

CONSOLIDATED FINANCIAL STATEMENTS

Habitat for Humanity International, Inc.
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Habitat for Humanity International, Inc.

Consolidated Financial Statements

Years Ended June 30, 2009 and 2008

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Report of Independent Auditors

The 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, 2009 and 2008, 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. We were not engaged to perform an audit of Habitat's internal control over financial reporting. Our audits included 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 Habitat'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 as of June 30, 2009 and 2008, and the consolidated changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 4, 2009

Habitat for Humanity International, Inc.

Consolidated Statements of Financial Position

	June 30	
	2009	2008
Assets		
Cash and cash equivalents	\$ 48,297,181	\$ 55,362,660
Investments at fair value	96,564,284	149,382,103
Receivables:		
Contributions and grants, net	63,757,326	41,396,432
Affiliate notes, net	23,260,298	23,275,449
Due from affiliates, net	9,812,364	9,207,212
Mortgages receivable, net	4,829,629	4,404,313
Other, net	1,342,118	2,137,327
Total receivables	<u>103,001,735</u>	<u>80,420,733</u>
Inventories, net	2,221,636	1,052,611
Prepays and other assets	1,322,035	1,675,345
Land, buildings, and equipment – net of accumulated depreciation and amortization	<u>11,447,809</u>	<u>13,576,475</u>
	<u><u>\$ 262,854,680</u></u>	<u><u>\$ 301,469,927</u></u>
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 16,283,591	\$ 29,788,365
Capitalized lease obligations payable	1,560,492	1,976,069
Due to affiliates	5,191,721	6,129,226
Notes payable	2,834,851	2,360,666
Annuity obligation	7,950,140	8,355,682
Investor notes payable	26,016,545	26,636,258
Total liabilities	<u>59,837,340</u>	<u>75,246,266</u>
Net assets:		
Unrestricted	11,011,735	32,340,392
Temporarily restricted	191,505,605	193,883,269
Permanently restricted	500,000	–
Total net assets	<u>203,017,340</u>	<u>226,223,661</u>
	<u><u>\$ 262,854,680</u></u>	<u><u>\$ 301,469,927</u></u>

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2009				Year Ended June 30, 2008		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
	Revenues and gains						
Contributions	\$ 87,581,016	\$ 83,706,668	\$ 500,000	\$ 171,787,684	\$ 88,459,047	\$ 100,233,502	\$ 188,692,549
Donations in-kind	17,703,347	28,015,104	-	45,718,451	8,861,501	7,658,626	16,520,127
Government grants	17,364,922	-	-	17,364,922	20,023,766	-	20,023,766
Other income, net:							
Interest and dividend income	4,129,031	-	-	4,129,031	8,995,905	-	8,995,905
Realized and unrealized loss on investments	(12,032,024)	-	-	(12,032,024)	(911,461)	-	(911,461)
All other	18,773,867	-	-	18,773,867	16,080,281	-	16,080,281
Total other income, net	10,870,874	-	-	10,870,874	24,114,052	-	24,114,052
Total revenues and gains	133,520,159	111,721,772	500,000	245,741,931	141,509,039	107,892,128	249,401,167
Satisfaction of program restrictions	112,272,610	(112,272,610)	-	-	148,088,739	(148,088,739)	-
Total revenues and gains	245,792,769	(50,550,838)	500,000	245,741,931	289,597,778	(40,196,611)	249,401,167
Expenses							
Program services:							
U.S. affiliates	134,986,851			134,986,851	165,237,599		165,237,599
International affiliates	66,012,763			66,012,763	70,126,389		70,126,389
Public awareness and education	15,543,764			15,543,764	17,773,405		17,773,405
Total program services	216,543,378			216,543,378	253,137,393		253,137,393
Supporting services:							
Fund-raising	37,768,754			37,768,754	38,303,524		38,303,524
Management and general	12,809,294			12,809,294	13,468,231		13,468,231
Total supporting services	50,578,048			50,578,048	51,771,755		51,771,755
Total expenses	267,121,426			267,121,426	304,909,148		304,909,148
Losses on contributions and MFI receivables	-	1,826,826	-	1,826,826	-	911,287	911,287
Total expenses and losses on contributions and MFI receivables	267,121,426	1,826,826	-	268,948,252	304,909,148	911,287	305,820,435
Change in net assets	(21,328,657)	(2,377,664)	500,000	(23,206,321)	(15,311,370)	(41,107,898)	(56,419,268)
Net assets at beginning of year	32,340,392	193,883,269	-	226,223,661	47,651,762	234,991,167	282,642,929
Net assets at end of year	\$ 11,011,735	\$ 191,505,605	\$ 500,000	\$ 203,017,340	\$ 32,340,392	\$ 193,883,269	\$ 226,223,661

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2009	2008
Operating activities		
Change in net assets	\$ (23,206,321)	\$ (56,419,268)
Adjustments to reconcile change in net assets to net cash used operating activities:		
Depreciation and amortization	3,170,274	3,013,368
Net (gain) loss on disposal of land, buildings, and equipment	(48,232)	15,025
Losses on contributions and MFI receivables	1,826,826	911,287
Losses on other receivables	417,698	1,557,308
Net realized and unrealized losses on investments	12,032,024	911,461
Changes in operating assets and liabilities:		
(Increase) in receivables	(24,556,787)	(5,990,989)
(Increase) decrease in inventories	(1,169,025)	343,699
Decrease in prepaids and other assets	353,310	4,086,249
Increase (decrease) in accounts payable and accrued expenses	(13,504,774)	4,979,439
Net cash used in operating activities	<u>(44,685,007)</u>	<u>(46,592,421)</u>
Investing activities		
Purchases of investments	(61,383,472)	(272,563,567)
Proceeds from sales and maturities of investments	102,169,267	252,422,124
Loans to affiliates	(10,087,466)	(13,673,695)
Repayments from affiliates	9,818,727	9,521,173
Purchases of land, buildings, and equipment	(1,175,057)	(2,840,794)
Proceeds from sale of land, buildings, and equipment	181,681	222,998
Net cash provided by (used in) investing activities	<u>39,523,680</u>	<u>(26,911,761)</u>
Financing activities		
Proceeds from capitalized lease obligations payable	458,553	1,157,510
Principal repayments on capitalized lease obligations payable	(874,130)	(809,806)
Increase in due to affiliates	2,107,588	2,951,751
Payments on due to affiliates	(3,045,093)	(666,555)
Proceeds from notes payable	1,045,818	394,425
Principal repayments on notes payable	(571,633)	(237,517)
Increase in annuity obligation	185,793	1,680,886
Payments of annuity obligation	(591,335)	(648,755)
Proceeds from issuance of investor notes payable	6,370,300	8,892,000
Payments on investor notes payable	(6,990,013)	(6,252,317)
Net cash (used in) provided by financing activities	<u>(1,904,152)</u>	<u>6,461,622</u>
(Decrease) in cash and cash equivalents	(7,065,479)	(67,042,560)
Cash and cash equivalents:		
Beginning of year	55,362,660	122,405,220
End of year	<u>\$ 48,297,181</u>	<u>\$ 55,362,660</u>
Supplemental disclosures		
Interest paid	<u>\$ 548,197</u>	<u>\$ 1,332,651</u>

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2009

	U.S. Affiliates	International Affiliates	Public Awareness and Education	Total Program Services	Fund- Raising	Management and General	Total Supporting Services	Total
Program and house building transfers	\$ 79,896,793	\$ 39,870,183	\$ 2,314,381	\$ 122,081,357	\$ -	\$ -	\$ -	\$ 122,081,357
Donated assets distributed	28,733,215	29,482	-	28,762,697	-	-	-	28,762,697
Salaries and benefits	16,962,602	17,883,080	7,632,754	42,478,436	8,715,643	6,629,095	15,344,738	57,823,174
Payroll tax expense	1,107,915	496,811	479,026	2,083,752	549,919	326,650	876,569	2,960,321
Professional services – direct mail	-	-	-	-	20,636,594	-	20,636,594	20,636,594
Professional services – other	1,802,837	1,792,119	1,302,818	4,897,774	3,267,076	1,348,416	4,615,492	9,513,266
Postage and freight	94,174	87,965	755,758	937,897	760,995	52,345	813,340	1,751,237
Travel	1,184,826	2,433,542	521,568	4,139,936	664,427	350,397	1,014,824	5,154,760
Printing	78,665	92,896	730,096	901,657	295,414	17,305	312,719	1,214,376
Service agreements and utilities	883,747	779,970	549,994	2,213,711	924,589	1,542,679	2,467,268	4,680,979
Insurance	531,097	142,246	118,661	792,004	125,791	158,019	283,810	1,075,814
Interest, service charges, and taxes	876,200	(239,630)	155,402	791,972	600,563	114,899	715,462	1,507,434
Office and equipment	394,896	757,125	307,624	1,459,645	212,101	1,083,241	1,295,342	2,754,987
Depreciation and amortization	967,468	659,129	346,577	1,973,174	602,636	594,464	1,197,100	3,170,274
Other	1,472,416	1,227,845	329,105	3,029,366	413,006	591,784	1,004,790	4,034,156
Total	\$ 134,986,851	\$ 66,012,763	\$ 15,543,764	\$ 216,543,378	\$ 37,768,754	\$ 12,809,294	\$ 50,578,048	\$ 267,121,426

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2008

	U.S. Affiliates	International Affiliates	Public Awareness and Education	Total Program Services	Fund- Raising	Management and General	Total Supporting Services	Total
Program and house building transfers	\$ 103,775,266	\$ 38,352,998	\$ 2,595,531	\$ 144,723,795	\$ –	\$ –	\$ –	\$ 144,723,795
Donated assets distributed	30,022,661	–	–	30,022,661	–	–	–	30,022,661
Salaries and benefits	19,067,793	19,189,983	6,977,888	45,235,664	8,508,336	6,241,395	14,749,731	59,985,395
Payroll tax expense	1,192,046	478,125	420,451	2,090,622	510,100	313,740	823,840	2,914,462
Professional services – direct mail	–	–	–	–	20,751,157	–	20,751,157	20,751,157
Professional services – other	2,318,669	2,265,883	2,576,432	7,160,984	3,633,850	1,826,005	5,459,855	12,620,839
Postage and freight	238,163	128,598	971,939	1,338,700	785,753	90,829	876,582	2,215,282
Travel	2,176,147	3,529,604	1,342,966	7,048,717	937,790	419,750	1,357,540	8,406,257
Printing	244,068	161,175	359,489	764,732	284,101	15,927	300,028	1,064,760
Service agreements and utilities	1,032,613	1,038,607	657,755	2,728,975	1,057,713	1,722,963	2,780,676	5,509,651
Insurance	938,664	146,169	116,034	1,200,867	121,726	147,811	269,537	1,470,404
Interest, service charges, and taxes	902,334	418,903	255,317	1,576,554	573,115	93,082	666,197	2,242,751
Office and equipment	931,017	1,078,846	798,083	2,807,946	284,392	1,265,393	1,549,785	4,357,731
Depreciation and amortization	912,260	643,389	326,800	1,882,449	567,944	562,975	1,130,919	3,013,368
Other	1,485,898	2,694,109	374,720	4,554,727	287,547	768,361	1,055,908	5,610,635
Total	\$ 165,237,599	\$ 70,126,389	\$ 17,773,405	\$ 253,137,393	\$ 38,303,524	\$ 13,468,231	\$ 51,771,755	\$ 304,909,148

See accompanying notes.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements

June 30, 2009

1. Organization and Purpose

Habitat for Humanity International, Inc. (Habitat) is a Christian not-for-profit organization whose purposes are to partner with Habitat programs worldwide in making decent, affordable housing available to more families and to associate with other organizations that have a kindred purpose. Habitat seeks to eliminate poverty housing from the world, and to make decent shelter a matter of conscience and action.

Habitat is comprised of the organization's headquarters based in Georgia, U.S.A.; its area and regional offices worldwide; and the national organizations that are registered as branches of Habitat.

Habitat's mission is fulfilled primarily through the work of affiliated organizations and resource centers in approximately 90 countries around 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 years ended June 30, 2009 and 2008, include the activities of Habitat's area and regional offices, sixteen national organizations that are registered as part of Habitat for Humanity International, as well as the activities of Habitat for Humanity-Middle East, a wholly owned subsidiary, Nadacia Foundation HFHI, and Habitat for Humanity-Haiti, in which Habitat effectively has control and an economic interest. All material intercompany accounts and transactions have been eliminated.

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.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Investments

Effective July 1, 2008, Habitat adopted SFAS No. 157, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP SFAS No. 157-2. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS No. 157, Habitat measures cash and cash equivalents and marketable securities at fair value. At June 30, 2009, investments in marketable securities include approximately \$67,000,000 of auction rate securities which are classified within Level 3 due to a lack of a liquid market for such securities. Management has formed its own opinion on the condition of these securities based on information regarding the quality of the security and the quality of the collateral, among other things.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

In accordance with the fair value hierarchy described above, the following table shows the fair value of Habitat's financial assets that are required to be measured at fair value at June 30, 2009:

Description	Fair Value at June 30, 2009	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 48,297,181	\$ 48,297,181	\$ -	\$ -
Investments:				
Certificates of deposit and other short term investments	12,483,787	12,483,787	-	-
Bonds – U.S., state government, and corporate	8,133,864	8,133,864	-	-
Common stock and mutual funds	8,985,383	8,985,383	-	-
Auction rate securities	66,961,250	-	-	66,961,250
Total investments	96,564,284	29,603,034	-	66,961,250
Total cash and investments	\$ 144,861,465	\$ 77,900,215	\$ -	\$ 66,961,250

The following table provides a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) as defined in SFAS No. 157 at June 30, 2009:

Description	
Balance at July 1, 2008	\$ 76,150,000
Transfers out of Level 3	(2,125,000)
Total unrealized losses	(7,063,750)
Total realized gains/(losses)	-
Balance at June 30, 2009	\$ 66,961,250

Marketable securities measured at fair value using Level 3 inputs are comprised entirely of auction rate securities. Although auction rate securities would typically be measured using Level 2 inputs, the failure of auctions, beginning in February 2008, and the lack of market activity and liquidity requires that these securities be measured using Level 3 inputs.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Additionally, should Habitat have to sell the underlying securities prior to their maturity date or in a secondary market, the price received upon sale will be subject to prevailing market conditions and could be lower than par value. The underlying assets of the auction rate securities are collateralized primarily by the underlying assets of certain AAA, AA, a A-rated securities. Management assessed the value of these securities as of June 30, 2009 using a range of supportable market rates. Based on this assessment, Habitat recorded a valuation allowance of \$7,063,750, which is presented net of the total investments balance on the statement of financial position as of June 30, 2009, and as an unrealized loss in the statement of activities for the year ended June 30, 2009.

On September 10, 2009, in an effort to reduce any potential need to redeem the auction rate securities prior to their maturity date or in a secondary market, Habitat entered into a \$15,000,000 line of credit agreement with Bank of America, collateralized by \$30,000,000 of the auction rate securities.

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 in future years are recorded at fair value. 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 equivalent to the 10-year Treasury bill rate in effect at the date the contribution is made.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

For the year ending June 30, 2009, in accordance with provisions under SFAS No. 157, *Fair Value Measurements*, management computed an additional risk adjusted discount factor on the new cash pledge receivables recorded during the year. This additional discount amount was not significant in relation to the June 30, 2009 consolidated financial statements and accordingly was not recorded.

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, 2009 and 2008, conditional promises to give amounted to \$1,528,430 and \$3,456,777, respectively, and are not recorded in the consolidated financial statements.

Accelerated Asset Recovery/FlexCap Program

Investor notes payable are special obligations of Habitat secured solely by affiliate general obligation promissory notes (affiliate notes receivable), which are, in turn, secured by mortgages held by the affiliates. The notes have interest rates ranging from 1% to 5% and are payable over seven to ten years. 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 1% to 5.3% over seven to ten years and are secured by mortgages held by those affiliates.

Habitat requires that each of its affiliates post a cash reserve equal to one quarter of the debt service to safeguard against nonpayment by the affiliate. The reserved funds are invested in money market funds or certificates of deposit and are recorded as cash and cash equivalents and investments in the consolidated statements of financial position.

The real estate securing these mortgages is concentrated in the states of North Carolina (13%) and Michigan (11%). The remaining balance is secured by real estate in cities located throughout the remaining United States, with no city comprising more than 5% of the balance.

Due From/To Affiliates

Due from affiliates consists primarily of non-interest-bearing, unsecured, demand notes from Habitat affiliates in the U.S. Also included are interest-bearing, unsecured notes from microfinance institutions (MFIs) in three international countries. These loans are being used by the MFIs to institute revolving loan programs with Habitat homeowners in these countries. An allowance for estimated doubtful accounts is provided, as considered appropriate, based on

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

identification of specific uncollectible receivables and a general reserve that is based on the method of payment by the affiliate and past payment experience. A majority of these loans come from affiliates that are participating in the Self-Help Home Ownership Program (SHOP) grant. Habitat has had a policy of treating 25% of the grant proceeds as a loan to affiliates that must be paid back to Habitat without interest. These proceeds would then be redistributed for use in Habitat's U.S. programs. During the year ended June 30, 2006, the Department of Housing and Urban Development (HUD) ruled that proceeds from the loans to affiliates must be disbursed as an additional SHOP grant. Amounts loaned and collected under SHOP loans are reflected as a liability (Due To Affiliates) until these proceeds are appropriately redistributed or until the appropriate financial close out report is submitted to HUD.

Mortgages Receivable

Mortgage receivable balances represent the amount charged to the homeowners for Habitat houses built and secured with real estate that are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis.

Generally, Habitat's mortgages are non-interest-bearing. Mortgages in the African countries are effectively discounted to reflect inflation rates and, at times, are repaid based on prices of local commodities. In Asian countries, the mortgage receivable balances are discounted using a bank long-term lending rate in effect at the date the mortgage is issued.

Inventories

Inventories represent building materials. Gift-in-kind inventory is recorded at the fair 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. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method.

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. Additionally, certain application development costs incurred to develop internal-use software are capitalized and amortized over the expected useful life of the software application. 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:

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

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

For capitalized leases, if the lease term specifies a transfer of ownership or bargain purchase option, then the useful life of the related asset is used (3 to 5 years). Otherwise, depreciation is based on the lease term.

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, 2009. The difference is classified as unrestricted contributions on the consolidated statements 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.

Net Assets

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

Permanently restricted net assets consist of the principal amount of gifts which are required by donors to be permanently retained.

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.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Unrestricted net assets do not contain donor restrictions 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 contributions 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 consolidated statements of activities and changes in net assets as a satisfaction of program 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 as a satisfaction of program 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.

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 consolidated 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 consolidated statements of activities and changes in net assets, totaled \$777,330 and \$1,575,915 for the years ended June 30, 2009 and 2008, respectively.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Program Services

Program services expenses include direct transfers to affiliates of cash and in-kind donations, as well as payments to other vendors made on behalf of affiliates. 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 consolidated 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 consolidated 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, capitalized lease obligations payable, notes payable, annuity obligations, and investor notes payable. Cash and cash equivalents, receivables, accounts payable and accrued expenses, capitalized lease obligations payable, notes payable, annuity obligations, and investor notes payable are stated at cost, which approximates fair value. Investments are recorded at their fair values.

New Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 is effective for financial periods ending after June 15, 2009. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. Habitat has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2009 financial statements through December 4, 2009, the date that the financial statements were available to be issued.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

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

Certain investments are held in debt securities with contractual maturities. Such investments mature as follows:

	<u>2009</u>	<u>2008</u>
Due in less than one year	\$ 9,309,202	\$ 28,952,555
Due in one to five years	5,400,421	21,170,490
Due in five to ten years	72,869,278	88,565,133
	<u>\$ 87,578,901</u>	<u>\$ 138,688,178</u>

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

	<u>2009</u>	<u>2008</u>
Net decrease in fair value of investments, including realized and unrealized gains and losses	\$ (12,032,024)	\$ (911,461)
Interest and dividend income	4,129,031	8,995,905

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

4. Contributions and Grants Receivable

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

	<u>2009</u>	<u>2008</u>
Contributions	\$ 71,403,218	\$ 47,655,757
Government grants	1,090,687	949,490
	<u>72,493,905</u>	48,605,247
Less unamortized discount	4,650,557	2,761,770
	<u>67,843,348</u>	45,843,477
Less allowance for uncollectibles	4,086,022	4,447,045
	<u>\$ 63,757,326</u>	<u>\$ 41,396,432</u>

These receivables are due as follows:

	<u>2009</u>	<u>2008</u>
Due in less than one year	\$ 21,344,581	\$ 22,042,994
Due in one to five years	42,412,745	19,252,882
Thereafter	-	100,556
	<u>\$ 63,757,326</u>	<u>\$ 41,396,432</u>

Contributions receivable include in-kind amounts of \$22,532,065 and \$8,289,205 as of June 30, 2009 and 2008, respectively.

Net contributions receivable includes four contributors in 2009 and two contributors in 2008 whose individual net outstanding contribution receivable is greater than 10% of the net outstanding contributions receivable. At June 30, 2009 and 2008, the net contributions receivable associated with these gifts totaled \$52,641,254 and \$22,813,820, respectively.

On October 1, 2008, the Chairman of Habitat's International Board of Directors signed a gift agreement with Habitat for a legacy commitment of the residual value of his estate at time of death, not to exceed \$100 million. This gift represents an unconditional promise and will be transferred to Habitat within five years of his death. Seventy percent (70%) of the gift will be used by Habitat for unrestricted charitable purposes over a five year period, while the remaining thirty percent (30%) will fund a permanently restricted endowment, the income from which is for unrestricted charitable purposes.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

4. Contributions and Grants Receivable (continued)

Since this legacy commitment is sourced from the donor's will, the will is subject to be duly probated prior to Habitat receiving any proceeds. The timing and amount of the cash flows from this gift cannot be reasonably estimated at this time, due to uncertainties regarding residual value of the estate at the donor's death. The date of anticipated receipt of this gift is estimated to be in excess of 25 years from June 30, 2009. Therefore, this gift has not been recognized in the consolidated financial statements.

5. Due From Affiliates

Due from affiliates at June 30 consist of the following:

	<u>2009</u>	<u>2008</u>
Self-Help Home Ownership Program Grant	\$ 7,187,860	\$ 7,164,110
Other	3,522,587	3,263,037
	<u>10,710,447</u>	<u>10,427,147</u>
Less allowance for uncollectibles	898,083	1,219,935
	<u>\$ 9,812,364</u>	<u>\$ 9,207,212</u>

Certain amounts which have been included in the allowance for uncollectible accounts may be forgiven in the future and treated as program transfers to affiliates. Additionally, as part of affiliate capacity building during Katrina relief efforts, there were four forgivable loans made to affiliates prior to 2008, of which one loan was forgiven in 2008. These forgivable loans were treated as program transfers and therefore were not included in Due from Affiliates. Two of the remaining loans were forgiven in fiscal 2009, with no impact on net assets. The balance of these forgivable loans was \$572,000 and \$2,748,500 as of June 30, 2009 and 2008, respectively. Subsequent to June 30, 2009, but prior to the issuance of the consolidated financial statements, the final loan was forgiven.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

6. Land, Buildings, and Equipment

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

	2009	2008
Land	\$ 913,885	\$ 915,885
Buildings and leasehold improvements	11,504,690	11,598,409
Computer hardware and software	10,402,611	10,077,822
Computer hardware and software under capital leases	5,502,911	5,037,295
Furniture and equipment	4,256,386	4,164,781
Vehicles	1,574,747	1,611,375
	34,155,230	33,405,567
Less accumulated depreciation and amortization	22,707,421	19,829,092
	\$ 11,447,809	\$ 13,576,475

Depreciation expense was \$2,276,038 and \$2,206,329 for the years ended June 30, 2009 and 2008, respectively. Amortization expense of assets under capital leases was \$894,236 and \$807,039 for the years ended June 30, 2009 and 2008, respectively. Accumulated amortization related to computer hardware and software under capital leases was \$3,878,651 and \$2,984,415 as of June 30, 2009 and 2008, respectively. Unamortized computer software costs were \$1,344,517 and \$1,792,306 as of June 30, 2009 and 2008, respectively.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

7. Notes Payable

Notes payable at June 30 consist of the following:

	<u>2009</u>	<u>2008</u>
Non-interest-bearing, unsecured notes payable to various individuals and organizations, payable principally on demand	\$ 362,692	\$ 387,992
3.84% note payable to Calvert Social Investment Foundation, secured by \$500,000 in Habitat's investment bond portfolio, payable in five semiannual installments of \$105,833	403,767	—
3.84% note payable to Calvert Social Investment Foundation, secured by \$200,000 in Habitat's investment bond portfolio, payable in five semiannual installments of \$42,333	200,000	—
Non-interest-bearing notes payable to affiliates upon completion of their accelerated asset recovery payable	1,868,392	1,972,674
	<u>\$ 2,834,851</u>	<u>\$ 2,360,666</u>

Future principal payments are as follows:

2010	\$ 911,985
2011	540,127
2012	363,696
2013	332,437
2014	407,159
Thereafter	279,447
	<u>\$ 2,834,851</u>

The amount of future principal payments for 2009 includes \$362,692 of non-interest-bearing, unsecured notes payable to various individuals and organizations, which are payable principally on demand. The amount actually demanded and repaid for such notes payable during the years ended June 30, 2009 and 2008, was \$25,300 and \$39,650, respectively.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

8. Accelerated Asset Recovery/FlexCap Program

Future principal payments on investor notes payable for the fiscal years ending June 30 are as follows:

2010	\$ 5,903,111
2011	5,286,000
2012	4,508,282
2013	3,428,661
2014	2,608,944
Thereafter	4,281,547
	<u>\$ 26,016,545</u>

Interest expense during the years ended June 30, 2009 and 2008, was \$856,914 and \$920,319, respectively.

Investor notes payable require 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.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are composed of the following at June 30:

	<u>2009</u>	<u>2008</u>
Geographically restricted	\$ 6,762,940	\$ 8,957,124
Restricted for mission-related projects	17,627,381	18,727,885
Restricted for the purchase of construction materials	104,448,645	125,751,319
Time restricted	62,666,639	40,446,941
	<u>\$ 191,505,605</u>	<u>\$ 193,883,269</u>

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

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:

	<u>2009</u>	<u>2008</u>
Release of purpose restrictions	\$ 97,440,509	\$ 127,492,129
Release of time restrictions	14,832,101	20,596,610
	<u>\$ 112,272,610</u>	<u>\$ 148,088,739</u>

11. Revenue From Government Grants

Federal and state awards received for the years ended June 30 consist of the following:

	<u>2009</u>	<u>2008</u>
Self-Help Home Ownership Program	\$ 10,348,747	\$ 12,277,803
Capacity Build	1,964,425	2,090,382
AmeriCorps/Vista	4,344,062	4,308,323
USAID	679,973	1,122,082
Other	110,072	275,849
	<u>\$ 17,447,279</u>	<u>\$ 20,074,439</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.

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). The Plan requires contributions by participants. Expenses incurred by Habitat in connection with this plan, which is partially self-insured, were \$5,243,714 and \$6,052,360 for the years ended June 30, 2009 and 2008, respectively.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

12. Employee Benefits (continued)

Habitat provides through the Habitat for Humanity Retirement Plan (the Retirement Plan) a defined contribution retirement plan to eligible plan participants. There are three components to the plan: (1) participant contributions, (2) a Habitat match equal to 100% of the first 3% of wages contributed by participants, and (3) a discretionary annual contribution by Habitat to each eligible participant's account. Participants are fully vested in Habitat's contributions after five years of service. Habitat's contributions to the Retirement Plan were \$1,376,516 and \$1,322,301 for the years ended June 30, 2009 and 2008, respectively.

13. Leases

Habitat leases certain fixed assets, including office space in Atlanta, Georgia and other locations, under operating and capital leases. Many of these lease agreements contain renewal clauses and yearly escalations in monthly rent payments. At June 30, 2009, future minimum rental payments under the operating and capital leases are as follows:

	<u>Operating</u>	<u>Capital</u>
2010	\$ 1,645,479	\$ 974,456
2011	1,522,813	607,374
2012	1,325,939	187,132
2013	1,350,232	38,204
2014	1,341,882	1,484
Thereafter	2,887,747	—
Total minimum payments	<u>\$ 10,074,092</u>	1,808,650
Less amounts representing executory costs and interest		248,158
Present value of net minimum payments		<u>\$ 1,560,492</u>

Rent expense under operating leases amounted to \$1,245,358 and \$1,135,497 for the years ended June 30, 2009 and 2008, respectively.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

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 an affiliation 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 cash and donated assets totaling \$150,844,054 and \$174,746,456 in 2009 and 2008, respectively, to international and U.S. national organizations and affiliates.

Some affiliates in developing countries, where severely limited resources constrain local fund-raising, receive the majority of their funding from Habitat. All U.S. affiliates are expected to contribute a portion of their unrestricted cash contributions to support Habitat work outside their own country. These contributions totaled \$14,844,498 and \$15,715,029 in 2009 and 2008, respectively.

15. Commitments

Habitat agreed to guarantee a \$590,000 mortgage note made on February 1, 1999, for Uptown Habitat for Humanity, Inc. (Uptown). 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.

During the course of business, Habitat routinely enters into grant agreements for federal funds and agreements with other donors for funds to be used to help accomplish the mission of the organization. To the extent that actual costs exceed the planned costs, Habitat may need to provide additional resources to meet the terms of the contracts.

16. Related-Party Transactions

For the years ended June 30, 2009 and 2008, Habitat recorded \$33,333,987 and \$35,650,048 in contributions, respectively, and \$9,952,796 and \$10,977,011 in pledge payments, respectively, from members of Habitat's International Board of Directors (IBOD) or from companies that they or their families represent. At June 30, 2009 and 2008, Habitat had \$25,603,273 and \$22,403,872, of pledges receivable, respectively, from members of Habitat's IBOD or from companies that they or their families represent.

Habitat for Humanity International, Inc.

Summary Schedule of Prior Year Findings

Year Ended June 30, 2009

16. Related-Party Transactions (continued)

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 \$5,620,702 and \$7,491,780 as of June 30, 2009 and 2008, respectively. Interest payments made to the financial institution totaled \$243,777 and \$272,160 during the years ended June 30, 2009 and 2008, respectively. Additionally, this financial institution performs certain banking transactions on Habitat's behalf. Habitat pays bank fees for these transactions as part of the ordinary course of business. This financial institution is also a 50% owner of an organization, which is a service provider for Habitat's employee benefit pension plans. Habitat pays fees for these services. All of these transactions have been reviewed by counsel and Habitat's IBOD and are in accordance with Habitat's conflict of interest policy.

As discussed in detail in Footnote 4, the Chairman of Habitat's International Board of Directors signed a gift agreement with Habitat for a legacy commitment that will consist of the residual value of his estate at time of death, not to exceed \$100 million. For reasons discussed more fully in Note 4, this gift has not been recognized in the consolidated financial statements.

Several members of the IBOD are also on the Board of their respective national organizations. They all serve as volunteers and have no financial interest in the national organizations.

In June 2005, the IBOD approved a loan to Habitat for Humanity-South Africa (HFHSA), an unconsolidated national organization, for \$500,000. The loan was intended to help HFHSA build additional houses that were committed as part of the 2002 Jimmy Carter Work Project. It is payable over five years at 0% interest. A member of the IBOD is also a member of the Board of HFHSA. This potential conflict was disclosed to the IBOD, and this member did not participate in the vote to approve this loan. The IBOD determined that the loan was in furtherance of Habitat's exempt purpose. The balance outstanding on this loan as of June 30, 2009, was \$274,713.