

CONSOLIDATED FINANCIAL STATEMENTS

Habitat for Humanity International, Inc.  
Years Ended June 30, 2015 and 2014  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Habitat for Humanity International, Inc.

Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

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## Report of Independent Auditors

Management and the Board of Directors  
Habitat for Humanity International, Inc.

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Habitat for Humanity International, Inc. (Habitat) which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat as of June 30, 2015 and 2014, 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 19, 2015

Habitat for Humanity International, Inc.

Consolidated Statements of Financial Position

	June 30	
	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 42,751,172	\$ 40,495,983
Investments at fair value	43,097,872	48,985,397
Receivables:		
Contributions and grants, net	35,057,674	40,226,070
Affiliate notes, net	31,636,743	37,068,527
Due from affiliates, net	14,971,348	14,679,269
Loans to microfinance institutions, net	36,471,055	23,340,000
Mortgages receivable, net	1,119,673	2,904,460
Other, net	2,666,001	3,208,077
Total receivables	<u>121,922,494</u>	121,426,403
Inventories, net	1,484,053	3,120,473
Prepays and other assets	1,858,434	2,127,816
Land, buildings, and equipment – net of accumulated depreciation and amortization	<u>7,613,667</u>	7,985,468
Total assets	<u><u>\$218,727,692</u></u>	<u>\$224,141,540</u>
<b>Liabilities and net assets</b>		
Accounts payable and accrued expenses	\$ 19,226,855	\$ 16,029,346
Program advances	1,255,710	1,951,334
Capitalized lease obligations payable	1,444,158	1,157,101
Due to affiliates	1,773,262	4,934,897
Notes payable	37,575,506	26,869,503
Annuity obligation	6,446,520	8,041,334
Investor notes payable	32,143,779	40,810,154
Total liabilities	<u>99,865,790</u>	99,793,669
Net assets:		
Unrestricted:		
Controlling interests	22,407,331	23,052,434
Noncontrolling interests	<u>2,240,819</u>	2,289,823
	24,648,150	25,342,257
Temporarily restricted	92,059,930	96,852,786
Permanently restricted	<u>2,153,822</u>	2,152,828
Total net assets	<u>118,861,902</u>	124,347,871
Total liabilities and net assets	<u><u>\$218,727,692</u></u>	<u>\$224,141,540</u>

See accompanying notes.

## Habitat for Humanity International, Inc.

### Consolidated Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2015				Year Ended June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and gains</b>								
Contributions	\$ 91,779,302	\$ 67,268,236	\$ 994	\$ 159,048,532	\$ 92,069,714	\$ 68,135,714	\$ 786,520	\$ 160,991,948
Donations in kind, including PSA's	17,408,670	18,028,243	-	35,436,913	31,149,612	28,975,488	-	60,125,100
Government grants	26,211,401	-	-	26,211,401	22,872,955	-	-	22,872,955
Other income, net	39,952,256	-	-	39,952,256	33,210,086	-	-	33,210,086
Total revenues and gains	175,351,629	85,296,479	994	260,649,102	179,302,367	97,111,202	786,520	277,200,089
Satisfaction of program restrictions	87,927,074	(87,927,074)	-	-	86,750,157	(86,750,157)	-	-
Total revenues and gains	263,278,703	(2,630,595)	994	260,649,102	266,052,524	10,361,045	786,520	277,200,089
<b>Expenses</b>								
Program services:								
U.S. affiliates	119,119,742	-	-	119,119,742	121,864,630	-	-	121,864,630
International affiliates	66,737,102	-	-	66,737,102	64,988,079	-	-	64,988,079
Public awareness and education	25,293,205	-	-	25,293,205	24,964,574	-	-	24,964,574
Total program services	211,150,049	-	-	211,150,049	211,817,283	-	-	211,817,283
Supporting services:								
Fund-raising	40,866,224	-	-	40,866,224	37,662,679	-	-	37,662,679
Management and general	12,446,537	-	-	12,446,537	11,111,892	-	-	11,111,892
Total supporting services	53,312,761	-	-	53,312,761	48,774,571	-	-	48,774,571
Total expenses	264,462,810	-	-	264,462,810	260,591,854	-	-	260,591,854
Losses on contributions receivable	-	2,162,261	-	2,162,261	-	1,252,205	-	1,252,205
Total expenses and losses on contributions receivable	264,462,810	2,162,261	-	266,625,071	260,591,854	1,252,205	-	261,844,059
Change in net assets before non controlling interests	(1,184,107)	(4,792,856)	994	(5,975,969)	5,460,670	9,108,840	786,520	15,356,030
Purchase of interest by noncontrolling shareholders	490,000	-	-	490,000	841,345	-	-	841,345
Noncontrolling interest in subsidiary	-	-	-	-	(237,402)	-	-	(237,402)
Change in net assets	(694,107)	(4,792,856)	994	(5,485,969)	6,064,613	9,108,840	786,520	15,959,973
Net assets at beginning of year	25,342,257	96,852,786	2,152,828	124,347,871	19,277,644	87,743,946	1,366,308	108,387,898
Net assets at end of year	\$ 24,648,150	\$ 92,059,930	\$ 2,153,822	\$ 118,861,902	\$ 25,342,257	\$ 96,852,786	\$ 2,152,828	\$ 124,347,871

See accompanying notes.

# Habitat for Humanity International, Inc.

## Consolidated Statements of Cash Flows

	Year Ended June 30	
	2015	2014
<b>Operating activities</b>		
Change in net assets	\$ (5,485,969)	\$ 15,959,973
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,377,041	2,687,709
Net (gain) loss on disposal of land, buildings, and equipment	(148,920)	72,259
Program transfer of assets to affiliates	70,021	337,314
Losses on contributions receivable	2,162,261	1,252,205
Losses on loans to micro-finance institutions	2,198,834	-
Losses (recoveries) on other receivables	700,497	(113)
Net realized and unrealized gains on investments	(70,008)	(3,069,982)
Support from the public restricted long-term investments	(994)	(786,520)
Unrealized loss on derivative instrument	(901,271)	-
Unrealized gain (loss) from foreign exchange fluctuations	898,445	-
Recoveries of amounts due to affiliates	(6,504,691)	-
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	4,830,847	(7,402,617)
Decrease (increase) in inventories	1,636,420	(1,033,180)
Decrease (increase) in prepaids and other assets	260,430	(441,561)
Increase (decrease) in accounts payable and accrued expenses	3,197,509	(466,409)
Decrease in program advances	(695,624)	(1,326,503)
Net cash provided by operating activities	<u>4,524,828</u>	<u>5,782,575</u>
<b>Investing activities</b>		
Purchases of investments	(2,758,748)	(15,178,179)
Proceeds from sales and maturities of investments	8,716,281	15,510,096
Loans to micro-finance institutions	(15,658,375)	(14,740,000)
Repayments from micro-finance institutions	331,311	-
Loans to affiliates	(22,808,346)	(30,134,437)
Repayments from affiliates	27,749,706	34,148,018
Purchases of land, buildings, and equipment	(1,113,528)	(1,062,501)
Proceeds from sale of land, buildings, and equipment	250,000	315,331
Net cash used in investing activities	<u>(5,291,699)</u>	<u>(11,141,672)</u>
<b>Financing activities</b>		
Principal repayments on capitalized lease obligations payable	(766,804)	(793,418)
Proceeds from due to affiliates	3,517,271	2,539,145
Payments on due to affiliates	(174,215)	(214,074)
Support from the public restricted long-term investments	994	786,520
Increase (decrease) in annuity obligation	(1,167,285)	770,429
Payments on annuity obligation	(427,529)	(622,767)
Proceeds from line of credit	10,000,000	19,000,000
Payments on line of credit	(10,000,000)	(19,000,000)
Proceeds from issuance of notes payable	14,365,542	25,558,642
Payments on notes payable	(12,325,914)	(13,837,737)
Net cash provided by financing activities	<u>3,022,060</u>	<u>14,186,740</u>
Increase in cash and cash equivalents	<u>2,255,189</u>	<u>8,827,643</u>
Cash and cash equivalents:		
Beginning of year	40,495,983	31,668,340
End of year	<u>\$ 42,751,172</u>	<u>\$ 40,495,983</u>
<b>Supplemental disclosures</b>		
Interest paid	<u>\$ 2,106,661</u>	<u>\$ 2,199,617</u>
Non-cash purchases of equipment through capital lease obligations	<u>\$ 1,053,861</u>	<u>\$ 745,501</u>

See accompanying notes.

## Habitat for Humanity International, Inc.

### Consolidated Statement of Functional Expenses

Year Ended June 30, 2015

	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	\$ 46,375,402	\$ 29,767,176	\$ 6,501,079	\$ 82,643,657	\$ –	\$ –	\$ –	\$ 82,643,657
Donations in kind, including PSA's	37,067,536	339,766	1,002,425	38,409,727	–	–	–	38,409,727
Salaries and benefits	21,600,378	23,380,412	10,184,948	55,165,738	10,063,958	6,549,309	16,613,267	71,779,005
Payroll tax expense	1,302,267	551,784	612,011	2,466,062	585,061	368,578	953,639	3,419,701
Professional services – direct mail	–	–	–	–	21,584,270	–	21,584,270	21,584,270
Professional services – other	1,979,798	3,196,070	1,891,564	7,067,432	3,089,407	858,139	3,947,546	11,014,978
Postage and freight	111,911	46,730	468,597	627,238	1,148,403	22,831	1,171,234	1,798,472
Travel	1,363,611	2,771,329	713,404	4,848,344	759,445	541,423	1,300,868	6,149,212
Printing	157,685	62,792	54,950	275,427	270,471	5,999	276,470	551,897
Service agreements and utilities	1,271,287	995,414	910,588	3,177,289	1,167,591	1,832,289	2,999,880	6,177,169
Insurance	1,039,726	250,260	237,500	1,527,486	211,815	222,533	434,348	1,961,834
Interest, service charges, and taxes	1,547,812	405,828	607,186	2,560,826	638,860	146,278	785,138	3,345,964
Office and equipment	1,155,757	1,268,504	396,096	2,820,357	166,303	1,105,006	1,271,309	4,091,666
Depreciation and amortization	685,063	654,216	245,411	1,584,690	428,409	363,942	792,351	2,377,041
Other	3,461,509	3,046,821	1,467,446	7,975,776	752,231	430,210	1,182,441	9,158,217
<b>Total</b>	<b>\$ 119,119,742</b>	<b>\$ 66,737,102</b>	<b>\$ 25,293,205</b>	<b>\$ 211,150,049</b>	<b>\$ 40,866,224</b>	<b>\$ 12,446,537</b>	<b>\$ 53,312,761</b>	<b>\$ 264,462,810</b>

See accompanying notes.



## Habitat for Humanity International, Inc.

### Consolidated Statement of Functional Expenses

Year Ended June 30, 2014

	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	\$ 46,762,558	\$ 27,871,543	\$ 6,976,320	\$ 81,610,421	\$ –	\$ –	\$ –	\$ 81,610,421
Donations in kind, including PSA's	43,734,138	192,421	2,735,350	46,661,909	–	–	–	46,661,909
Salaries and benefits	19,786,335	24,136,151	9,356,730	53,279,216	8,716,578	5,855,860	14,572,438	67,851,654
Payroll tax expense	1,253,872	542,150	578,976	2,374,998	533,267	322,473	855,740	3,230,738
Professional services – direct mail	–	–	–	–	20,799,754	–	20,799,754	20,799,754
Professional services – other	1,645,157	3,014,316	1,302,862	5,962,335	2,609,539	608,163	3,217,702	9,180,037
Postage and freight	50,491	49,561	393,619	493,671	1,088,433	19,742	1,108,175	1,601,846
Travel	1,406,048	2,914,614	798,887	5,119,549	653,118	310,324	963,442	6,082,991
Printing	126,691	86,998	5,404	219,093	240,888	7,666	248,554	467,647
Service agreements and utilities	1,356,430	1,261,896	1,003,783	3,622,109	1,255,604	1,823,435	3,079,039	6,701,148
Insurance	884,596	280,480	219,691	1,384,767	204,835	230,293	435,128	1,819,895
Interest, service charges, and taxes	1,725,278	332,841	468,775	2,526,894	625,056	156,466	781,522	3,308,416
Office and equipment	779,276	1,429,739	388,921	2,597,936	197,959	982,478	1,180,437	3,778,373
Depreciation and amortization	761,608	721,337	272,832	1,755,777	468,901	463,031	931,932	2,687,709
Other	1,592,152	2,154,032	462,424	4,208,608	268,747	331,961	600,708	4,809,316
<b>Total</b>	<b>\$ 121,864,630</b>	<b>\$ 64,988,079</b>	<b>\$ 24,964,574</b>	<b>\$ 211,817,283</b>	<b>\$ 37,662,679</b>	<b>\$ 11,111,892</b>	<b>\$ 48,774,571</b>	<b>\$ 260,591,854</b>

See accompanying notes.

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements

June 30, 2015

### **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 70 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, 2015 and 2014, include the activities of:

- Habitat's area and regional offices
- Eleven national organizations that are registered as part of Habitat for Humanity International
- Habitat for Humanity, Inc. and Habitat for Humanity-Middle East, which are wholly owned subsidiaries
- MicroBuild I, LLC (MicroBuild) and Habitat Micro Build India Housing Finance Company Private Limited (MicroBuild India), in which Habitat effectively has control and an economic interest.

All material intercompany accounts and transactions have been eliminated.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Cash and Cash Equivalents**

Habitat considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents, with the exception of cash held for reinvestment which is included in investments. Included in cash and cash equivalents is restricted cash of \$2,225,292 and \$2,300,257 at June 30, 2015 and 2014.

##### **Investments**

Realized and unrealized gains and losses on marketable securities are determined by using specific identification.

Investment income and net increase (decrease) on investments of donor restricted endowments are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift or relevant state law require that they be added back to the principal of the permanently restricted contributions.
- As decreases in unrestricted net assets when there are losses that reduce the fair value of the assets of endowment funds below the required level and as increases in unrestricted net assets when there are gains that restore the fair value of the assets of endowment funds to the required level.
- As increases (decreases) in temporarily restricted net assets, in all other cases.

##### **Contributions Receivable**

Contributions receivable that are expected to be collected in future years are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at their fair value based on the present value of their estimated future cash flows and are discounted at the rate applicable to the year in which the contribution was made. Conditional contributions receivable are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Contributions Receivable (continued)**

Habitat does not recognize conditional promises to give as a receivable. Habitat recognizes a receivable only to the extent the condition has been satisfied. As of June 30, 2015 and 2014, conditional promises to give amounted to \$34,604,669 and \$4,344,817, respectively, and are not recorded in the consolidated financial statements.

##### **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 1.0% 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 (15%), California (12%) 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. 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 originated with affiliates that are participating in the Self-help Homeownership Opportunity Program (SHOP) grant. Habitat treats 25% of the grant disbursements as a loan to affiliates that must be paid back to Habitat without interest. The Department of Housing and Urban Development (HUD) has determined that the proceeds from

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Due From/To Affiliates (continued)**

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 closeout report is submitted to HUD. During the year ended June 30, 2015, financial closeout reports were submitted and accepted by HUD for the SHOP program years 2010 and 2011, allowing \$6,504,691 of this balance to be recognized as other income in the consolidated statements of activities and changes in net assets. There were no SHOP programs closed out during the year ending June 30, 2014.

##### **Loans to Microfinance Institutions**

Loans to microfinance institutions are recorded in the consolidated statements of financial position at their unpaid principal amounts. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan.

##### **Allowance for Loan Losses**

The allowance for loan losses is based on assessments of certain factors, including historical credit loss experience of similar types of loans, MicroBuild's credit loss experience, the amount of past due and nonperforming loans, specific known risks, and current and anticipated economic, country, regulatory and interest rate conditions. Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance for loan losses are provided through a charge to earnings. Subsequent recoveries, if any, are credited to the allowance for loan losses.

##### **Derivative Instruments**

MicroBuild, when deemed appropriate, uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risks managed by MicroBuild through the use of derivative instruments are foreign currency exchange rate risk and interest rate risk related to loans that are made in currencies other than the U.S. Dollar. The derivative instrument is carried at fair value in the consolidated statements of financial position and the related change in fair value is reflected in the consolidated statements of operations.

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements (continued)

### 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. 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 materials to be sold in Habitat affiliate ReStores. 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 and leasehold improvements	20–30 years
Furniture and equipment	5–10 years
Computer hardware and software	3 years
Vehicles	3–5 years

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements (continued)

### 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 the Annuity 2000 Table and the prevailing interest rate. 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 were \$9,456,884 and \$12,441,109 at June 30, 2015 and 2014, respectively.

Habitat is required to hold reserves related to the gift annuity program based on the laws in certain states in which the gifts are solicited. Such reserves totaled \$8,154,847 and \$9,942,375 at June 30, 2015 and 2014, respectively, and are included in gift annuity investments on the accompanying statements of financial position.

#### Program Advances

Program advances relate to cash received directly from government and nongovernmental agencies, not yet expended on the program. These amounts will be recognized as revenue as the expenses are incurred.

#### Net Assets

Habitat's revenues and gains 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 that 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.

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Net Assets (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, or restricted as to time.

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 that 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.

Grant revenue on cost-reimbursement grants is recognized after the program expenditures have been incurred. As such, Habitat recognizes revenue and records a receivable for the reimbursement amount from the granting agency. Such grant programs are subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. Such review could result in disallowance of expenditures under the terms of the grant or reductions of future grants funds. Based on prior experience, Habitat's management believes the costs ultimately disallowed, if any, would not materially affect the consolidated financial statements.



## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Contributed Goods and Services**

Donations in kind revenue related to contributed Public Service Announcements (PSAs) and associated expense in the amount of \$1,002,425 and \$2,735,350 has been recognized in the consolidated statements of activities and changes in net assets for the years ended June 30, 2015 and 2014, respectively.

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 \$989,825 and \$819,570 for the years ended June 30, 2015 and 2014, 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. 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.

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Reclassifications

Certain amounts as previously reported have been reclassified in order to conform to the current year presentation. The reclassifications had no impact on the change in net assets as previously presented.

#### Fair Value Measurements

Habitat has adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, 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, ASC 820 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 – Other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs that 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. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity, and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Fair Value Measurements (continued)**

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the valuation methods.

Certificates of deposit are recorded based on their carrying value, which approximates fair value.

Common stock and mutual funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded, using the market approach.

Equity (stock) funds listed or traded on any national market or exchange are valued at the last sales price as of the close of the principal securities exchange on which such securities are traded.

Fixed income (bond) funds, other than money market instruments, are generally valued at the most recent bid price of the equivalent quoted yield for such securities (or those of comparable maturity, quality, and type).

Auction rate securities are valued using a market comparables and/or discounted cash flow valuation approach.

Forward foreign exchange contracts consist of contracts that are valued primarily based on the spot currency exchange rate and the interest rate differential.

Cross-currency interest rate swaps consist of contracts that are valued primarily based on the spot currency exchange rate and discount curves based on local government treasury bill and bond auctions.

Annuity obligations are recorded at fair value based on Level 3 inputs and other relevant market data based on the present value of the estimated future cash outflows. For the years ended June 30, 2015 and 2014, the assumptions used in the valuation of the annuity liability include mortality in accordance with the Annuity 2000 Table and a discount rate of 6% and 6% for all annuities, compounded annually, net of expenses. These rates are commensurate with the risks associated with the ultimate payment of the obligation.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### 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 and investor notes payable are stated at cost, which approximates fair value. Investments and the annuity obligations are recorded at their fair values.

#### 3. Investments

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

	<u>2015</u>	<u>2014</u>
Due in less than one year	\$ 698,734	\$ 1,093,321
Due in one to five years	—	—
Due in more than five years	<u>30,785,756</u>	<u>33,450,263</u>
	<u>\$ 31,484,490</u>	<u>\$ 34,543,584</u>

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

	<u>2015</u>	<u>2014</u>
Net increase in fair value of investments, including realized and unrealized gains and losses	\$ 70,008	\$ 3,069,982
Interest and dividend income	<b>103,903</b>	82,163

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements

In accordance with ASC 820, Habitat records cash and cash equivalents and marketable securities at fair value. At June 30, 2015 and 2014, investments in marketable securities include auction rate securities, which are classified within Level 3 due to a lack of a liquid market for such securities. Management determined the value of these securities based on information regarding the quality of the security and the quality of the collateral, among other factors.

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, 2015 and 2014:

Description	Fair Value at June 30, 2015	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Investments:				
Certificates of deposit and other short-term investments	\$ 897,907	\$ 799,412	\$ 98,495	\$ –
Common stock and mutual funds	3,129,682	3,129,682	–	–
Commingled funds:				
Equity (stock) funds	3,330,254	–	3,330,254	–
Fixed income (bond) funds	4,904,557	–	4,904,557	–
Auction rate securities	30,785,756	–	–	30,785,756
Mortgage backed securities	49,716	–	–	49,716
<b>Total investments</b>	<b>\$ 43,097,872</b>	<b>\$ 3,929,094</b>	<b>\$ 8,333,306</b>	<b>\$ 30,835,472</b>
Derivative instruments:				
Forward foreign exchange contracts	\$ 183,745	\$ –	\$ 105,494	\$ –
Cross-currency interest rate swaps	717,526	–	297,884	419,642
<b>Total derivative instruments</b>	<b>\$ 901,271</b>	<b>\$ –</b>	<b>\$ 376,135</b>	<b>\$ 419,642</b>
<b>Liabilities</b>				
Annuity obligations	\$ (6,446,520)	\$ –	\$ –	\$ (6,446,520)

Derivative instruments are included in loans to microfinance institutions, net on the accompanying consolidated statements of financial position.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

Description	Fair Value at June 30, 2014	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Investments:				
Certificates of deposit and other short-term investments	\$ 969,241	\$ 765,386	\$ 203,855	\$ –
Bonds – U.S., state government, and corporate	4,080	–	4,080	–
Common stock and mutual funds	3,254,780	3,254,780	–	–
Commingled funds:				
Equity (stock) funds	4,721,414	–	4,721,414	–
Fixed income (bond) funds	6,465,619	–	6,465,619	–
Auction rate securities	33,450,263	–	–	33,450,263
Mortgage backed securities	120,000	–	–	120,000
Total investments	<u>\$ 48,985,397</u>	<u>\$ 4,020,166</u>	<u>\$ 11,394,968</u>	<u>\$ 33,570,263</u>
<b>Liabilities</b>				
Annuity obligations	<u>\$ (8,041,334)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (8,041,334)</u>

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 ASC 820 at June 30, 2015:

	Auction Rate Securities	Mortgage Backed Securities	Cross- Currency Interest Rate Swap	Annuity Obligations
Balance at July 1, 2014	\$ 33,450,263	\$ 120,000	\$ –	\$ (8,041,334)
Purchases	–	–	–	(42,994)
Sales or redemptions	(2,500,000)	(70,284)	–	1,780,687
Net unrealized gains (losses) for the year ending June 30, 2015	(164,507)	–	419,642	(142,879)
Balance at June 30, 2015	<u>\$ 30,785,756</u>	<u>\$ 49,716</u>	<u>\$ 419,642</u>	<u>\$ (6,446,520)</u>

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**4. Fair Value Measurements (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 ASC 820 at June 30, 2014:

	<b>Auction Rate Securities</b>	<b>Mortgage Backed Securities</b>	<b>Annuity Obligations</b>
Balance at July 1, 2013	\$ 32,443,796	\$ –	\$ (7,893,672)
Purchases	–	120,000	(678,210)
Sales or redemptions	(450,000)	–	861,607
Net unrealized gains (losses) for the year ending June 30, 2014	1,456,467	–	(331,059)
Balance at June 30, 2014	<u>\$ 33,450,263</u>	<u>\$ 120,000</u>	<u>\$ (8,041,334)</u>

Marketable securities measured at fair value using Level 3 inputs consist of auction rate securities and certain mortgage-backed securities.

Auction rate securities would typically be measured using Level 2 inputs. The failure of such auctions, beginning in February 2008, and the lack of market activity and liquidity require 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. 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 the auction rate securities as of June 30, 2015 and 2014, using a market comparables and/or discounted cash flow valuation approach. Under the market comparables approach, indications of fair value from the secondary market are used to estimate the discount from par value based on trading activity for similar securities. The discounted cash flow approach utilizes a discounted cash flow model in which the expected future cash flows of the Student Loan Auction Rate Securities are discounted back to the Measurement Date using a yield that compensates for illiquidity. Both of the valuation methods described above take into consideration the risk and uncertainty associated with the pricing, given limited market activity and information. Management assessed the value of these securities as of June 30, 2015 and 2014, using a range of supportable market rates based upon an agreement with a reputable broker or purchaser to buy back these securities at the values stated.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Value Measurements (continued)

There were no cross-currency interest rate swaps Level 3 investments during the year ended June 30, 2014. The total amount of gains included in other income in the consolidated statements of activities and changes in net assets still held at June 30, 2015 totals \$255,135.

#### 5. Contributions and Grants Receivable

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

	<b>2015</b>	<b>2014</b>
Contributions	<b>\$ 36,780,485</b>	\$ 42,101,809
Government grants	<b>2,189,498</b>	1,557,672
	<b>38,969,983</b>	43,659,481
Less unamortized discount	<b>(1,587,312)</b>	(2,197,941)
	<b>37,382,671</b>	41,461,540
Less allowance for uncollectibles	<b>(2,324,997)</b>	(1,235,470)
	<b>\$ 35,057,674</b>	\$ 40,226,070

These receivables are due as follows at June 30:

	<b>2015</b>	<b>2014</b>
Due in less than one year	<b>\$ 23,259,093</b>	\$ 26,898,683
Due in one to five years	<b>11,798,581</b>	13,318,965
Due in over five years	–	8,422
	<b>\$ 35,057,674</b>	\$ 40,226,070

Contributions receivable include in-kind amounts of \$20,973,910 and \$26,693,419 as of June 30, 2015 and 2014, respectively.

Net contributions receivable includes two contributors in 2015 and 2014 whose individual net outstanding contribution receivable is greater than 10% of the total net outstanding contributions receivable. At June 30, 2015 and 2014, the net contributions receivable associated with these gifts totaled \$11,055,495 and \$15,435,573, respectively.



## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 5. Contributions and Grants Receivable (continued)

On October 1, 2008, a donor signed a gift agreement with Habitat for a legacy commitment of the residual value of the donor's estate at time of death, not to exceed \$100,000,000. This gift represents an unconditional promise and will be transferred to Habitat within five years of the donor's 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.

#### 6. Loans to Microfinance Institutions

Loans to microfinance institutions at June 30, 2015 and 2014, consist of interest bearing loans, with interest rates ranging from 6% to 10.5% per annum over terms of three to four years.

Future principal payments are as follows:

2016	\$ 4,966,606
2017	17,655,474
2018	12,863,378
2019	3,178,448
2020	5,983
	<hr/>
	38,669,889
Less allowance for loan losses	(2,198,834)
	<hr/>
	<u>\$ 36,471,055</u>

MicroBuild makes loans to micro-finance institutions that are working in developing foreign markets and may be subject to increased risks due to political and regulatory environments, and overall market and economic factors in those countries. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies.

At June 30, 2015, all of MicroBuild's loans to microfinance institutions are with twenty-five MFI's in eighteen countries. The largest concentration in any one country is Azerbaijan at 13% of total loans to microfinance institutions. Tajikistan, Ecuador, and Peru each have holdings of 11%.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Loans to Microfinance Institutions (continued)

At June 30, 2014, all of MicroBuild's loans to microfinance institutions are with sixteen MFI's in thirteen countries. The largest concentration in any one country is Azerbaijan at 17% of total loans to microfinance institutions. Tajikistan and Cambodia also have holdings in excess of 10% (17% and 11%, respectively).

In the event that a micro-finance institution is unable to repay its loan according to its original schedule, MicroBuild pursues collection and workout plans including interest only payments, reduced payments and/or moratorium on payments, depending on the individual micro-finance institution's circumstances. It is MicroBuild's preference not to provide any concession which reduces the loan's yield; however, there are some situations that warrant discontinuing interest payments for a certain period of time. Generally, MicroBuild discontinues interest accrual for all loans on which collection of interest is not reasonably expected. Interest income on nonaccrual loans is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Activity in the allowance for loan losses on loans to micro-finance institutions is as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ —	\$ —
Allowance for loan losses	<b>2,198,834</b>	—
Recoveries	—	—
Balance at end of year	<u><b>\$ 2,198,834</b></u>	<u>\$ —</u>

Under ASC Topic 310-10, *Accounting by Creditors for Impairment of a Loan*, a loan is considered impaired when, based on current information, it is probable that MicroBuild will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement. The fair value of the loan is then compared with the recorded investment in the loan to determine whether or not a specific reserve is necessary. MicroBuild's recorded investment in loans that are considered to be impaired under ASC Topic 310-10 was \$5,000,000 and \$0 for the years ended June 30, 2015 and 2014, respectively. The related allowance for loan losses for all impaired loans as of June 30, 2015 and 2014, was \$2,198,834 and \$0, respectively. MicroBuild's average recorded investment in impaired loans during the years ended June 30, 2015 and 2014, was approximately \$5,000,000 and \$0, respectively.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**7. Due From Affiliates**

Due from affiliates at June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
SHOP grant	\$ 11,133,931	\$ 9,751,537
Capital Magnet Fund grant	2,948,042	3,675,929
Stewardship and Organizational Stewardship Initiative (SOSI )receivable	535,944	112,860
Other	<u>1,224,968</u>	<u>1,690,220</u>
	15,842,885	15,230,546
Less allowance for uncollectibles	<u>871,537</u>	<u>551,277</u>
	<u>\$ 14,971,348</u>	<u>\$ 14,679,269</u>

Certain amounts that have been included in the allowance for uncollectible accounts may be forgiven in the future and treated as program transfers to affiliates.

**8. Land, Buildings, and Equipment**

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

	<u>2015</u>	<u>2014</u>
Land	\$ 726,584	\$ 806,218
Buildings and leasehold improvements	11,326,035	11,541,196
Computer hardware and software	7,746,616	10,761,724
Computer hardware and software under capital leases	3,841,701	8,114,127
Furniture and equipment	3,929,951	5,254,866
Vehicles	<u>2,230,960</u>	<u>2,262,927</u>
	29,801,847	38,741,058
Less accumulated depreciation and amortization	<u>22,188,180</u>	<u>30,755,590</u>
	<u>\$ 7,613,667</u>	<u>\$ 7,985,468</u>

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**8. Land, Buildings, and Equipment (continued)**

Other supplemental disclosures related to land, buildings, and equipment are as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Depreciation expense	\$ 1,611,545	\$ 1,893,223
Amortization expense on assets under capital leases	\$ 765,496	\$ 794,486
Accumulated amortization on capital leases	\$ 2,401,259	\$ 6,956,565
Unamortized computer software costs	\$ 295,376	\$ 204,054

**9. Notes Payable**

Notes payable at June 30 consist of the following:

	<u>2015</u>	<u>2014</u>
Notes payable to Overseas Private Investment Corporation (OPIC), secured by letters of credit, payable in quarterly installments of interest only at rates ranging from 1.48% to 2.62% per annum, with the principal sum due in full no later than July 15, 2019	\$ 35,900,000	\$ 24,900,000
1.0% \$250,000 construction note payable to The United Nations Habitat and Human Settlement Foundation, payable in quarterly installments of \$12,500 through September 30, 2015, plus interest	9,402	50,358
Non-interest-bearing notes payable to affiliates upon completion of their accelerated asset recovery payable	1,666,104	1,919,145
	<u>\$ 37,575,506</u>	<u>\$ 26,869,503</u>

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 9. Notes Payable (continued)

Future principal payments are as follows:

2016	\$ 98,760
2017	119,770
2018	277,281
2019	129,635
2020	9,607,830
Thereafter	<u>27,342,230</u>
	<u>\$ 37,575,506</u>

On June 22, 2012, MicroBuild, a limited liability company in which Habitat has a controlling interest, entered into a \$45,000,000 limited liability loan agreement with OPIC, an agency of the United States. MicroBuild's three equity investors must match the remaining \$5,000,000 for this \$50,000,000 project. Additionally, the equity investors must provide \$5,000,000 in guarantor letters of credit. These funds are then lent to micro-finance institutions in various countries around the world. At June 30, 2015, \$4,500,000 of capital has been contributed by the three equity members.

#### 10. FlexCAP Program

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

2016	\$ 5,218,898
2017	5,223,800
2018	4,983,795
2019	4,445,495
2020	3,846,563
Thereafter	<u>8,425,228</u>
	<u>\$ 32,143,779</u>

Interest expense during the years ended June 30, 2015 and 2014, was \$1,357,164 and \$1,641,465, 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.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**11. Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Geographically restricted	\$ 10,231,433	\$ 9,534,153
Restricted for mission-related projects	12,524,941	11,731,169
Restricted for the purchase of construction materials	36,435,380	36,919,066
Time restricted	32,868,176	38,668,398
	<u>\$ 92,059,930</u>	<u>\$ 96,852,786</u>

**12. 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 for the years ended June 30, as follows:

	<u>2015</u>	<u>2014</u>
Release of:		
Geographic restrictions	\$ 11,638,509	\$ 12,618,306
Restrictions for mission-related projects	12,139,107	11,582,595
Restrictions for the purchase of construction materials	40,926,035	37,940,165
Time restrictions	23,223,423	24,609,091
	<u>\$ 87,927,074</u>	<u>\$ 86,750,157</u>

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 13. Revenue From Government Grants

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

	<u>2015</u>	<u>2014</u>
SHOP	\$ 15,255,408	\$ 12,082,915
Capacity Build	4,900,080	4,712,219
AmeriCorps/Vista/9-11	4,371,441	3,687,506
Capital Magnet Fund	48,120	1,129,652
USAID	713,980	238,255
Centers for Disease Control and Prevention	745,868	681,287
Department of Energy	134,583	307,307
Other	41,921	33,814
	<u>\$ 26,211,401</u>	<u>\$ 22,872,955</u>

#### 14. 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 the Plan, which is partially self-insured, were \$7,395,051 and \$6,128,825 for the years ended June 30, 2015 and 2014, respectively.

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 4% of wages contributed by participants in 2015 and 100% of the first 3% of wages to each participant's account in 2014, 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 \$1,035,977 and \$798,847 for the years ended June 30, 2015 and 2014, respectively.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 15. 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, 2015, future minimum rental payments under the operating and capital leases are as follows:

	<b>Operating</b>	<b>Capital</b>
2016	\$ 2,339,309	\$ 794,662
2017	2,457,698	492,511
2018	2,502,869	197,014
2019	2,269,526	75,406
2020	1,264,180	35,357
Thereafter	1,047,058	—
Total minimum payments	\$ 11,880,640	1,594,950
Less amounts representing executory costs and interest		150,792
Present value of net minimum payments		\$ 1,444,158

Rent expense under operating leases amounted to \$2,000,213 and \$1,640,039 for the years ended June 30, 2015 and 2014, respectively.

#### 16. Affiliate Programs

International and U.S. national organizations and affiliates 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. While Habitat retains variance power in these contributions, the organization has transferred cash and donated assets totaling \$120,050,959 and \$125,536,980 in 2015 and 2014, 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 \$13,626,112 and \$12,947,451 in 2015 and 2014, respectively.



## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **17. 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.

#### **18. Related-Party Transactions**

For the years ended June 30, 2015 and 2014, Habitat recorded \$7,365,932 and \$16,705,983 in contributions, respectively, and received \$14,640,321 and \$14,101,753 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, 2015 and 2014, Habitat had \$7,499,247 and \$4,141,762 of pledges receivable, respectively, from members of Habitat's IBOD or from companies that they or their families represent.

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.

#### **19. Subsequent Events**

Habitat has evaluated the need for adjustments and/or disclosure resulting from subsequent events in these consolidated financial statements through November 19, 2015, the date that the consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.

In addition, a Capital Call Notice dated July 17, 2015, was sent to the three members of MicroBuild, requesting a total of \$500,000 in additional capital be contributed by July 31, 2015. The total requested capital from the investors was collected in July 2015.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **19. Subsequent Events (continued)**

On September 29, 2015, Habitat entered into a \$10,000,000 line of credit agreement with a bank. The line of credit is collateralized by Habitat's auction rate securities. All outstanding principal and interest will be due in full on April 6, 2016. As of November 19, 2015, Habitat had not borrowed under this line of credit.

#### **20. Subsidiary and Related Entities' Statements of Financial Position and Statements of Activities**

On July 15, 2011, MicroBuild was formed. Habitat is a 51% owner of MicroBuild. The purpose of MicroBuild is to make loans to qualified micro-finance institutions for the purpose of lending to housing projects in impoverished communities.

On March 25, 2011, Habitat made an initial capital investment of \$500,000 in MicroBuild India. This company was dormant from that time until the year ending June 30, 2014. Habitat added an additional \$397,272 of capital on June 24, 2013, and \$126,319 of capital on March 24, 2014. Habitat is a 50.97% owner in MicroBuild India.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**20. Subsidiary and Related Entities' Statements of Financial Position and Statements of Activities (continued)**

The statements of financial position of Habitat's subsidiary and related entities before elimination and consolidation entries as of June 30, 2015, are as follows:

	<b>MicroBuild</b>	<b>MicroBuild India</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 3,110,220	\$ 445,186	\$ 3,555,406
Loans to micro-finance institutions, net	35,308,211	1,162,844	36,471,055
Other receivables and prepaids, net	830,495	151,482	981,977
Property and equipment, net	–	10,252	10,252
Total assets	<u>\$ 39,248,926</u>	<u>\$ 1,769,764</u>	<u>\$ 41,018,690</u>
<b>Liabilities and net assets</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 263,568	\$ 17,446	\$ 281,014
Loans payable	35,900,000	–	35,900,000
Total liabilities	<u>36,163,568</u>	<u>17,446</u>	<u>36,181,014</u>
Net assets:			
Retained earnings and members' equity:			
Retained earnings and members' equity	1,573,533	1,023,324	2,596,857
Minority interest	1,511,825	728,994	2,240,819
Total retained earnings and members' equity	<u>3,085,358</u>	<u>1,752,318</u>	<u>4,837,676</u>
Total liabilities and net assets	<u>\$ 39,248,926</u>	<u>\$ 1,769,764</u>	<u>\$ 41,018,690</u>

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**20. Subsidiary and Related Entities' Statements of Financial Position and Statements of Activities (continued)**

The statements of financial position of Habitat's subsidiary and related entities before elimination and consolidation entries as of June 30, 2014, are as follows:

	<b>MicroBuild</b>	<b>MicroBuild India</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,553,781	\$ 1,335,239	\$ 5,889,020
Loans to micro-finance institutions, net	23,340,000	334,170	23,674,170
Other receivables and prepaids, net	416,095	30,568	446,663
Property and equipment, net	–	10,192	10,192
Total assets	<u>\$ 28,309,876</u>	<u>\$ 1,710,169</u>	<u>\$ 30,020,045</u>
<b>Liabilities and net assets</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 171,261	\$ 11,067	\$ 182,328
Loans payable	24,900,000	–	24,900,000
Total liabilities	<u>25,071,261</u>	<u>11,067</u>	<u>25,082,328</u>
Net assets:			
Retained earnings and members' equity:			
Retained earnings and members' equity	1,651,694	996,200	2,647,894
Minority interest	1,586,921	702,902	2,289,823
Total retained earnings and members' equity	<u>3,238,615</u>	<u>1,699,102</u>	<u>4,937,717</u>
Total liabilities and net assets	<u>\$ 28,309,876</u>	<u>\$ 1,710,169</u>	<u>\$ 30,020,045</u>

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**20. Subsidiary and Related Entities' Statements of Financial Position and Statements of Activities (continued)**

The statements of activities (income statements) for Habitat's subsidiary and related entities before elimination and consolidation entries for the year ended June 30, 2015, are as follows:

	<b>MicroBuild</b>	<b>MicroBuild India</b>	<b>Total</b>
<b>Revenues and gains</b>			
Interest and other income, net	\$ 2,574,233	\$ 209,506	\$ 2,783,739
Gift-in-kind service income	144,793	–	214,187
Total revenues and gains	<u>2,788,420</u>	<u>209,506</u>	<u>2,997,926</u>
<b>Expenses</b>			
Program services:			
Professional fees	479,951	14,385	494,336
Interest expense	658,147	–	658,147
Other expenses	609,415	90,858	700,273
Total program services	<u>1,747,513</u>	<u>105,243</u>	<u>1,852,756</u>
Supporting services:			
Fund-raising	–	9,388	9,388
Management and general	–	38,170	38,170
Total supporting services	<u>–</u>	<u>47,558</u>	<u>47,558</u>
Total expenses, before bad debt expense	<u>1,747,513</u>	<u>152,801</u>	<u>1,900,314</u>
Bad debt expense	2,194,164	3,488	2,197,652
Total expenses	<u>3,941,677</u>	<u>156,289</u>	<u>4,097,966</u>
Net income (loss)	<u>\$ (1,153,257)</u>	<u>\$ 53,217</u>	<u>\$ (1,100,040)</u>

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**20. Subsidiary and Related Entities' Statements of Financial Position and Statements of Activities (continued)**

The statements of activities (income statements) for Habitat's subsidiary and related entities before elimination and consolidation entries for the year ended June 30, 2014, are as follows:

	<b>MicroBuild</b>	<b>MicroBuild India</b>	<b>Total</b>
<b>Revenues and gains</b>			
Interest and other income, net	\$ 1,281,689	\$ 127,196	\$ 1,408,885
Gift-in-kind service income	144,793	–	144,793
Total revenues and gains	<u>1,426,482</u>	<u>127,196</u>	<u>1,553,678</u>
<b>Expenses</b>			
Program services:			
Professional fees	356,360	8,691	365,051
Interest expense	386,415	–	386,415
Other expenses	212,387	90,006	302,393
Total program services	<u>955,162</u>	<u>98,697</u>	<u>1,053,859</u>
Supporting services:			
Fund-raising	–	2,560	2,560
Management and general	–	12,772	12,772
Total supporting services	<u>–</u>	<u>15,332</u>	<u>15,332</u>
Total expenses	<u>955,162</u>	<u>114,029</u>	<u>1,069,191</u>
Net income	<u>\$ 471,320</u>	<u>\$ 13,167</u>	<u>\$ 484,487</u>

Gift-in-kind service income is included in donations in kind in the accompanying consolidated statements of activities and changes in net assets. Interest and other income are included in other income, net in the accompanying consolidated statements of activities and changes in net assets. Professional services are included in professional services – other in the accompanying consolidated statements of functional expenses. Interest expense is included in interest, service charges, and taxes in the accompanying consolidated statements of functional expenses. Program expenses are included in the appropriate natural classification in the accompanying consolidated statements of functional expenses.

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