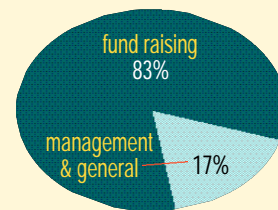
Expenses

HFHI's expenses are divided into two main categories: Supporting Services and Program Services. Each category has several subcategories.

Supporting Services (FY99 total: \$26,371,389)

Supporting Services expenses are divided into fund-raising expenses (\$21,812,466), and management and general expenses (\$4,558,923). Fund-raising expenses are concentrated primarily in direct mail and telemarketing campaigns, supplemented by direct staff contact with major donors, foundations and corporations. Many of HFHI's fund-raising appeals result in donations

Supporting Services Expenses 1999



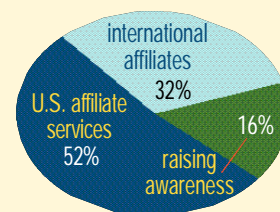
made directly to U.S. affiliates. While HFHI bears the fund-raising expense, it does not reflect these donations as revenue, because affiliates are autonomous corporations.

Management and general expenses include supplies, utilities, building maintenance and assorted other costs incurred in HFHI's day-to-day operations.

Program Services (FY99 total: \$84,882,076)

Program Services expenses are divided into three subcategories: services provided to U.S. affiliates (\$44,479,699); expenses for international affiliates (\$26,842,586); and expenses related to raising public awareness of Habitat for Humanity and to education about the issues of poverty housing (\$13,559,791).

Program Services Expenses 1999



U.S. Affiliates

While U.S. affiliates are largely responsible for raising their own funds to build houses, programmatic support is provided in a variety of ways by Habitat for Humanity International. HFHI's Program Services expenses for U.S. affiliates in 1999 included costs for land and construction materials for affiliate builds in which HFHI was a participant; programs that directly benefit affiliates such as Campus

combined financials

Chapters and Youth Programs and Gifts-in-Kind; maintaining HFHI Area Offices and Regional Centers throughout the country; and providing training seminars and materials to meet affiliate needs for information on such topics as construction and energy-saving building techniques, and accounting, safety and management issues.

International Affiliates

Most international affiliates are in developing countries where local resources are limited, while poverty is virtually limitless. HFHI provides the start-up capital to help local residents establish a Habitat for Humanity affiliate and begin the building process. Subsequently, international affiliates and national organizations are charged with raising as much local funding as possible.

Limited resources in most developing nations, however, require HFHI to continue to supplement local fund raising. Program Services expenses for international affiliates include construction materials, transportation, paid labor when necessary and other costs associated with house-building. These expenses also include the costs of maintaining HFHI personnel in direct support of the affiliate, office space and equipment, in-country travel and training for homeowners and affiliate committee members.

International affiliates in 1999 received a total of \$18,809,197 in International Transfers from HFHI, an amount that included \$7,034,029 from U.S. affiliates that title on locally raised funds to support HFHI's work in other countries. Tithing is a commitment set forth in the covenant signed by all Habitat affiliates.

Public Information, Awareness-Raising, Special Events

While expenditures in the first two subcategories — support for U.S. and international affiliates — relate to Habitat's primary mission of building simple, decent and affordable houses with those in need, the final subcategory — public awareness and education — relates to a second important goal: making decent shelter a matter of conscience and action.

From videos about Habitat for Humanity's work to the bimonthly publication of *Habitat World*, spending in this cate-

Habitat for Humanity International is only part of the picture when considering the entire Habitat for Humanity movement. That's because all Habitat for Humanity affiliates and national organizations — nearly 1,819 by June 30, 1999 — are independent, autonomous nonprofit organizations distinct from Americus, Georgia-based Habitat for Humanity International.

Because grassroots affiliates and Habitat for Humanity International are responsible for their own financial recordkeeping, including revenues and expenditures, the audited financials of HFHI that follow do not reflect the full scope of Habitat's campaign to free those trapped in the misery and suffering of poverty housing. Rather, the following data show only the financial position of Habitat for Humanity International.

To better appreciate the magnitude of the finances behind the movement, Habitat for Humanity International annually compiles a Combined Statement of Financial Position of Habitat for Humanity International and Selected Affiliates. The unaudited report includes financial information from many of the largest Habitat for Humanity affiliates in the United States. Based on that information and other material, estimates of finances for the remaining U.S. affiliates and for international affiliates are computed to produce ministrywide figures.

Although the most recent Combined Statement covers the 1997 calendar year (due to HFHI's switch to a non-calendar fiscal year beginning June 1998), overall figures have been updated through the end of fiscal year 1999 by making extrapolations based on growth trends and other information.

We estimate the entire Habitat for Humanity movement in FY99 grossed about \$388 million in revenue (cash contributions, gifts in kind, transfers to homeowners and other support). That's compared with about \$121.1 million in revenue for HFHI during the same period. Habitat for Humanity's estimated expense ratios in FY99 were 80% for Program, 10% fund raising, and 10% management and general.

In addition, we estimate Habitat for Humanity's worldwide mortgage receivables at \$503 million. Mortgage receivables represent the outstanding mortgage balances of Habitat homeowners. Those funds, as they are paid, are used to build more houses.

gory is aimed at bringing poverty housing issues to public attention, educating people everywhere about how Habitat is responding to the issues, and raising awareness of how others can respond.

financial statements

Year ended June 30, 1999, with Report of Independent Auditors

Board of Directors Habitat for Humanity International, Inc.

We have audited the accompanying statement of financial position of Habitat for Humanity International, Inc. (“Habitat”) as of June 30, 1999, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Habitat’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity International, Inc. as of June 30, 1999, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

September 20, 1999

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Statement of Financial Position

For the Year ended June 30, 1999

Assets

Cash and cash equivalents	\$ 24,861,274
Investments	10,686,328
Receivables — current portion:	
Contributions, net	\$ 792,205
Affiliate notes, net	1,448,431
Mortgages, net	375,539
Due from Affiliates, net	2,169,964
Accounts, net	678,830
Total receivables- current portion	\$ 5,464,969
Inventories, net	\$ 1,596,971
Prepays and other assets	342,452
Total current assets	\$ 42,951,994
Receivables — long-term:	
Contributions, net	\$ 3,501,755
Affiliate notes, net	7,984,649
Mortgages, net	2,312,474
Due from affiliates, net	3,325,312
Total receivables-long-term	\$ 17,124,190
Land, buildings, and equipment — net of accumulated depreciation	8,873,477
	\$ 68,949,661
Liabilities and net assets	
Current liabilities:	
Accounts payable and accrued expenses	\$ 5,506,961
Notes payable	2,669,275
Affiliate transfers payable	1,151,656
Annuity obligation	133,181
Investor notes payable	1,435,136
Total current liabilities	\$ 10,896,209
Long-term liabilities:	
Notes payable	\$ 28,367
Annuity obligation	2,055,671
Investor notes payable	8,550,577
Total long term liabilities	\$ 10,634,615
Net assets:	
Unrestricted	\$ 22,594,273
Temporarily restricted	24,824,564
Total net assets	47,418,837
	\$ 68,949,661

See accompanying notes.

Statement of Activities and Changes in Net Assets

Changes in unrestricted net assets

Unrestricted revenues and gains:	
Contributions	\$ 64,568,681
Donated assets	8,198,056
Other income, net	4,148,937
Transfers to homeowners	1,035,081
Total unrestricted revenues and gains	\$ 77,950,755
Satisfaction of program restrictions	43,158,439
Total unrestricted revenues, gains, and other support	\$ 121,109,194
Expenses:	
Program services:	
U.S. affiliates	\$ 44,479,699
International affiliates	26,842,586
Public awareness and education	13,559,791
Total program services	\$ 84,882,076
Supporting services:	
Fund raising	\$ 21,812,466
Management and general	4,558,923
Total supporting services	\$ 26,371,389
Total expenses	\$ 111,253,465
Increase in unrestricted net assets	\$ 9,855,729

Changes in temporarily restricted net assets

Contributions	\$ 49,255,945
Other income, net	96,146
Net assets released from restrictions	(43,158,439)
Increase in temporarily restricted net assets	\$ 6,193,652
Increase in net assets	\$ 16,049,381
Net assets at beginning of year	31,369,456
Net asset at end of year	\$ 47,418,837

See accompanying notes.

Statement of Cash Flows

Operating activities

Increase in net assets	\$ 16,049,381
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	\$ 995,163
Net realized and unrealized gains on investments	(514,317)
Changes in operating assets and liabilities:	
Increase in receivables	(6,781,986)
Decrease in inventories	254,144
Increase in prepaids and other assets	(269,565)
Increase in accounts payable and accrued expenses	734,771
Increase in affiliate transfers payable	315,882
Net cash provided by operating activities	\$ 10,783,473

Investing activities

Purchases of investments	\$ (8,248,226)
Proceeds from sales and maturities of investments	3,087,919
Purchases of land, buildings and equipment	(1,430,189)
Proceeds sale of land, buildings and equipment	8,285
Net cash used in investing activities	\$ (6,582,211)

Financing activities

Proceeds from borrowings	\$ 2,087,750
Principal repayments	(2,109,525)
Proceeds from issuance of investor notes payable	6,379,000
Principal repayments of investor notes payable	(600,749)
Payments of annuity obligation	(123,639)
Increase in annuity obligation	751,149
Net cash provided by financing activities	\$ 6,383,986

Increase in cash and cash equivalents **\$ 10,585,248**

Cash and cash equivalents

Beginning of year	\$ 14,276,026
End of year	\$ 24,861,274

See accompanying notes.

Notes to Financial Statements

1. Organization and Purpose

Habitat for Humanity International, Inc. (“Habitat”) is a nondenominational Christian not-for-profit organization whose purposes are to partner with specific programs in habitat development globally by constructing modest but adequate housing, and to associate with other organizations functioning with purposes consistent with those of Habitat. Habitat’s goal is to eliminate poverty housing and homelessness worldwide and to stir the hearts and

minds of others to take action on this issue.

Habitat’s mission is fulfilled primarily through the efforts of over 1,500 U.S. affiliates and operations in 63 countries. The accompanying financial statements include the activities of Habitat’s headquarters based in Americus, Georgia, and the Americus-Sumter County Affiliate.

Habitat is exempt from federal income taxation under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, pursuant to a group exemption letter received from the Internal Revenue Service.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments in equity and debt securities are reported at fair value with realized and unrealized gains and losses included in the statement of activities. Realized and unrealized gains (losses) on marketable securities are determined by using specific identification.

Fair value for securities that are traded on a national securities exchange is based upon the last reported sales price on the last business day of the year; fair value for investments traded in the over-the-counter market and listed securities for which no sale was reported on that date is based upon the average of the last reported bid and ask price.

Contributions Receivable

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Contributions receivable are reflected net of an allowance for uncollectible amounts and have been discounted at 6%.

Notes Receivable

Notes receivable consist primarily of noninterest-bearing, unsecured, demand notes from Habitat affiliates in the U.S. An allowance for estimated doubtful accounts is provided, as considered appropriate, based on identification of specific uncollectible receivables.

Mortgages Receivable

Mortgages receivable consist of noninterest-bearing mortgages which are secured by real estate and payable in monthly installments. Most of the mortgages have an original maturity of 20 years and arose in connection with Habitat’s homebuilding initiatives in Americus, Georgia. These receivables have been discounted at a rate of 8.5%. Interest income is recorded under the interest method of APB 21. These mortgages are secured by the underlying real estate that is located primarily in the Americus, Georgia, community.

Accelerated Asset Recovery Program

On December 19, 1998, Habitat issued \$6.4 million in bonds (“Investor Notes Payable”) to six investors. The Investor Notes Payable are special obligations of Habitat with interest rates ranging from 1%-5% over a seven-year term. The proceeds received from the Investor Notes Payable were then disbursed to sixteen affiliates and general obligation notes were executed between Habitat and each of the affiliates (“Affiliate Notes Receivables”). The Affiliate Notes Receivables have interest rates of 3.6% over a seven-year term and are secured by mortgages held by those affiliates.

On February 4, 1998, Habitat issued \$2.5 million in bonds (“Investor Notes Payable”) to five investors. The Investor Notes Payable are special obligations of Habitat with interest rates ranging from 1%-5% over a seven-year term. The proceeds received from the Investor Notes Payable were then disbursed to seventeen affiliates and general obligation notes were executed between Habitat and each of the affiliates (“Affiliate Notes Receivables”). The Investor Notes Payables are secured by the Affiliate Notes Receivables. The Affiliate Notes Receivables have interest rates of 3.6% over a seven-year term and are secured by mortgages held by those affiliates.

On March 27, 1997, Habitat issued \$2.1 million in bonds (“Investor Notes Payable”) to five investors. The Investor Notes Payable are special obligations of Habitat with interest rates ranging from 1%-5% over a seven-year term. The proceeds received from the Investor Notes Payable were then disbursed to seven affiliates and general obligation notes were executed between Habitat and each of the affiliates (“Affiliate Notes Receivables”). The Investor Notes Payables are secured by the Affiliate Notes Receivables. The Affiliate Notes Receivables have interest rates of 3.5% over a seven-year term and are secured by mortgages held by those affiliates.

The real estate securing these mortgages is located in cities across the United States.

Inventories

Inventories represent donated and purchased building materials and books, pamphlets, and other merchandise available for sale and ministry purposes. Purchased inventory is recorded at the lower of cost determined by the specific identification method or fair market value. Donated inventory is recorded at the fair market value on the date of receipt and such items are expensed when used or shipped to U.S. affiliates, based upon the specific identification method.

Land, Buildings, Equipment, and Depreciation

Land, buildings, and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets, as follows:

Buildings	20 to 30 years
Furniture and equipment	5 to 10 years
Computer hardware and software	5 years
Vehicles	3 years

Affiliate Transfers Payable

Grants to both international and U.S. affiliates are recognized when the grants are approved by Habitat’s management in accordance with the donor restrictions.

Charitable Gift Annuities

Habitat has a gift annuity program whereby it enters into irrevocable contracts with certain donors. Habitat agrees to pay certain sums to the donors at prescribed intervals over the life of the donor. The assets received are recorded at their fair value and the related liability is recorded as an annuity obligation. Annuity obligations are recorded at the present value of expected future payments based on expected mortality and a discount rate of 7%.

Net Assets

Habitat’s net assets and its revenues and gains, and expenses are classified based on the existence or absence of donor-imposed restrictions using the following classifications: temporarily restricted and unrestricted. These classifications are defined as follows:

- Temporarily restricted net assets contain donor-imposed restrictions that permit Habitat to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of Habitat.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

A portion of the contributions received by Habitat are temporarily restricted for a specific affiliate, geographic area, or type of affiliate (i.e., urban affiliates, Native Peoples projects, etc.). It is Habitat’s policy to use such funds for the specified purpose as soon as practical and prudent.

Contributions received for a specific affiliate are typically transferred to such affiliate as home building grants within 30 days. Exceptions to this policy occur in the case of prospective affiliates and certain other types of contributions, such as contributions designated by the donor to assist the recovery from a natural disaster, where contributions are not transferred until requested by affiliates in the affected geographic area.

Federal Grants

Habitat receives funding from several federal financial assis-

tance programs that supplement its traditional funding sources. Habitat recognizes the award as revenue when the conditions stipulated in the grant agreement have been substantially fulfilled. Until that time, Habitat recognizes the award as revenue and as qualifying expenses, as defined in the underlying grant agreements, as incurred.

Contributed Services

A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, are provided by individuals possessing those skills, and would otherwise need to be purchased if not provided by donation are recognized as revenue. Such amounts for 1999 which are included in the accompanying statements of activities and changes in net assets, totaled \$421,190.

Transfers to Homeowners

Transfers to homeowners represent the sale of houses built by the Americus-Sumter County Affiliate. The resulting mortgages are noninterest-bearing and have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages at 8.5%. The transfers to homeowners presented in the statement of activities are net of this discount.

Other Income, Net

Other income includes merchandise sales, net of the cost of merchandise sold, to Habitat affiliates and to individuals, as well as the return on investments.

Home Construction Costs

Costs incurred in conjunction with home construction of Americus Affiliate are expensed as incurred.

Estimates in the Financial Statements

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 may differ from those estimates.

Accounting Pronouncements

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-2 "Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund Raising." This statement allows not-for-profit organizations to allocate costs of joint activities between fund raising and program services and management and general if

certain criteria are met. This statement becomes effective for financial statements with fiscal years beginning on or after December 15, 1998. Habitat will adopt the provisions of this SOP during the fiscal year ended June 30, 2000 and has not yet analyzed the potential effect on the financial statements.

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 136 "Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Money for Others." SFAS 136 requires that a recipient organization that accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or transfer those assets to a specified unaffiliated beneficiary to recognize the fair value of those assets as a liability to the specified beneficiary concurrent with the recognition of the assets received from the donor. Habitat plans to adopt this Statement during the year ended June 30, 2001, but has not yet completed its analysis of the impact, if any, that this Statement may have on its financial statements.

3. Investments

Investments at June 30 consist of the following:

	1999
Certificates of deposit and short-term investments	\$ 291,115
Stocks	2,438,273
Bonds — U.S. treasury and corporate	7,956,940
	<u>\$ 10,686,328</u>

Investment income and net realized and unrealized gains consists of the following:

	1999
Net appreciation in fair value of investments, including realized and unrealized gains and losses	\$ 514,317
Interest and dividend income	205,830
	<u>\$ 720,147</u>

4. Receivables

Contributions Receivable

Contributions receivable at June 30 consist of the following:

	1999
"Rebuilding Our Communities" Campaign	\$ 4,059,960
Federal grants	669,705
Gifts in-kind	122,500
Rylander building	316,236
	<u>\$ 5,168,401</u>
Less allowance for uncollectibles	565,611
	<u>\$ 4,602,790</u>
Less imputed interest at rates ranging from 6% to 8.5%	308,830
	<u>\$ 4,293,960</u>

These contributions are receivable as follows:

Due in less than one year	\$ 792,205
Due in one to five years	3,501,755
	<u>\$ 4,293,960</u>

Due from Affiliates

Due from affiliates at June 30 consist of the following:

	1999
Self-Help Home Ownership Program Grant	\$ 5,029,754
Other	750,703
	<u>\$ 5,780,457</u>
Less allowance for uncollectibles	285,181
	<u>\$ 5,495,276</u>
Less current portion	2,169,964
	<u>\$ 3,325,312</u>

Certain amounts, which have been reserved for in the valuation allowance, may be forgiven and are recorded as grants to affiliates.

Mortgages Receivable

Mortgages receivable of \$2,732,646 at June 30, 1999 were pledged as security for investor notes payable under the Accelerated Asset Recovery Program (see Note 7).

Mortgages receivable at June 30 are as follows:

	1999
Mortgages receivable at face value	\$ 6,062,130
Less unamortized discount based on imputed interest at 8.5%	(3,374,117)
	<u>\$ 2,688,013</u>

These mortgages will be received over the next five years ending June 30 as follows:

2000	\$ 375,539
2001	373,781
2002	371,024
2003	368,424
2004	363,562
Thereafter	4,209,800
	<u>\$ 6,062,130</u>

5. Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consists of the following:

	1999
Land	\$ 576,524
Buildings	7,739,490
Computer hardware and software	3,320,692
Furniture and equipment	1,779,213
Vehicles	212,901
	<u>\$ 13,628,820</u>
Less accumulated depreciation	4,755,343
	<u>\$ 8,873,477</u>

6. Notes Payable

Notes payable at June 30 consist of the following:

	1999
Noninterest-bearing, unsecured notes payable to various individuals and organizations, payable principally on demand	\$ 614,635

Unsecured note bearing interest at 6% per annum, payable on demand to an individual \$ 50,000

Noninterest-bearing note secured by certain buildings, payable to Norwest Mortgage, Inc. in equal monthly installments of \$500,000 December 15, 1999 through March 15, 2000 2,000,000

Noninterest-bearing note secured by specific mortgages receivable, payable to the State Housing Trust Fund for the Homeless Commission in equal monthly installments of \$387 through February 2015 33,007

	<u>\$ 2,697,642</u>
Less current portion	2,669,275
	<u>\$ 28,367</u>

Certain agreements require Habitat to submit financial information and maintain net assets greater than \$3,000,000. Habitat was in compliance with all covenants related to its outstanding obligations at June 30, 1999.

Future principal payments over the next five years are as follows:

2000	\$ 2,669,275
2001	4,640
2002	4,640
2003	4,640
2004	4,640
Thereafter	9,807
	<u>\$ 2,697,642</u>

The amount of future principal payments for 2000 includes \$619,635 for noninterest-bearing, unsecured notes payable to various Habitat supporters, both individuals and organizations, which are payable principally on demand. The amounts actually demanded and repaid for such notes payable in 1999 are \$96,000.

7. Accelerated Asset Recovery Program

The affiliates notes receivable and investor notes payable for the next five years ending June 30 are as follows:

	Affiliates Notes Receivable	Investor Notes Payable
2000	\$ 1,448,431	\$ 1,435,136
2001	1,506,213	1,487,509
2002	1,658,065	1,541,407
2003	1,616,073	1,597,318
2004	1,592,915	1,655,133
Thereafter	1,611,383	2,269,210
	<u>\$ 9,433,080</u>	<u>\$ 9,985,713</u>

The Investor Notes Payable require Habitat to monitor the compliance by each affiliate participating in this program with the terms and conditions of this agreement. Management believes they are in compliance with the covenants of the Investor Notes Payable. Habitat has guaranteed the payments to the investors

for 48 months from the date of issuance up to 4% of the outstanding principal balance of the Investor Notes Payable.

8. Annuity Obligations

Although not required, Habitat has segregated the use of the funds received under the annuity program. These funds are segregated and invested through a trustee and amount to \$4,822,828 at June 30, 1999.

Estimated future annual principal payments on contractual obligations at June 30, 1999 are as follows:

2000	\$	133,181
2001		133,181
2002		131,776
2003		129,494
2004		125,267
Thereafter		1,535,953
	\$	2,188,852

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	1999
Purpose restricted	
International	\$ 6,639,582
Domestic	15,633,711
	\$ 22,273,293
Time Restricted	2,551,271
	\$ 24,824,564

10. Net Assets Released From Restrictions

Net assets of \$43,158,439 for the year ended June 30, 1999, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

11. Employee Benefits

Full-time Habitat employees in the U.S. and U.S. affiliates who elect to participate, are provided health and death benefits through the Habitat for Humanity International Health Protection Plan (the "U.S. Plan"). The U.S. Plan requires contributions by participants. Expenses incurred by Habitat in connection with the U.S. Plan, which is partially self-insured, were \$906,255 in 1999.

Full-time employees not residing in the U.S. are provided health benefits through the Habitat for Humanity Overseas Health Plan (the "Overseas Plan"). The Overseas Plan requires no contributions by participants, and is partially self-insured. Habitat incurred \$232,735 in expenses associated with the Overseas Plan in 1999.

Habitat also provides through the Habitat for Humanity Retirement Plan (the "Retirement Plan") a defined contribution retirement plan to its full-time employees with one or more

years of service. The annual required contribution per eligible employee is the greater of 5% of the participant's wages or \$1,000, not to exceed 25% of the participant's wages for the year. Participants are not required to contribute and are fully vested after five years of service. Habitat's required contributions and amounts contributed to the Retirement Plan were \$251,877 in 1999.

12. Leases

Habitat leases certain computers under operating leases. At June 30, 1999, future minimum lease payments under the operating lease are \$242,461 in 2000, \$230,300 in 2001 and \$144,614 in 2002.

13. Federal Grants

With the enactment of the Housing Opportunity Program Extension Act of 1996, the United States Department of Housing and Urban Development ("HUD") awarded a grant to Habitat in the amount of \$25,000,000, Self-Help Home Ownership Program (S.H.O.P.), to be used for land acquisition and infrastructure improvements for Habitat houses. The significant terms of the agreement are that Habitat and its participating affiliates shall within 36 months of the award construct or rehabilitate at least 1,251 houses. Land for additional houses, up to a total number of 2,500 houses to be provided under the grant, shall be purchased and construction begun by the end of the 36-month period. In the event that Habitat shall fail in the 36-month period, to either spend the entire award or substantially fulfill its terms, Habitat shall refund to HUD all remaining grant funds not expended for qualifying expenses, as defined. Grant funds are passed through directly to participating U.S. affiliates in the form of 75% grant and 25% loan.

14. Affiliate Programs

International and U.S. affiliates — grassroots organizations of local people coming together to address local needs — are independent, not-for-profit groups that are approved by regional, area, or national offices of Habitat and operate within a covenant agreement with Habitat. All affiliates are encouraged to be self-supporting in their fund-raising efforts; however, Habitat also solicits contributions, both cash and in-kind on their behalf. Some affiliates in developing countries, where severely limited resources constrain local fund-raising, receive the majority of their funding from Habitat. All affiliates are expected to tithe 10% of their unrestricted cash contributions to Habitat work outside their own country. Tithes from U.S. affiliates totaled \$7,034,029 in 1999, and are included in contributions in the accompanying statements of activities and changes in net assets.

15. Allocation Of Joint Costs

Habitat allocates certain joint costs for informational materials

which include fund raising appeals between program and supporting services.

The allocated amounts for 1999 were as follows:

	1999	%
Program services:		
Public awareness and education	\$ 4,026,984	20
Supporting services:		
Fund raising	16,565,366	80
	\$ 20,592,350	100

16. Impact of Year 2000 (Unaudited)

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of Habitat's computer programs or hardware that have date-sensitive software or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

Based on recent assessments, Habitat determined that it will be required to modify or replace portions of its software and certain hardware so that those systems will properly utilize dates beyond December 31, 1999. Habitat presently believes that with modifications or replacements of existing software and certain hardware, the Year 2000 Issue can be mitigated. However, if such modifications and replacements are not made, or are not completed timely, the Year 2000 Issue could have an impact on the operations of Habitat, although Habitat

does not believe that this impact would be material.

Habitat's plan to resolve the Year 2000 Issue involves the following four phases: assessment, remediation, testing, and implementation. To date, Habitat has fully completed a conversion plan to modify equipment and information technology for of all systems that could be significantly affected by the Year 2000. The completed assessment indicated that very few of Habitat's significant systems could be affected due to the low complexity of its systems. Accordingly, Habitat does not believe that the Year 2000 presents a material exposure.

Habitat has queried its critical suppliers and subcontractors that do not share information systems with Habitat (external agents). To date, Habitat is not aware of any external agent with a Year 2000 issue that would materially impact Habitat's results of operations, liquidity, or capital resources. However, Habitat has no means of ensuring that external agents will be Year 2000 ready. The inability of external agents to complete their Year 2000 resolution process in a timely fashion could materially impact Habitat. The effect of non-compliance by external agents is not determinable.

There are some equipment and data processing systems that have been identified for conversion and replaced. The amounts expended through December 31, 1998 are not material to the financial statements, and management does not expect any additional expenditures for the year 2000 software compliance issues through 1999 to be significant.

Habitat currently has no contingency plans in place in the event it does not complete all phases of the Year 2000 program. Habitat does not believe that the Year 2000 presents a material exposure.

Schedule of Functional Expenses

For the Year ended June 30, 1999

	U.S. Affiliates	International Affiliates	Awareness & Education	Total Program	Fundraising	Management & General	Total Supporting	Total
<input type="checkbox"/> PROGRAM SERVICES								
<input type="checkbox"/> SUPPORTING SERVICES								
Program and house building transfers	\$23,491,508	\$18,809,197	\$ 1,400,430	\$43,701,135	\$ —	\$ —	\$ —	\$43,701,135
Donated assets distributed	7,430,482	75,312	37,656	7,543,450	—	—	—	7,543,450
Home construction costs	2,136,428	2,195	25,880	2,164,503	—	—	—	2,164,503
Salaries and benefits	6,796,237	4,665,508	2,982,317	14,444,062	2,358,255	1,723,560	4,081,815	18,525,877
Payroll tax expense	479,105	240,574	196,230	915,909	153,924	115,051	268,975	1,184,884
Professional services — direct mail	—	—	4,026,984	4,026,984	16,565,366	—	16,565,366	20,592,350
Professional services — other	285,189	216,115	578,838	1,080,142	526,216	182,231	708,447	1,788,589
Postage and freight	232,336	102,225	1,412,802	1,747,363	814,975	110,357	925,332	2,672,695
Travel	791,948	1,202,317	832,059	2,826,324	264,141	144,870	409,011	3,235,335
Office supplies and materials	551,381	212,363	87,045	850,789	112,102	106,956	219,058	1,069,847
Printing	172,338	122,198	1,193,094	1,487,630	266,165	15,840	282,005	1,769,635
Utilities and telephone	384,474	100,324	94,878	579,676	78,905	353,910	432,815	1,012,491
Insurance	340,251	100,353	95,552	536,156	39,705	123,808	163,513	699,669
Interest, service charges, taxes	57,678	72,190	55,649	185,517	93,222	146,969	240,191	425,708
Repairs and maintenance	61,546	40,054	16,806	118,406	8,087	565,545	573,632	692,038
Regional and board meetings	146,121	192,972	1,194	340,287	—	—	—	340,287
Office and equipment	158,673	106,917	129,489	395,079	128,477	533,372	661,849	1,056,928
Service agreements	108,228	51,423	117,676	277,327	95,953	209,161	305,114	582,441
Training, recruitment, books	224,442	137,831	80,654	442,927	63,361	64,306	127,667	570,594
Depreciation	350,358	219,049	115,460	684,867	197,450	112,846	310,296	995,163
Other	280,976	173,469	79,098	533,543	46,162	50,141	96,303	629,846
	\$ 44,479,699	\$ 26,842,586	\$ 13,559,791	\$ 84,882,076	\$ 21,812,466	\$ 4,558,923	\$ 26,371,389	\$111,253,465