

Audited Consolidated Financial Statements

Habitat for Humanity® International, Inc.

*Years ended June 30, 2004 and 2003
with Report of Independent Auditors*

Habitat for Humanity International, Inc.
Audited Consolidated Financial Statements

Years ended June 30, 2004 and 2003

Contents

Report of Independent Auditors	1
Audited Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Changes in Net Assets	3
Consolidated Statements of Cash Flows	5
Consolidated Statements of Functional Expenses	6
Notes to Consolidated Financial Statements	8

Report of Independent Auditors

Board of Directors
Habitat for Humanity International, Inc.

We have audited the accompanying consolidated statements of financial position of Habitat for Humanity International, Inc. (“Habitat”) as of June 30, 2004 and 2003, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Habitat’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat for Humanity International, Inc. as of June 30, 2004 and 2003, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 26, 2005
Atlanta, Georgia

Habitat for Humanity International, Inc.

Consolidated Statements of Financial Position

	June 30	
	2004	2003
Assets		
Cash and cash equivalents	\$ 17,342,999	\$ 10,892,596
Investments at fair value	21,285,517	19,856,232
Receivables:		
Contributions and grants, net	37,754,292	37,658,645
Affiliate notes, net	25,657,510	24,392,837
Due from affiliates, net	6,929,830	7,358,880
Other, net	2,222,121	525,565
Total receivables	72,563,753	69,935,927
Inventories, net	610,182	1,083,115
Prepays and other assets	1,930,994	959,876
Land, buildings, capital leases and equipment – net of accumulated depreciation and amortization	10,435,509	9,370,410
	\$124,168,954	\$112,098,156
Liabilities and net assets		
Accounts payable, accrued expenses and capitalized lease obligation payable	\$ 14,642,554	\$ 11,151,940
Notes payable	3,173,282	3,573,032
Annuity obligation	6,312,034	5,355,866
Investor notes payable	28,695,483	27,888,383
Total liabilities	52,823,353	47,969,221
Net assets:		
Unrestricted	13,218,058	4,915,733
Temporarily restricted	58,127,543	59,213,202
Total net assets	71,345,601	64,128,935
	\$124,168,954	\$112,098,156

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Activities and Changes in Net Assets

Year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Total
Revenues and gains			
Contributions	\$ 86,796,589	\$ 33,106,487	\$119,903,076
Government grants	15,727,356	–	15,727,356
Other income, net	14,450,289	–	14,450,289
Donations-in-kind	914,365	19,742,126	20,656,491
Total revenues and gains	117,888,599	52,848,613	170,737,212
Satisfaction of program restrictions	51,512,333	(51,512,333)	–
Total	169,400,932	1,336,280	170,737,212
Expenses			
Program services:			
U.S. affiliates	63,759,122	–	63,759,122
International affiliates	47,027,203	–	47,027,203
Public awareness and education	10,776,364	–	10,776,364
Total program services	121,562,689	–	121,562,689
Supporting services:			
Fund raising	33,292,354	–	33,292,354
Management and general	6,243,564	–	6,243,564
Total supporting services	39,535,918	–	39,535,918
Total expenses	161,098,607		161,098,607
Losses on contributions receivable	–	2,421,939	2,421,939
Total expenses and losses on contributions receivable	161,098,607	2,421,939	163,520,546
Change in net assets	8,302,325	(1,085,659)	7,216,666
Net assets at beginning of year	4,915,733	59,213,202	64,128,935
Net assets at end of year	\$ 13,218,058	\$ 58,127,543	\$ 71,345,601

See accompanying notes.

Habitat for Humanity International, Inc.
**Consolidated Statements of Activities
and Changes in Net Assets**

	Year ended June 30, 2003		
	Unrestricted	Temporarily Restricted	Total
Revenues and gains			
Contributions	\$ 86,558,578	\$ 34,152,508	\$120,711,086
Government grants	16,520,849	–	16,520,849
Other income, net	9,788,413	–	9,788,413
Donations-in-kind	1,264,881	10,140,196	11,405,077
Total revenues and gains	114,132,721	44,292,704	158,425,425
Satisfaction of program restrictions	43,023,649	(43,023,649)	–
Total	157,156,370	1,269,055	158,425,425
Expenses			
Program services:			
U.S. affiliates	61,943,989	–	61,943,989
International affiliates	42,760,868	–	42,760,868
Public awareness and education	10,749,075	–	10,749,075
Total program services	115,453,932	–	115,453,932
Supporting services:			
Fund raising	40,574,107	–	40,574,107
Management and general	5,444,057	–	5,444,057
Total supporting services	46,018,164	–	46,018,164
Total expenses	161,472,096	–	161,472,096
Losses on contributions receivable	–	3,972,414	3,972,414
Total expenses and losses on contributions receivable	161,472,096	3,972,414	165,444,510
Change in net assets	(4,315,726)	(2,703,359)	(7,019,085)
Net assets at beginning of year	9,231,459	61,916,561	71,148,020
Net assets at end of year	\$ 4,915,733	\$ 59,213,202	\$ 64,128,935

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Cash Flows

	Year ended June 30	
	2004	2003
Operating activities		
Change in net assets	\$ 7,216,666	\$ (7,019,085)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,470,516	2,844,006
Net loss (gain) on disposal of land, building, and equipment	29,093	(48,756)
Losses on contributions receivable	2,421,939	3,972,414
Losses on other receivables	199,200	—
Change in reserve for inventory obsolescence	109,668	1,364,042
Net realized and unrealized gains on investments	(306,340)	(23,342)
Changes in operating assets and liabilities:		
Increase in receivables	(5,678,015)	(1,822,870)
Decrease (increase) in inventories	363,265	(200,197)
(Increase) decrease in prepaids and other assets	(971,118)	108,538
Increase in accounts payable and accrued expenses	3,490,614	4,925,901
Net cash provided by operating activities	8,345,488	4,100,651
Investing activities		
Purchases of investments	(11,557,732)	(14,815,195)
Proceeds from sales and maturities of investments	10,434,787	7,486,415
Loans to affiliates	(2,662,251)	(2,714,676)
Repayments from affiliates	3,091,301	3,733,241
Purchases of land, buildings and equipment	(2,575,086)	(2,083,436)
Proceeds from sale of land, buildings, and equipment	10,378	70,254
Net cash used in investing activities	(3,258,603)	(8,323,397)
Financing activities		
Proceeds from notes payable	2,341,741	374,573
Principal repayments on notes payable	(2,741,491)	(2,430,623)
Increase in annuity obligation	1,332,844	1,214,388
Payments of annuity obligation	(376,676)	(368,518)
Proceeds from issuance of investor notes payable	6,678,300	8,414,200
Payments on investor notes payable	(5,871,200)	(5,924,329)
Net cash provided by financing activities	1,363,518	1,279,691
Increase (decrease) in cash and cash equivalents	6,450,403	(2,943,055)
Cash and cash equivalents:		
Beginning of year	10,892,596	13,835,651
End of year	\$ 17,342,999	\$ 10,892,596

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Functional Expenses

Year ended June 30, 2004

	Program Services					Supporting Services			Total
	U.S. Affiliates	International Affiliates	Public		Program Services	Fund Raising	Management and General	Supporting Services	
			Awareness and Education	Total					
Program and house building transfers	\$25,417,932	\$25,557,290	\$ 169,718	\$ 51,144,940	\$ —	\$ —	\$ —	\$ 51,144,940	
Donated assets distributed	18,190,272	—	—	18,190,272	—	—	—	18,190,272	
Salaries and benefits	12,322,084	14,741,084	4,765,332	31,828,500	5,192,025	3,222,710	8,414,735	40,243,235	
Payroll tax expense	814,832	366,591	281,671	1,463,094	290,314	176,811	467,125	1,930,219	
Professional services – direct mail	—	—	—	—	22,439,933	—	22,439,933	22,439,933	
Professional services – other	714,185	921,098	730,432	2,365,715	1,783,445	603,100	2,386,545	4,752,260	
Postage and freight	213,486	119,029	1,407,798	1,740,313	1,200,057	64,578	1,264,635	3,004,948	
Travel	1,455,801	2,534,138	918,699	4,908,638	480,255	195,593	675,848	5,584,486	
Printing	118,312	110,920	1,194,405	1,423,637	298,302	21,466	319,768	1,743,405	
Service agreements and utilities	900,159	467,608	601,931	1,969,698	703,511	1,027,959	1,731,470	3,701,168	
Insurance	824,646	174,942	142,696	1,142,284	141,226	146,435	287,661	1,429,945	
Interest, service charges and taxes	1,240,878	160,531	31,477	1,432,886	64,213	76,595	140,808	1,573,694	
Office and equipment	275,086	707,288	223,714	1,206,088	179,418	52,334	231,752	1,437,840	
Depreciation and amortization	449,363	361,673	160,976	972,012	300,426	198,078	498,504	1,470,516	
Other	822,086	805,011	147,515	1,774,612	219,229	457,905	677,134	2,451,746	
Total	\$63,759,122	\$47,027,203	\$10,776,364	\$121,562,689	\$33,292,354	\$6,243,564	\$39,535,918	\$161,098,607	

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Functional Expenses

Year ended June 30, 2003

	Program Services				Supporting Services		
	U.S. Affiliates	International Affiliates	Public Awareness and Education	Total Program Services	Fund Raising	Management and General	Supporting Services Total
Program and house building transfers	\$22,531,264	\$27,241,233	\$ 415,222	\$ 50,187,719	\$ -	\$ -	\$ 50,187,719
Donated assets distributed	19,301,381	-	-	19,301,381	-	-	19,301,381
Salaries and benefits	11,805,457	9,626,475	4,079,281	25,511,213	3,984,372	2,607,829	32,103,414
Payroll tax expense	803,721	361,223	242,876	1,407,820	225,405	147,059	1,780,284
Professional services – direct mail	-	-	-	-	29,246,340	-	29,246,340
Professional services – other	735,760	605,136	1,049,423	2,390,319	3,157,545	529,891	6,077,755
Postage and freight	215,150	140,639	1,483,627	1,839,416	1,137,011	76,515	3,052,942
Travel	1,212,372	2,417,582	716,269	4,346,223	403,338	174,812	4,924,373
Printing	132,822	97,368	1,251,971	1,482,161	345,452	26,447	1,854,060
Service agreements and utilities	844,769	362,736	486,796	1,694,301	728,991	1,040,077	3,463,369
Insurance	895,682	207,260	179,688	1,282,630	136,901	150,362	1,569,893
Interest, service charges and taxes	934,180	139,852	39,250	1,113,282	71,411	82,734	1,267,427
Office and equipment	338,193	507,138	202,876	1,048,207	208,118	131,245	1,387,570
Depreciation and amortization	956,641	589,082	339,432	1,885,155	576,975	381,876	2,844,006
Other	1,236,597	465,144	262,364	1,964,105	352,248	95,210	2,411,563
Total	\$61,943,989	\$42,760,868	\$10,749,075	\$115,453,932	\$40,574,107	\$5,444,057	\$161,472,096

See accompanying notes.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

June 30, 2004

1. Organization and Purpose

Organization and Purpose

Habitat for Humanity International, Inc. (“Habitat”) is a nondenominational Christian not-for-profit organization whose purposes are to partner with specific domestic and international Habitat programs 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 includes its headquarters based in Americus, Georgia, its area and regional offices worldwide and its national organizations that are registered as branches of Habitat.

Habitat’s mission is fulfilled primarily through the efforts of affiliates working in more than 3,000 communities in 100 countries across the globe.

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

Principles of Consolidation

The accompanying consolidated financial statements as of and for the year ended June 30, 2004 include the activities of Habitat for Humanity-Middle East in which Habitat effectively has control and an economic interest. All material intercompany accounts and transactions have been eliminated.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents, with the exception of cash held for reinvestment, which is included in investments.

Investments

Investments in equity and debt securities are reported at fair value with realized and unrealized gains and losses included in the Statements of Activities and Changes in Net Assets.

Realized and unrealized gains and 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.

Investment income and net increase/(decrease) on investments of donor restricted contributions are reported as follows: an increase/(decrease) in temporarily restricted net assets if the terms of the gift or Habitat's interpretation of relevant state law imposes a restriction on the current use of the investment income or net increase/(decrease); otherwise, such increase/(decrease) is reported in unrestricted net assets.

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 the estimated future cash flows. Contributions receivable are reflected net of an allowance for uncollectible amounts based on management's judgment and analysis of the creditworthiness of the donors, past payment experience, and other relevant factors, and have been discounted at rates ranging from 4.0% to 6.0%.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Contributions Receivable (continued)

Habitat does not recognize conditional promises to give as a receivable. Habitat recognizes a receivable only to the extent the condition has been satisfied. As of June 30, 2004 and 2003, conditional promises to give amounted to \$1,206,711 and \$1,298,990, respectively, and are not recorded in these financial statements.

Accelerated Asset Recovery Program

Investor notes payable are special obligations of Habitat with interest rates ranging from 1% to 5% and are payable over seven years. They are secured by affiliate general obligation promissory notes ("affiliate notes receivable"), which are, in turn, secured by mortgages held by the affiliates. The proceeds received from investor notes payable were disbursed to those affiliates that signed affiliate notes receivable with Habitat. Affiliate notes receivable have interest rates ranging from 3.25% to 4.275% over seven and one quarter years and are secured by mortgages held by those affiliates.

The real estate securing these mortgages is concentrated in the states of Florida and North Carolina with 15% of the balance in each of these states. The remaining balance is secured by real estate in other cities throughout the United States with no city comprising more than 3% of the balance.

Due from Affiliates

Due from affiliates consists 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 and a general reserve based on management's judgment and analysis of the creditworthiness of the affiliates, past payment experience and other relevant factors.

Inventories

Inventories represent donated building materials, books, pamphlets, and other merchandise available for sale and ministry purposes. Purchased inventory is recorded at the lower of cost or market 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 as program services expense when used or shipped to U.S. affiliates, based upon the specific identification method and adjusted when deemed not to have fair value.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Land, Buildings, Capital Leases and Equipment

Land, buildings, capital leases and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Depreciation expense and amortization expense of assets under capital leases are 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	3 years
Vehicles	3 to 5 years

Depreciation expense was \$1,401,321 and \$2,844,006 for the years ended June 30, 2004 and 2003, respectively. Amortization expense of assets under capital leases was \$69,195 for the year ended June 30, 2004.

Charitable Gift Annuities

Habitat has a gift annuity program whereby it enters into irrevocable contracts with certain donors. Habitat agrees to make payments to 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 IRS mortality tables and the prevailing interest rate. A discount rate of 6% was utilized as of June 30, 2004 and 2003. The difference is classified as unrestricted contributions on the Statement of Activities and Changes in Net Assets. Habitat maintains charitable gift annuities in a separate portfolio and the assets are invested in accordance with applicable state laws.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Net Assets

Habitat's net assets, revenues and gains, and expenses are classified as temporarily restricted and unrestricted based on the existence or absence of donor-imposed restrictions. 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.
- Donors do not restrict unrestricted net assets, 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 and Changes in Net Assets as net assets released from restrictions.

Temporarily restricted contributions, which are both received and released within the same year, are recorded as an increase in temporarily restricted net assets and net assets released from restrictions.

Government Grants

Habitat receives funding from several federal financial assistance programs that supplement its traditional funding sources. Habitat recognizes the award as revenue as the expenses stipulated in the grant agreement have been incurred.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, where provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenue and expense. Such amounts, which are included in the accompanying Statements of Activities and Changes in Net Assets, totaled \$848,923 and \$1,124,569 for the years ended June 30, 2004 and 2003, respectively.

Program Services

Program services expenses include transfer of contributions of cash and in-kind donations. For cash contributions, program services expenses are recorded when a promise to give is made by Habitat and received by the recipient organization. For in-kind contributions, program services expenses are recorded upon delivery of in-kind transfers to the affiliate by Habitat or the donor.

Estimates in the Financial Statements

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, 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.

Fair Value of Financial Instruments

Habitat's financial instruments consist of cash and cash equivalents, investments, receivables, accounts payable and accrued expenses, notes payable, annuity obligations and investor notes payable. Cash and cash equivalents, receivables, accounts payable and accrued expenses, notes payable, annuity obligations and investor notes payable are stated at cost which approximates fair value. Investments are recorded at their fair values.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts as previously reported have been reclassified in order to be consistent with the current year presentations.

3. Investments

Investments at June 30 consist of the following:

	2004	2003
Certificates of deposit and short-term investments	\$ 4,844,508	\$ 3,211,772
Stocks	5,896,337	3,173,969
Commercial paper	5,996,130	5,859,406
Bonds – U.S., State government and corporate	4,548,542	7,611,085
	<u>\$21,285,517</u>	<u>\$19,856,232</u>

Investment income and net realized and unrealized gains (losses) are included in other income, net and consist of the following:

	2004	2003
Net increase in fair value of investments, including realized and unrealized gains and losses	\$306,340	\$ 23,342
Interest and dividend income	388,225	326,320
	<u>\$694,565</u>	<u>\$349,662</u>

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

4. Contributions and Grants Receivable

Contributions and grants receivable at June 30 consist of the following:

	2004	2003
Contributions	\$48,348,475	\$46,213,388
Government grants	1,154,986	1,702,560
	49,503,461	47,915,948
Less unamortized discount	4,262,997	4,501,893
	45,240,464	43,414,055
Less allowance for uncollectibles	7,486,172	5,755,410
	\$37,754,292	\$37,658,645

These receivables are due as follows:

	2004	2003
Due in less than one year	\$18,138,969	\$18,402,293
Due in one to five years	19,334,252	18,414,671
Thereafter	281,071	841,681
	\$37,754,292	\$37,658,645

Contributions receivable include non-cash amounts of \$26,222,367 and \$23,770,850 for the years ended June 30, 2004 and 2003, respectively.

Net contributions receivable includes one contributor in 2004 and two contributors in 2003 whose individual net outstanding receivable is greater than 10% of the net outstanding contributions receivable. At June 30, 2004 and 2003, the net contributions receivable from these contributors totaled \$11,152,099 and \$10,312,198, respectively.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

5. Due from Affiliates

Due from affiliates at June 30 consist of the following:

	2004	2003
Self-Help Home Ownership Program Grant	\$5,446,704	\$5,691,431
Other	2,531,053	3,174,340
	7,977,757	8,865,771
Less allowance for uncollectibles	1,047,927	1,506,891
	\$6,929,830	\$7,358,880

Certain amounts which have been included in the allowance for uncollectible accounts may be forgiven and would be reflected as grants to affiliates.

6. Land, Buildings, Capital Leases and Equipment

Land, buildings, capital leases and equipment at June 30 consist of the following:

	2004	2003
Land	\$ 890,972	\$ 896,094
Buildings	10,596,541	10,369,780
Computer hardware and software	7,625,666	6,409,385
Computer hardware and software under capital leases	577,041	-
Furniture and equipment	2,759,394	2,526,324
Vehicles	685,456	254,955
	23,135,070	20,456,538
Less accumulated depreciation and amortization	12,699,561	11,086,128
	\$10,435,509	\$ 9,370,410

Accumulated amortization related to computer hardware and software under capital leases was \$69,195 for the year ended June 30, 2004.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

7. Notes Payable

Notes payable at June 30 consist of the following:

	2004	2003
Noninterest-bearing, unsecured notes payable to various individuals and organizations, payable principally on demand	\$ 497,557	\$ 435,305
Unsecured note bearing interest at 3% per annum	50,000	50,000
Noninterest-bearing notes payable to affiliates upon completion of their Accelerated Asset Recovery payable	1,751,725	1,592,727
Noninterest-bearing, unsecured note payable to Freddie Mac in annual installments through 2006	874,000	1,495,000
	<u>\$3,173,282</u>	<u>\$3,573,032</u>

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

2005	\$1,506,480
2006	157,048
2007	211,689
2008	322,234
2009	390,159
Thereafter	<u>585,672</u>
	<u>\$3,173,282</u>

The amount of future principal payments for 2005 includes \$497,557 of non-interest bearing, unsecured notes payable to various individuals and organizations which are payable principally on demand. The amounts actually demanded and repaid for such notes payable during the years ended June 30, 2004 and 2003 were \$2,897 and \$22,900, respectively.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

8. Accelerated Asset Recovery Program

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

	Investor Notes Payable
2005	\$ 5,753,740
2006	5,710,132
2007	5,266,646
2008	4,643,690
2009	3,497,363
Thereafter	3,823,912
	<u>\$28,695,483</u>

Interest expense during the years ended June 30, 2004 and 2003 was \$1,288,545 and \$975,865, respectively.

Investor notes payable requires Habitat to monitor the compliance by each affiliate participating in this program with the terms and conditions of the agreement. Management believes they are in compliance with the covenants of investor notes payable. Habitat requires that each of its affiliates post a cash reserve in the amount of one quarter's debt service to safeguard against nonpayment by the affiliate. These pre-payments are recorded as cash and investments in the Statements of Financial Position.

9. Temporarily Restricted Net Assets

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

	2004	2003
Home building activities:		
Internationally	\$ 5,527,812	\$ 4,131,659
Domestically	19,185,783	14,335,607
	24,713,595	18,467,266
Time restricted	33,413,948	40,745,936
	\$58,127,543	\$59,213,202

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

10. Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time, as follows:

	2004	2003
Home building activities:		
Internationally	\$ 9,659,804	\$ 9,220,797
Domestically	41,852,529	33,802,852
	<u>\$51,512,333</u>	<u>\$43,023,649</u>

11. Revenue from Government Grants

Federal and State awards received for the year ended June 30 consist of the following:

	2004	2003
Self-Help Home Ownership Program Grant	\$ 8,495,082	\$ 7,774,959
Capacity Build Grant	2,928,914	3,207,215
AmeriCorps	3,757,865	3,845,375
USAID	101,112	794,607
State Grants	159,169	714,073
Other	285,214	184,620
	<u>\$15,727,356</u>	<u>\$16,520,849</u>

Habitat's Federal programs are subject to financial and compliance audits by grantor agencies, which, if instances of material noncompliance are found, may result in disallowed expenditures and affect Habitat's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although Habitat expects such amounts, if any, to be immaterial.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

12. Employee Benefits

Full-time Habitat employees who elect to participate are provided health and death benefits through the Habitat for Humanity International Welfare Benefit Plan. The Plan requires contributions by participants. Expenses incurred by Habitat in connection with this Plan, which is partially self-insured, were \$4,207,660 and \$2,603,585 for the years ended June 30, 2004 and 2003, respectively.

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 3% of the participant's wages or \$750, not to exceed 25% of the participant's wages for the year. HFHI will match 100% of the first 3% of contributions made by eligible participants to the plan. Participants are fully vested after five years of service. Habitat's contributions to the Retirement Plan were \$807,583 and \$785,475 for the fiscal years ended June 30, 2004 and 2003, respectively.

13. Leases

Habitat leases certain fixed assets under operating and capital leases. Many of these lease agreements contain renewal clauses and yearly escalations in monthly rent payments. At June 30, 2004, future minimum rental payments under the operating and capital leases are as follows:

	Operating	Capital
2005	\$251,530	\$232,923
2006	203,667	232,923
2007	160,965	174,118
2008	31,621	–
2009	3,545	–
Total minimum payments	651,328	639,964
Less amounts representing executory costs and interest	–	108,982
Present value of net minimum payments	\$ –	\$530,982

Rent expense amounted to \$622,378 in fiscal year 2004.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

14. Affiliate Programs

International and U.S. national organizations and 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 under 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 behalf of its affiliates. Habitat has transferred approximately \$69,489,100 in 2004 to international and U.S. national organizations and affiliates in which Habitat has either a controlling or economic interest.

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 support Habitat work outside their own country. Tithes from U.S. affiliates totaled \$10,196,103 and \$9,504,574 in 2004 and 2003, respectively.

15. Commitments

Habitat for Humanity International agreed to guarantee a \$590,000 Mortgage Note made on February 1, 1999 by Uptown Habitat for Humanity, Inc. The obligation is payable to the Illinois Housing Development Authority (IHDA), a body created by and existing pursuant to the Illinois Development Act, and is due and payable on August 1, 2028. The note is secured by mortgages that were assigned by Uptown to IHDA pursuant to a prior loan agreement between Uptown and IHDA.

On October 28, 2004, Habitat entered into a loan agreement with Habitat for Humanity of San Fernando/Santa Clarita Valleys, Inc. (“San Fernando”) for \$400,000, under a non-interest bearing note secured by real estate. Of this amount, \$275,000 has been advanced to San Fernando as of the date of the audit report. This amount will begin to be repaid to Habitat in \$25,000 quarterly installments beginning on July 1, 2005.

During the course of business, HFHI routinely enters into grants for federal funds to be used to help accomplish the mission of the organization. To the extent that actual costs exceed the planned costs, HFHI may need to provide additional resources to meet the terms of the contract.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

16. Related-Party Transactions

For the years ended June 30, 2004 and 2003, Habitat recorded \$3,785,873 and \$1,536,813 in contributions, respectively, and \$3,309,223 and \$3,334,537 in pledge payments, respectively, from members of Habitat's International Board of Directors ("IBOD") or from companies that they represent. At June 30, 2004 and 2003, Habitat had \$5,643,047 and \$2,895,520, respectively, of pledges receivable from members of Habitat's IBOD or from companies that they represent.

A member of Habitat's IBOD represents a large financial institution that is an investor in the Accelerated Asset Recovery Program. The financial institution was owed \$8,645,938 and \$7,761,732 as of June 30, 2004 and 2003. Interest payments made to the financial institution totaled \$314,202 and \$294,446 during the years ended June 30, 2004 and 2003.