CONSOLIDATED FINANCIAL STATEMENT

Habitat for Humanity International, Inc.
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Habitat for Humanity International, Inc.

Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

Contents

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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, 2011 and 2010, 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, 2011 and 2010, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

November 11, 2011

Habitat for Humanity International, Inc.

Consolidated Statements of Financial Position

	June 30	
	2011	**2010**
Assets		
Cash and cash equivalents	**$ 70,798,568**	$ 64,262,947
Investments at fair value	**45,495,253**	74,696,736
Receivables:		
Contributions and grants, net	**57,769,402**	67,292,475
Affiliate notes, net	**43,264,179**	36,740,543
Due from affiliates, net	**9,225,362**	9,018,274
Mortgages receivable, net	**5,924,991**	6,383,401
Other, net	**1,793,737**	1,829,299
Total receivables	**117,977,671**	121,263,992
Inventories, net	**3,968,013**	1,476,436
Prepaids and other assets	**2,247,806**	2,459,360
Land, buildings, and equipment – net of accumulated depreciation and amortization	**12,667,505**	10,290,595
	$ 253,154,816	$ 274,450,066
Liabilities and net assets		
Accounts payable and accrued expenses	**$ 22,353,647**	$ 19,230,095
Capitalized lease obligations payable	**2,348,112**	1,416,512
Due to affiliates	**2,603,903**	6,669,123
Notes payable	**3,381,747**	3,507,210
Annuity obligation	**7,477,512**	7,720,987
Investor notes payable	**50,718,529**	39,648,516
Total liabilities	**88,883,450**	78,192,443
Net assets:		
Unrestricted	**25,586,136**	22,465,446
Temporarily restricted	**137,462,246**	172,974,278
Permanently restricted	**1,222,984**	817,899
Total net assets	**164,271,366**	196,257,623
	$ 253,154,816	$ 274,450,066

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2011				Year Ended June 30, 2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues and gains								
Contributions	**$ 88,167,179**	**$ 68,835,239**	**$ 405,085**	**$ 157,407,503**	$ 101,742,375	$ 77,148,294	$ 317,899	$ 179,208,568
Contributed advertising - PSA's	**7,843,981**	**–**	**–**	**7,843,981**	23,446,762	–	–	23,446,762
Donations in kind, excluding PSA's	**13,302,388**	**16,914,177**	**–**	**30,216,565**	11,226,737	27,422,011	–	38,648,748
Government grants:								
NSP2	**37,310,319**	**–**	**–**	**37,310,319**	693,366	–	–	693,366
Government grants, excluding NSP2	**26,008,019**	**–**	**–**	**26,008,019**	19,587,072	–	–	19,587,072
Total government grants	**63,318,338**	**–**	**–**	**63,318,338**	20,280,438	–	–	20,280,438
Other income, net	**28,551,513**	**–**	**–**	**28,551,513**	23,765,564	–	–	23,765,564
Total revenues and gains	**201,183,399**	**85,749,416**	**405,085**	**287,337,900**	180,461,876	104,570,305	317,899	285,350,080
Satisfaction of program restrictions	**121,451,308**	**(121,451,308)**	**–**	**–**	123,222,035	(123,222,035)	–	–
Total revenues and gains	**322,634,707**	**(35,701,892)**	**405,085**	**287,337,900**	303,683,911	(18,651,730)	317,899	285,350,080
Expenses								
Program services:								
U.S. affiliates	**159,833,807**	**–**	**–**	**159,833,807**	130,114,334	–	–	130,114,334
International affiliates	**82,463,243**	**–**	**–**	**82,463,243**	72,975,040	–	–	72,975,040
Public awareness and education	**26,197,990**	**–**	**–**	**26,197,990**	34,083,447	–	–	34,083,447
Total program services	**268,495,040**	**–**	**–**	**268,495,040**	237,172,821	–	–	237,172,821
Supporting services:								
Fund-raising	**37,301,937**	**–**	**–**	**37,301,937**	42,844,662	–	–	42,844,662
Management and general	**13,717,040**	**–**	**–**	**13,717,040**	12,212,717	–	–	12,212,717
Total supporting services	**51,018,977**			**51,018,977**	55,057,379	–	–	55,057,379
Total expenses	**319,514,017**	**–**	**–**	**319,514,017**	292,230,200	–	–	292,230,200
Recoveries on contributions receivable	**–**	**(189,860)**	**–**	**(189,860)**	–	(120,403)	–	(120,403)
Total expenses and losses (recoveries) on contributions receivables	**319,514,017**	**(189,860)**	**–**	**319,324,157**	292,230,200	(120,403)	–	292,109,797
Change in net assets	**3,120,690**	**(35,512,032)**	**405,085**	**(31,986,257)**	11,453,711	(18,531,327)	317,899	(6,759,717)
Net assets at beginning of year	**22,465,446**	**172,974,278**	**817,899**	**196,257,623**	11,011,735	191,505,605	500,000	203,017,340
Net assets at end of year	**$ 25,586,136**	**$ 137,462,246**	**$ 1,222,984**	**$ 164,271,366**	$ 22,465,446	$ 172,974,278	$ 817,899	$ 196,257,623

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2011	**2010**
Operating activities		
Change in net assets	**$ (31,986,257)**	$ (6,759,717)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**3,045,866**	3,061,084
Net gain on disposal of land, buildings, and equipment	**(22,786)**	(207,026)
Recoveries on contributions receivable	**(189,860)**	(120,403)
Losses on other receivables	**1,020,736**	1,346,075
Net realized and unrealized (gains) losses on investments	**(2,309,021)**	204,711
Recoveries of amounts due to affiliates	**(4,453,992)**	–
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	**8,872,735**	(6,659,046)
(Increase) decrease in inventories	**(2,491,577)**	745,200
(Increase) decrease in prepaids and other assets	**211,554**	(1,113,228)
Increase in accounts payable and accrued expenses	**3,123,552**	2,946,504
Net cash used in operating activities	**(25,179,050)**	(6,555,846)
Investing activities		
Purchases of investments	**(299,616,810)**	(165,797,444)
Proceeds from sales and maturities of investments	**331,127,314**	187,460,281
Loans to affiliates	**(49,932,863)**	(36,619,535)
Repayments from affiliates	**43,515,573**	23,790,652
Purchases of land, buildings, and equipment	**(2,539,446)**	(1,196,372)
Proceeds from sale of land, buildings, and equipment	**120,021**	286,307
Net cash provided by investing activities	**22,673,789**	7,923,889
Financing activities		
Principal repayments on capitalized lease obligations payable	**(2,048,965)**	(930,759)
Increase in due to affiliates	**1,777,232**	2,100,334
Payments on due to affiliates	**(1,388,460)**	(622,932)
Proceeds from notes payable	**–**	1,343,285
Principal repayments on notes payable	**(350,074)**	(670,926)
Increase in annuity obligation	**310,802**	348,751
Payments of annuity obligation	**(554,277)**	(577,904)
Proceeds from issuance of investor notes payable	**19,346,214**	20,391,100
Payments on investor notes payable	**(8,051,590)**	(6,759,129)
Net cash provided by financing activities	**9,040,882**	14,621,820
Increase in cash and cash equivalents	**6,535,621**	15,989,863
Cash and cash equivalents:		
Beginning of year	**64,262,947**	48,273,084
End of year	**$ 70,798,568**	$ 64,262,947
Supplemental disclosures		
Interest paid	**$ 2,006,178**	$ 1,395,687
Non-cash purchases of equipment through capital lease obligations	**$ 2,980,565**	$ 786,779

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2011

	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	$ 65,338,292	$ 40,005,608	$ 4,497,494	$ 109,841,394	$ –	$ –	$ –	$ 109,841,394
Program and house building transfers – NSP2	35,396,657	–	–	35,396,657	–	–	–	35,396,657
Donated contributed advertising – PSA's	–	–	7,843,981	7,843,981	–	–	–	7,843,981
Donated assets distributed, excluding PSA's	29,692,484	677,587	–	30,370,071	–	–	–	30,370,071
Salaries and benefits	17,930,833	25,303,944	8,012,200	51,246,977	8,618,631	7,633,396	16,252,027	67,499,004
Payroll tax expense	1,144,058	614,066	493,825	2,251,949	533,081	354,966	888,047	3,139,996
Professional services – direct mail	–	–	–	–	20,508,372	–	20,508,372	20,508,372
Professional services – other	1,361,107	2,830,316	1,326,262	5,517,685	2,471,095	906,447	3,377,542	8,895,227
Postage and freight	73,972	268,572	728,418	1,070,962	956,246	40,789	997,035	2,067,997
Travel	1,519,100	5,058,163	695,555	7,272,818	857,089	421,261	1,278,350	8,551,168
Printing	124,145	78,675	492,449	695,269	227,306	5,805	233,111	928,380
Service agreements and utilities	1,036,709	1,399,981	624,980	3,061,670	1,084,576	1,653,865	2,738,441	5,800,111
Insurance	723,573	294,582	178,798	1,196,953	172,075	189,959	362,034	1,558,987
Interest, service charges, and taxes	1,860,465	162,636	236,284	2,259,385	712,289	158,911	871,200	3,130,585
Office and equipment	570,754	1,808,428	403,803	2,782,985	208,310	1,103,470	1,311,780	4,094,765
Depreciation and amortization	876,567	826,913	314,014	2,017,494	563,398	464,974	1,028,372	3,045,866
Other	2,185,091	3,133,772	349,927	5,668,790	389,469	783,197	1,172,666	6,841,456
Total	$ 159,833,807	$ 82,463,243	$ 26,197,990	$ 268,495,040	$ 37,301,937	$ 13,717,040	$ 51,018,977	$ 319,514,017

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2010

	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	$ 79,430,301	$ 36,214,199	$ 2,772,147	$ 118,416,647	$ –	$ –	$ –	$ 118,416,647
Donated contributed advertising - PSA’s	–	–	18,793,929	18,793,929	4,652,833	–	4,652,833	23,446,762
Donated assets distributed, excluding PSA’s	23,953,474	4,357,488	–	28,310,962	–	–	–	28,310,962
Salaries and benefits	16,698,327	20,048,191	7,080,728	43,827,246	9,546,388	6,188,965	15,735,353	59,562,599
Payroll tax expense	1,098,598	500,749	439,061	2,038,408	582,258	268,745	851,003	2,889,411
Professional services – direct mail	–	–	–	–	20,113,659	–	20,113,659	20,113,659
Professional services – other	1,548,163	2,262,335	1,295,502	5,106,000	2,912,735	761,521	3,674,256	8,780,256
Postage and freight	98,598	474,059	752,816	1,325,473	839,918	44,253	884,171	2,209,644
Travel	1,445,688	3,434,540	455,868	5,336,096	646,943	319,360	966,303	6,302,399
Printing	50,310	137,828	410,331	598,469	285,322	6,001	291,323	889,792
Service agreements and utilities	979,609	892,588	618,510	2,490,707	1,041,181	1,657,573	2,698,754	5,189,461
Insurance	734,912	215,418	193,295	1,143,625	153,513	193,816	347,329	1,490,954
Interest, service charges, and taxes	1,383,658	101,024	159,465	1,644,147	797,129	159,802	956,931	2,601,078
Office and equipment	508,878	1,157,019	339,153	2,005,050	182,412	1,304,111	1,486,523	3,491,573
Depreciation and amortization	915,557	648,669	327,981	1,892,207	568,422	600,455	1,168,877	3,061,084
Other	1,268,261	2,530,933	444,661	4,243,855	521,949	708,115	1,230,064	5,473,919
Total	$ 130,114,334	$ 72,975,040	$ 34,083,447	$ 237,172,821	$ 42,844,662	$ 12,212,717	$ 55,057,379	$ 292,230,200

See accompanying notes.

1103-1244322

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 80 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, 2011 and 2010 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.

2. Summary of Significant Accounting Policies (continued)

Investments

Habitat has adopted FASB ASC 820-10, which 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, FASB ASC 820-10 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 FASB ASC 820-10, Habitat measures cash and cash equivalents and marketable securities at fair value. At June 30, 2011, investments in marketable securities include $29,952,500 of auction rate securities which are classified within Level 3 due to a lack of a liquid market for such securities. Additionally, Habitat held $680,727 of mortgage-backed securities that were not being traded in primary markets and are classified within Level 3. Management determined the value of these securities based on information regarding the quality of the security and the quality of the collateral, among other things.

2. Summary of Significant Accounting Policies (continued)

In accordance with the fair value hierarchy described above, the following tables show the fair value of Habitat's financial assets that are required to be measured at fair value at June 30, 2011 and 2010:

Description	Fair Value at June 30, 2011	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	**$ 70,798,568**	**$ 70,798,568**	**$ –**	**$ –**
Investments:				
Certificates of deposit and other short term investments	**1,041,294**	**1,041,294**	**–**	**–**
Bonds – U.S., state government, and corporate	**948,953**	**948,953**	**–**	**–**
Common stock and mutual funds	**10,756,193**	**10,756,193**	**–**	**–**
Mortgage-backed securities	**2,796,313**	**2,115,586**	**–**	**680,727**
Auction rate securities	**29,952,500**	**–**	**–**	**29,952,500**
Total investments	**45,495,253**	**14,862,026**	**–**	**30,633,227**
Total cash and investments	**$ 116,293,821**	**$ 85,660,594**	**$ –**	**$ 30,633,227**

Description	Fair Value at June 30, 2010	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	$ 64,262,947	$ 64,262,947	$ –	$ –
Investments:				
Certificates of deposit and other short term investments	17,863,550	17,863,550	–	–
Bonds – U.S., state government, and corporate	831,201	831,201	–	–
Common stock and mutual funds	9,335,478	9,335,478	–	–
Mortgage-backed securities	7,983,230	2,630,816	–	5,352,414
Auction rate securities	38,683,277	–	–	38,683,277
Total investments	74,696,736	30,661,045	–	44,035,691
Total cash and investments	$ 138,959,683	$ 94,923,992	$ –	$ 44,035,691

2. Summary of Significant Accounting Policies (continued)

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 FASB ASC 820-10 at June 30, 2011:

Description	
Balance at July 1, 2010	$ 44,035,691
Sales or redemptions out of Level 3	(12,238,190)
Net unrealized losses for the year ending June 30, 2011	(1,164,274)
Balance at June 30, 2011	$ 30,633,227

Marketable securities measured at fair value using Level 3 inputs are comprised of auction rate securities and certain mortgage backed 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 the use of Level 3 inputs to determine the value.

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, and A-rated securities. Management assessed the value of these securities as of June 30, 2011 using a range of supportable market rates based upon an agreement with a reputable broker to buy back these securities at the values stated. Based on this assessment, Habitat has recorded valuation adjustments of $8,097,500 to lower the total investments balance to their fair value as of June 30, 2011. During the year ended June 30, 2011, $9,605,000 of the auction rate securities (20% of the original total) were redeemed at face value.

On December 31, 2009, mortgage-backed securities were donated to Habitat. These securities were from the lower Series and Class designations of a mortgage-backed securities pool. Accordingly, even though the face value of these securities was in excess of $128 million at the time of the donation, the contribution to Habitat was substantially less. Through June 30, 2011, payments from these securities totaled $5,794,697, which were applied against the original value

2. Summary of Significant Accounting Policies (continued)

of the gift as received. A detailed analysis of the future expected cash flows from this gift was performed at June 30, 2011, and it was determined that there was $680,727 of remaining value associated with this gift, resulting in a cumulative contribution of $6,475,424. An unrealized loss on this gift of $2,038,497 was reflected in the statement of activities for the year ended June 30, 2011.

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.

For the year ended June 30, 2011, in accordance with FASB ASC 820-10, management computed and booked an additional risk adjusted discount factor on the new cash pledge receivables recorded during the year.

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, 2011 and 2010, conditional promises to give amounted to $3,924,500 and $2,251,417, respectively, and are not recorded in the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

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 6% 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 6.5% 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 annual debt service to safeguard against nonpayment by the affiliate. The reserve 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 Florida (16%), and Michigan (12%). The remaining balance is secured by real estate in cities located throughout the remaining United States, with no city comprising more than 6% 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. An allowance for estimated doubtful accounts is provided, as considered appropriate, based on 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 earnings would then be redistributed for use in Habitat's U.S. programs. The Department of Housing and Urban Development (HUD) has determined that the 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. During the year ending June 30, 2011, financial close out reports were submitted and accepted by HUD for the SHOP program years 2005, 2006, and 2007, allowing $4,453,992 of this balance to be recognized as other income in the consolidated Statement of Activities.

2. Summary of Significant Accounting Policies (continued)

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 and construction in progress on houses. 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:

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.

2. Summary of Significant Accounting Policies (continued)

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, 2011. 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. Total cash and investments held in the gift annuity portfolio was $10,759,490 and $10,349,707 for the years ending June 30, 2011 and 2010, respectively.

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.

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

2. Summary of Significant Accounting Policies (continued)

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 government grant revenue as the expenses stipulated in the grant agreement have been incurred.

In 2010, Habitat received an award of $137,620,088 for Neighborhood Stabilization Program funds from the U.S. Department of Housing and Urban Development. These funds are to be used in seven target areas across five states. The revenue earned from this grant for the fiscal years ending June 30, 2011 and 2010 was $37,310,319 and $693,366, respectively. These amounts are included in unrestricted revenue for the respective years. Of these amounts, there were transfers to the target affiliates of $35,396,657 and $-0- in 2011 and 2010, respectively.

Contributed Goods and Services

During the years ended June 30, 2011 and 2010, a general advertising campaign targeting individuals to volunteer with their local affiliates was run and, in 2010, a one-time campaign specific to the earthquake in Haiti was also run. The total commercial value of these PSAs was $78.4 million and $66 million for the years ending June 30, 2011 and 2010, respectively, of which $18.6 million was attributable to the 2010 Haiti campaign. However, the majority of the value of the general campaign is received by local affiliates that are not consolidated by Habitat. As such, Habitat has estimated only 10% of the value of the general campaign is a contributed asset for Habitat. As Haiti is a consolidated branch of Habitat, the entire estimated value of that campaign was recorded in 2010.

2. Summary of Significant Accounting Policies (continued)

Advertising revenue related to contributed PSAs for the campaigns and associated expense in the amount of $7.8 million and $23.4 million has been recognized in the Consolidated Statement of Activities for the years ending June 30, 2011 and 2010, respectively. Habitat has engaged a third party to assist in determining the value of the airings. The amount of contributions recorded is not necessarily representative of the value that Habitat would pay to have the campaigns aired.

Additionally, 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 $293,596 and $337,355 for the years ended June 30, 2011 and 2010, respectively.

Program Services

Program services expenses include direct transfers to affiliates and partners 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. Refunds of cash from partners are reflected as reductions of program service expense. Such refunds are generally at the discretion of Habitat and typically result from the repayment of mortgage loans by homeowners as received by the partners. For in-kind contributions, program services expenses are recorded upon delivery of in-kind transfers to the affiliate by Habitat or the donor.

Functional Expenses

During the years ending June 30, 2011 and 2010, there were program expenses incurred for the Haiti Disaster Recovery totaling $22,932,153 and $10,854,281, respectively. These amounts are reflected in the International Affiliates column of the Consolidated Statements of Functional Expenses.

2. Summary of Significant Accounting Policies (continued)

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.

Subsequent Events

FASB ASC 855-10 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 these financial statements through November 15, 2011, the date that the financial statements were available to be issued.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements – an amendment of the FASB Accounting Standards Codification Topic 820*. ASU 2010-06 became effective for financial statements issued for fiscal years beginning after December 15, 2009, except for certain disclosures related to Level 3 type investments, for which the effective date is for fiscal years beginning after December 15, 2010. This pronouncement adds additional disclosures related to the fair value measurements used on investments to provide increased transparency in financial reporting. The required disclosures are included in the footnotes to Habitat's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Program income generated from government grants of $622,932 has been reclassified from Government Grant income to Other Income, net for 2010 on the accompanying Consolidated Statement of Activities 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:

	2011	2010
Due in less than one year	**$ 1,300,492**	$ 18,420,266
Due in one to five years	**434,202**	147,936
Due in more than five years	**33,004,366**	46,793,056
	$ 34,739,060	$ 65,361,258

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

	2011	2010
Net increase (decrease) in fair value of investments, including realized and unrealized gains and losses	**$ 2,309,021**	$ (204,711)
Interest and dividend income	**1,132,942**	1,741,403

4. Contributions and Grants Receivable

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

	2011	2010
Contributions	**$ 63,424,916**	$ 73,341,089
Government grants	**1,304,864**	2,817,922
	64,729,780	76,159,011
Less unamortized discount	**4,364,184**	5,797,514
	60,365,596	70,361,497
Less allowance for uncollectibles	**2,596,194**	3,069,022
	$ 57,769,402	$ 67,292,475

These receivables are due as follows:

	2011	2010
Due in less than one year	**$ 29,771,539**	$ 29,483,267
Due in one to five years	**27,997,863**	37,809,208
	$ 57,769,402	$ 67,292,475

Contributions receivable include in-kind amounts of $26,185,616 and $30,723,755 as of June 30, 2011 and 2010, respectively.

Net contributions receivable includes three and four contributors in 2011 and 2010, respectively, whose individual net outstanding contribution receivable is greater than 10% of the total net outstanding contributions receivable. At June 30, 2011 and 2010, the net contributions receivable associated with these gifts totaled $21,370,780 and $39,372,074, respectively.

On October 1, 2008, a donor 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 is designated for unrestricted charitable purposes over a five year period, while the remaining thirty percent (30%) will fund a permanently restricted endowment. Due to uncertainties regarding the residual value of the estate at the donor's death, 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:

	2011	2010
Self-Help Home Ownership Program Grant	**$ 7,187,884**	$ 7,050,764
Other	**2,952,676**	2,871,142
	10,140,560	9,921,906
Less allowance for uncollectibles	**915,198**	903,632
	$ 9,225,362	$ 9,018,274

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.

6. Land, Buildings, and Equipment

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

	2011	2010
Land	**$ 913,418**	$ 921,618
Buildings and leasehold improvements	**11,791,168**	11,800,905
Computer hardware and software	**10,576,730**	9,303,407
Computer hardware and software under capital leases	**7,817,585**	6,289,691
Furniture and equipment	**5,137,250**	4,213,955
Vehicles	**2,160,828**	1,782,530
	38,396,979	34,312,106
Less accumulated depreciation and amortization	**25,729,474**	24,021,511
	$ 12,667,505	$ 10,290,595

Depreciation expense was $1,824,849 and $2,047,268 for the years ended June 30, 2011 and 2010, respectively. Amortization expense of assets under capital leases was $1,221,017 and $1,013,816 for the years ended June 30, 2011 and 2010, respectively. Accumulated amortization related to computer hardware and software under capital leases was $5,403,227 and $4,892,467 as of June 30, 2011 and 2010, respectively. Unamortized computer software costs were $1,084,499 and $553,576 as of June 30, 2011 and 2010, respectively.

7. Notes Payable

Notes payable at June 30 consist of the following:

	2011	2010
Non-interest-bearing, unsecured notes payable to various individuals and organizations, payable principally on demand	**$ 283,438**	$ 344,992
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	**–**	205,722
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	**41,536**	122,275
3.84% note payable to Calvert Social Investment Foundation, secured by $300,000 in Habitat's investment bond portfolio, payable in five semiannual installments of $63,500	**300,000**	300,000
1.0% $250,000 construction note payable to The United Nations Habitat and Human Settlement Foundation, payable in quarterly installments of $12,500, plus interest	**230,394**	232,453
Non-interest-bearing notes payable to affiliates upon completion of their accelerated asset recovery payable	**2,526,379**	2,301,768
	$ 3,381,747	$ 3,507,210

Future principal payments are as follows:

2012	$ 699,678
2013	402,993
2014	254,210
2015	437,569
2016	218,527
Thereafter	1,368,770
	$ 3,381,747

7. Notes Payable (continued)

The amount of future principal payments for 2011 includes $283,438 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, 2011 and 2010, was $61,554 and $17,700, respectively. For the 2011 repayment amount, $24,000 of this was donated back to Habitat.

8. Accelerated Asset Recovery/FlexCap Program

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

2011	$ 7,978,289
2012	7,499,263
2013	6,936,738
2014	6,956,727
2015	5,917,493
Thereafter	15,430,019
	$ 50,718,529

Interest expense during the years ended June 30, 2011 and 2010, was $1,912,866 and $1,375,191, 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:

	2011	**2010**
Geographically restricted	**$ 6,717,844**	$ 6,662,212
Restricted for mission-related projects	**14,868,842**	19,889,213
Restricted for the purchase of construction materials	**59,411,022**	81,948,300
Time restricted	**56,464,538**	64,474,553
	$ 137,462,246	$ 172,974,278

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:

	2011	2010
Release of purpose restrictions	**$ 98,406,879**	$ 103,228,667
Release of time restrictions	**23,044,429**	19,993,368
	$ 121,451,308	$ 123,222,035

11. Revenue From Government Grants

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

	2011	2010
Self-Help Home Ownership Program	**$ 8,129,322**	$ 9,514,849
Capacity Build	**4,105,429**	3,346,748
AmeriCorps/Vista	**4,255,642**	4,736,201
USAID	**9,161,731**	1,933,094
Neighborhood Stabilization Program 2	**37,310,319**	693,366
Other	**355,895**	56,180
	$ 63,318,338	$ 20,280,438

Habitat's federal programs are subject to financial and program 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 $6,080,516 and $5,456,917 for the years ended June 30, 2011 and 2010, respectively.

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 $694,970 and $622,275 for the years ended June 30, 2011 and 2010, 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, 2011, future minimum rental payments under the operating and capital leases are as follows:

	Operating	Capital
2012	$ 1,305,260	$ 1,104,089
2013	1,388,629	871,024
2014	1,387,674	394,613
2015	1,400,212	204,611
2016	1,413,474	26,619
Thereafter	2,925,246	
Total minimum payments	$ 9,820,495	2,600,956
Less amounts representing executory costs and interest		252,844
Present value of net minimum payments		$ 2,348,112

Rent expense under operating leases amounted to $1,284,560 and $1,405,692 for the years ended June 30, 2011 and 2010, respectively.

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

14. Affiliate Programs (continued)

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 $175,608,122 and $146,727,609 in 2011 and 2010, 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 $13,210,827 and $14,359,960 in 2011 and 2010, 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, 2011 and 2010, Habitat recorded $8,477,359 and $18,303,167 in contributions, respectively, and $12,840,254 and $16,518,726 in pledge payments, respectively, from members of Habitat's International Board of Directors (IBOD) and Habitat's Officers or from companies that they or their families represent. At June 30, 2011 and 2010, Habitat had $1,673,388 and $7,586,007, of pledges receivable, respectively, from members of Habitat's IBOD or from companies that they or their families represent.

16. Related-Party Transactions (continued)

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 loan 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, 2011, was $74,713.

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