



CONSOLIDATED FINANCIAL STATEMENTS

Habitat for Humanity International, Inc.  
Years Ended June 30, 2010 and 2009  
With Report of Independent Auditors

Ernst & Young LLP



Habitat for Humanity International, Inc.

Consolidated Financial Statements

Years Ended June 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 30, 2010

Habitat for Humanity International, Inc.

Consolidated Statements of Financial Position

	June 30	
	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 64,262,947	\$ 48,273,084
Investments at fair value	74,696,736	96,564,284
Receivables:		
Contributions and grants, net	67,292,475	63,757,326
Affiliate notes, net	36,740,543	23,260,298
Due from affiliates, net	9,018,274	9,597,628
Mortgages receivable, net	6,383,401	4,678,258
Other, net	1,829,299	1,708,225
Total receivables	<u>121,263,992</u>	<u>103,001,735</u>
Inventories, net	1,476,436	2,221,636
Prepays and other assets	2,459,360	1,346,132
Land, buildings, and equipment – net of accumulated depreciation and amortization	10,290,595	11,447,809
	<u>\$ 274,450,066</u>	<u>\$ 262,854,680</u>
<b>Liabilities and net assets</b>		
Accounts payable and accrued expenses	\$ 19,230,095	\$ 16,283,591
Capitalized lease obligations payable	1,416,512	1,560,492
Due to affiliates	6,669,123	5,191,721
Notes payable	3,507,210	2,834,851
Annuity obligations	7,720,987	7,950,140
Investor notes payable	39,648,516	26,016,545
Total liabilities	<u>78,192,443</u>	<u>59,837,340</u>
Net assets:		
Unrestricted	22,465,446	11,011,735
Temporarily restricted	172,974,278	191,505,605
Permanently restricted	817,899	500,000
Total net assets	<u>196,257,623</u>	<u>203,017,340</u>
	<u>\$ 274,450,066</u>	<u>\$ 262,854,680</u>

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2010				Year Ended June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and gains</b>								
Contributions	\$ 101,742,375	\$ 77,148,294	\$ 317,899	\$ 179,208,568	\$ 87,581,016	\$ 83,706,668	\$ 500,000	\$ 171,787,684
Contributed advertising - PSAs	23,446,762	–	–	23,446,762	–	–	–	–
All other donations in kind	11,226,737	27,422,011	–	38,648,748	17,703,347	28,015,104	–	45,718,451
Government grants	20,903,370	–	–	20,903,370	17,364,922	–	–	17,364,922
Other income, net:								
Interest and dividend income	1,741,403	–	–	1,741,403	4,129,031	–	–	4,129,031
Realized and unrealized loss on investments	(204,711)	–	–	(204,711)	(12,032,024)	–	–	(12,032,024)
All other	21,605,940	–	–	21,605,940	18,773,867	–	–	18,773,867
Total other income, net	23,142,632	–	–	23,142,632	10,870,874	–	–	10,870,874
Total revenues and gains	180,461,876	104,570,305	317,899	285,350,080	133,520,159	111,721,772	500,000	245,741,931
Assets released from restrictions	123,222,035	(123,222,035)	–	–	112,272,610	(112,272,610)	–	–
Total revenues and gains	303,683,911	(18,651,730)	317,899	285,350,080	245,792,769	(500,838)	500,000	245,741,931
<b>Expenses</b>								
Program services:								
U.S. affiliates	130,114,334	–	–	130,114,334	134,986,851	–	–	134,986,851
International affiliates	72,975,040	–	–	72,975,040	66,012,763	–	–	66,012,763
Public awareness and education	34,083,447	–	–	34,083,447	15,543,764	–	–	15,543,764
Total program services	237,172,821	–	–	237,172,821	216,543,378	–	–	216,543,378
Supporting services:								
Fund-raising	42,844,662	–	–	42,844,662	37,768,754	–	–	37,768,754
Management and general	12,212,717	–	–	12,212,717	12,809,294	–	–	12,809,294
Total supporting services	55,057,379	–	–	55,057,379	50,578,048	–	–	50,578,048
Total expenses	292,230,200	–	–	292,230,200	267,121,426	–	–	267,121,426
Losses (recoveries) on contributions receivable	–	(120,403)	–	(120,403)	–	1,826,826	–	1,826,826
Total expenses and losses (recoveries) on contributions receivable	292,230,200	(120,403)	–	292,109,797	267,121,426	1,826,826	–	268,948,252
Change in net assets	11,453,711	(18,531,327)	317,899	(6,759,717)	(21,328,657)	(2,377,664)	500,000	(23,206,321)
Net assets at beginning of year	11,011,735	191,505,605	500,000	203,017,340	32,340,392	193,883,269	–	226,223,661
Net assets at end of year	\$ 22,465,446	\$ 172,974,278	\$ 817,899	\$ 196,257,623	\$ 11,011,735	\$ 191,505,605	\$ 500,000	\$ 203,017,340

See accompanying notes.

# Habitat for Humanity International, Inc.

## Consolidated Statements of Cash Flows

	Year Ended June 30	
	2010	2009
<b>Operating activities</b>		
Change in net assets	\$ (6,759,717)	\$ (23,206,321)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	3,061,084	3,170,274
Net gain on disposal of land, buildings, and equipment	(207,026)	(48,232)
(Recoveries) losses on contributions receivable	(120,403)	1,826,826
Losses on other receivables	1,346,075	417,698
Net realized and unrealized losses on investments	204,711	12,032,024
Changes in operating assets and liabilities:		
Increase in receivables	(6,659,046)	(24,556,787)
(Increase) decrease in inventories	745,200	(1,169,025)
(Increase) decrease in prepaids and other assets	(1,113,228)	329,213
Increase (decrease) in accounts payable and accrued expenses	2,946,504	(13,504,774)
Net cash used in operating activities	<u>(6,555,846)</u>	<u>(44,709,104)</u>
<b>Investing activities</b>		
Purchases of investments	(165,797,444)	(61,383,472)
Proceeds from sales and maturities of investments	187,460,281	102,169,267
Loans to affiliates	(36,619,535)	(10,087,466)
Repayments from affiliates	23,790,652	9,818,727
Purchases of land, buildings, and equipment	(1,196,372)	(716,504)
Proceeds from sale of land, buildings, and equipment	286,307	181,681
Net cash provided by investing activities	<u>7,923,889</u>	<u>39,982,233</u>
<b>Financing activities</b>		
Principal repayments on capitalized lease obligations payable	(930,759)	(874,130)
Increase in due to affiliates	2,100,334	2,107,588
Payments on due to affiliates	(622,932)	(3,045,093)
Proceeds from notes payable	1,343,285	1,045,818
Principal repayments on notes payable	(670,926)	(571,633)
Increase in annuity obligation	348,751	185,793
Payments of annuity obligation	(577,904)	(591,335)
Proceeds from issuance of investor notes payable	20,391,100	6,370,300
Payments on investor notes payable	(6,759,129)	(6,990,013)
Net cash provided by (used in) financing activities	<u>14,621,820</u>	<u>(2,362,705)</u>
Increase (decrease) in cash and cash equivalents	15,989,863	(7,089,576)
Cash and cash equivalents:		
Beginning of year	48,273,084	55,362,660
End of year	<u>\$ 64,262,947</u>	<u>\$ 48,273,084</u>
<b>Supplemental disclosures</b>		
Interest paid	\$ 1,395,687	\$ 548,197
Non-cash purchases of equipment through capital lease obligations	<u>\$ 786,779</u>	<u>\$ 458,553</u>

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 - PSAs	-	-	18,793,929	18,793,929	4,652,833	-	4,652,833	23,446,762
All other donated assets distributed	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
<b>Total</b>	<b>\$ 130,114,334</b>	<b>\$ 72,975,040</b>	<b>\$ 34,083,447</b>	<b>\$ 237,172,821</b>	<b>\$ 42,844,662</b>	<b>\$ 12,212,717</b>	<b>\$ 55,057,379</b>	<b>\$ 292,230,200</b>

See accompanying notes.

## Habitat for Humanity International, Inc.

### Consolidated Statement of Functional Expenses

Year Ended June 30, 2009

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

See accompanying notes.

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements

June 30, 2010

### **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, 2010 and 2009, include the activities of Habitat's area and regional offices, seventeen national organizations that are registered as part of Habitat for Humanity International, as well as the activities of Habitat for Humanity-Middle East, a wholly owned subsidiary, Nadacia Foundation HFHI, and Habitat for Humanity-Haiti, in which Habitat effectively has control and an economic interest. All material intercompany accounts and transactions have been eliminated.

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

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

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **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, 2010, investments in marketable securities include \$38,683,277 of auction rate securities which are classified within Level 3 due to a lack of a liquid market for such securities. Additionally, there were \$5,352,414 of mortgage backed securities in lower tranches (B or lower) that were not being traded in primary markets and are classified within Level 3. Management has formed its own opinion on the value of these securities based on information regarding the quality of the security and the quality of the collateral, among other things.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 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, 2010 and 2009:

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

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

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

Description	Fair Value at June 30, 2009	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 48,273,084	\$ 48,273,084	\$ –	\$ –
Investments:				
Certificates of deposit and other short term investments	12,483,787	12,483,787	–	–
Bonds – U.S., state government, and corporate	8,133,864	8,133,864	–	–
Common stock and mutual funds	8,985,383	8,985,383	–	–
Auction rate securities	66,961,250	–	–	66,961,250
Total investments	96,564,284	29,603,034	–	66,961,250
Total cash and investments	<u>\$ 144,837,368</u>	<u>\$ 77,876,118</u>	<u>\$ –</u>	<u>\$ 66,961,250</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 FASB ASC 820-10 at June 30, 2010:

<u>Description</u>	
Balance at July 1, 2009	\$ 66,961,250
Level 3 contributions received	8,513,921
Sales or redemptions out of Level 3	(29,531,507)
Net unrealized losses for the year ending June 30, 2010	(1,907,973)
Balance at June 30, 2010	<u>\$ 44,035,691</u>

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 that these securities be measured using Level 3 inputs.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

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

Additionally, should Habitat have to sell the underlying securities prior to their maturity date or in a secondary market, the price received upon sale will be subject to prevailing market conditions and could be lower than par value. The underlying assets of the auction rate securities are collateralized primarily by the underlying assets of certain AAA, AA, and A-rated securities. Management, using the assistance of an independent appraisal firm, assessed the value of these securities as of June 30, 2010 using a range of supportable market rates. Based on this assessment, Habitat recorded a valuation allowance of \$8,971,723, which is presented net of the total investments balance on the consolidated statement of financial position as of June 30, 2010, and as an unrealized loss in the statement of activities for the year ended June 30, 2010. During the year ended June 30, 2010, \$26,370,000 of the auction rate securities (36% of the total) were redeemed at face value.

On October 15, 2009, in an effort to reduce any potential need to redeem the auction rate securities prior to their maturity date or in a secondary market, Habitat entered into a \$15,000,000 line of credit agreement with Bank of America, collateralized by \$30,000,000 of securities held in Habitat's portfolio. There were no draws made against this line of credit during the year ended June 30, 2010.

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, 2010, payments from these securities totaled \$3,161,507, which were applied against the original value of the gift as received. An independent valuation expert was engaged to assess the value of these securities at the gift date and at year end. The value of the contribution at the date of the gift was \$8,513,921.

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.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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, 2010, 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, 2010 and 2009, conditional promises to give amounted to \$2,251,417 and \$1,528,430, respectively, and are not recorded in the consolidated financial statements.

#### **Accelerated Asset Recovery/FlexCap Program**

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

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

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

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 reserved funds are invested in money market funds or certificates of deposit and are recorded as cash and cash equivalents and investments in the consolidated statements of financial position.

The real estate securing these mortgages is concentrated in the states of Florida (14%), North Carolina (12%) and Michigan (10%). 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 come from affiliates that are participating in the Self-Help Home Ownership Program (SHOP) grant. Habitat has had a policy of treating 25% of the grant proceeds as a loan to affiliates that must be paid back to Habitat without interest. These proceeds would then be redistributed for use in Habitat's U.S. programs. During the year ended June 30, 2006, the Department of Housing and Urban Development (HUD) ruled that proceeds from the loans to affiliates must be disbursed as an additional SHOP grant. Amounts loaned and collected under SHOP loans are reflected as a liability (Due To Affiliates) until these proceeds are appropriately redistributed or until the appropriate financial close out report is submitted to HUD.

#### **Mortgages Receivable**

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

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

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements (continued)

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

#### Inventories

Inventories represent building materials. Gift-in-kind inventory is recorded at the fair value on the date of receipt, and such items are expensed as program services expense when used or shipped to U.S. affiliates, based upon the specific identification method. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method.

#### Land, Buildings, Capital Leases, and Equipment

Land, buildings, capital leases, and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Additionally, certain application development costs incurred to develop internal-use software are capitalized and amortized over the expected useful life of the software application. Depreciation expense and amortization expense of assets under capital leases are provided on a straight-line basis over the estimated useful lives of the respective assets, as follows:

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

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

#### Charitable Gift Annuities

Habitat has a gift annuity program whereby it enters into irrevocable contracts with certain donors. Habitat agrees to make payments to donors at prescribed intervals over the life of the donor. The assets received are recorded at their fair value, and the related liability is recorded as an annuity obligation. Annuity obligations are recorded at the present value of expected future payments based on IRS mortality tables and the prevailing interest rate. A discount rate of 6% was utilized as of June 30, 2010. 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 \$10,349,707 and \$10,439,940 for the years ending June 30, 2010 and 2009, respectively.

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements (continued)

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

#### **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 restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as a satisfaction of program restrictions.

Temporarily restricted contributions which are both received and released within the same year are recorded as an increase in temporarily restricted net assets and as a satisfaction of program restrictions.

#### **Government Grants**

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

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements (continued)

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

#### Contributed Goods and Services

In June 2010, an AICPA Technical Information Service Inquiry and Reply (TIS 6140.24) was issued that provided clarifying language regarding recognizing contribution revenue for the free media time granted to Habitat associated with the airing of public service announcements (PSAs). This additional guidance caused the Organization to reassess its policy and the previous guidance associated with the contributed advertising.

During the year ended June 30, 2010, two advertising campaigns were run, a general campaign targeting individuals to volunteer with their local affiliates and a one-time campaign specific to the earthquake in Haiti. The total commercial value of both PSAs was \$66 million, of which \$18.6 million was attributable to the 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 the campaign was recorded in 2010.

Advertising revenue related to contributed PSAs for the two campaigns and associated expense in the amount of \$23.4 million has been recognized in the Consolidated Statement of Activities for the year ending June 30, 2010. 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. As the contribution and related expense are recorded simultaneously there would be no impact to the consolidated change in and resulting ending net asset balance for fiscal year 2009. However, contributions and expenses in the Consolidated Statement of Activities for 2009 would have been increased by approximately \$4 million.

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 \$337,355 and \$777,330 for the years ended June 30, 2010 and 2009, respectively.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

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

##### **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.

##### **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, 2010, the date that the financial statements were available to be issued.

# Habitat for Humanity International, Inc.

## Notes to Consolidated Financial Statements (continued)

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

#### New Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*, (SFAS 168). SFAS 168 became effective for financial statements issued for fiscal years ending after September 15, 2009. On the effective date of SFAS 168, the Codification superseded all then-existing accounting and reporting standards. All other accounting literature not included in the Codification became nonauthoritative. There was no impact on Habitat's consolidated financial condition, results of operations, or cash flows from the adoption of SFAS 168.

#### Reclassifications

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

### 3. Investments

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

	<u>2010</u>	<u>2009</u>
Due in less than one year	\$ <b>18,420,266</b>	\$ 9,309,202
Due in one to five years	<b>147,936</b>	5,400,421
Due in more than five years	<b>46,793,056</b>	72,869,278
	<u><b>\$ 65,361,258</b></u>	<u>\$ 87,578,901</u>

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

	<u>2010</u>	<u>2009</u>
Net decrease in fair value of investments, including realized and unrealized gains and losses	\$ <b>(204,711)</b>	\$ (12,032,024)
Interest and dividend income	<b>1,741,403</b>	4,129,031

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**4. Contributions and Grants Receivable**

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

	<u>2010</u>	<u>2009</u>
Contributions	\$ 73,341,089	\$ 71,403,218
Government grants	2,817,922	1,090,687
	<u>76,159,011</u>	<u>72,493,905</u>
Less unamortized discount	5,797,514	4,650,557
	<u>70,361,497</u>	<u>67,843,348</u>
Less allowance for uncollectibles	3,069,022	4,086,022
	<u>\$ 67,292,475</u>	<u>\$ 63,757,326</u>

These receivables are due as follows:

	<u>2010</u>	<u>2009</u>
Due in less than one year	\$ 29,483,267	\$ 21,344,581
Due in one to five years	37,809,208	42,412,745
	<u>\$ 67,292,475</u>	<u>\$ 63,757,326</u>

Contributions receivable include in-kind amounts of \$30,723,755 and \$22,532,065 as of June 30, 2010 and 2009, respectively.

Net contributions receivable includes four contributors in 2010 and 2009 whose individual net outstanding contribution receivable is greater than 10% of the total net outstanding contributions receivable. At June 30, 2010 and 2009, the net contributions receivable associated with these gifts totaled \$39,372,074 and \$52,641,254, respectively.

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

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

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

Since this legacy commitment is sourced from the donor's will, the will is subject to be duly probated prior to Habitat receiving any proceeds. The timing and amount of the cash flows from this gift cannot be reasonably estimated at this time, due to uncertainties regarding residual value of the estate at the donor's death. The date of anticipated receipt of this gift is estimated to be in excess of 25 years from June 30, 2010. Therefore, this gift has not been recognized in the consolidated financial statements.

#### 5. Due From Affiliates

Due from affiliates at June 30 consist of the following:

	<u>2010</u>	<u>2009</u>
Self-Help Home Ownership Program Grant	<b>\$ 7,050,764</b>	\$ 7,187,860
Other	<b>2,871,142</b>	3,957,408
	<b>9,921,906</b>	11,145,268
Less allowance for uncollectibles	<b>903,632</b>	1,547,640
	<b><u>\$ 9,018,274</u></b>	<b><u>\$ 9,597,628</u></b>

Certain amounts which have been included in the allowance for uncollectible accounts may be forgiven in the future and treated as program transfers to affiliates. Additionally, as part of affiliate capacity building during Katrina relief efforts, there were four forgivable loans made to affiliates prior to 2008, of which one loan was forgiven in 2008. These forgivable loans were treated as program transfers and therefore were not included in Due from Affiliates. Two of the remaining loans were forgiven in fiscal 2009 and the final loan was forgiven in fiscal 2010, with no impact on net assets. The balance of these forgivable loans was \$0 and \$572,000 as of June 30, 2010 and 2009, respectively.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**6. Land, Buildings, and Equipment**

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

	<b>2010</b>	<b>2009</b>
Land	\$ 921,618	\$ 913,885
Buildings and leasehold improvements	11,800,905	11,504,690
Computer hardware and software	9,303,407	10,402,611
Computer hardware and software under capital leases	6,289,691	5,502,911
Furniture and equipment	4,213,955	4,256,386
Vehicles	1,782,530	1,574,747
	<b>34,312,106</b>	34,155,230
Less accumulated depreciation and amortization	<b>24,021,511</b>	22,707,421
	<b>\$ 10,290,595</b>	<b>\$ 11,447,809</b>

Depreciation expense was \$2,047,268 and \$2,276,038 for the years ended June 30, 2010 and 2009, respectively. Amortization expense of assets under capital leases was \$1,013,816 and \$894,236 for the years ended June 30, 2010 and 2009, respectively. Accumulated amortization related to computer hardware and software under capital leases was \$4,892,467 and \$3,878,651 as of June 30, 2010 and 2009, respectively. Unamortized computer software costs were \$553,576 and \$1,344,517 as of June 30, 2010 and 2009, respectively.

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**7. Notes Payable**

Notes payable at June 30 consist of the following:

	<u>2010</u>	<u>2009</u>
Non-interest-bearing, unsecured notes payable to various individuals and organizations, payable principally on demand	\$ 344,992	\$ 362,692
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	403,767
3.84% note payable to Calvert Social Investment Foundation, secured by \$200,000 in Habitat's investment bond portfolio, payable in five semiannual installments of \$42,333	122,275	200,000
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	—
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	232,453	—
Non-interest-bearing notes payable to affiliates upon completion of their accelerated asset recovery payable	2,301,768	1,868,392
	<u>\$ 3,507,210</u>	<u>\$ 2,834,851</u>

Future principal payments are as follows:

2011	\$ 901,978
2012	434,883
2013	398,782
2014	631,288
2015	311,492
Thereafter	828,787
	<u>\$ 3,507,210</u>

Habitat for Humanity International, Inc.

Notes to Consolidated Financial Statements (continued)

**7. Notes Payable (continued)**

The amount of future principal payments for 2010 includes \$344,992 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, 2010 and 2009, was \$17,700 and \$25,300, respectively.

**8. Accelerated Asset Recovery/FlexCap Program**

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

2011	\$ 6,968,730
2012	6,587,339
2013	5,702,563
2014	5,052,462
2015	4,980,598
Thereafter	<u>10,356,824</u>
	<u>\$ 39,648,516</u>

Interest expense during the years ended June 30, 2010 and 2009, was \$1,375,191 and \$856,914, respectively.

Investor notes payable require Habitat to monitor the compliance by each affiliate participating in this program with the terms and conditions of the agreement. Management believes they are in compliance with the covenants of investor notes payable.

**9. Temporarily Restricted Net Assets**

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

	<u>2010</u>	<u>2009</u>
Geographically restricted	\$ 6,662,212	\$ 6,762,940
Restricted for mission-related projects	19,889,213	17,627,381
Restricted for the purchase of construction materials	81,948,300	104,448,645
Time restricted	64,474,553	62,666,639
	<u>\$ 172,974,278</u>	<u>\$ 191,505,605</u>

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 10. Net Assets Released From Restrictions

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

	<u>2010</u>	<u>2009</u>
Release of purpose restrictions	<b>\$ 103,228,667</b>	\$ 97,440,509
Release of time restrictions	<b>19,993,368</b>	14,832,101
	<b><u>\$ 123,222,035</u></b>	<b><u>\$ 112,272,610</u></b>

#### 11. Revenue From Government Grants

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

	<u>2010</u>	<u>2009</u>
Self-Help Home Ownership Program	<b>\$ 10,137,781</b>	\$ 10,348,747
Capacity Build	<b>3,346,748</b>	1,964,425
AmeriCorps/Vista	<b>4,736,201</b>	4,344,062
USAID	<b>1,933,094</b>	679,973
Neighborhood Stabilization Program 2	<b>693,366</b>	-
Other	<b>56,180</b>	27,715
	<b><u>\$ 20,903,370</u></b>	<b><u>\$ 17,364,922</u></b>

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

#### 12. Employee Benefits

Full-time Habitat employees who elect to participate are provided health and death benefits through the Habitat for Humanity International Welfare Benefit Plan (the Plan). The Plan requires contributions by participants. Expenses incurred by Habitat in connection with this plan, which is partially self-insured, were \$5,456,917 and \$5,243,714 for the years ended June 30, 2010 and 2009, respectively.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 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 \$622,275 and \$1,376,516 for the years ended June 30, 2010 and 2009, 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, 2010, future minimum rental payments under the operating and capital leases are as follows:

	<u>Operating</u>	<u>Capital</u>
2011	\$ 1,241,049	\$ 874,094
2012	1,024,838	453,852
2013	1,037,354	220,787
2014	992,276	15,392
2015	947,056	-
Thereafter	1,156,386	-
Total minimum payments	<u>\$ 6,398,959</u>	1,564,125
Less amounts representing executory costs and interest		<u>147,613</u>
Present value of net minimum payments		<u>\$ 1,416,512</u>

Rent expense under operating leases amounted to \$1,405,692 and \$1,245,358 for the years ended June 30, 2010 and 2009, 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

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **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 \$146,727,609 and \$150,844,054 in 2010 and 2009, respectively, to international and U.S. national organizations and affiliates.

Some affiliates in developing countries, where severely limited resources constrain local fund-raising, receive the majority of their funding from Habitat. All U.S. affiliates are expected to contribute a portion of their unrestricted cash contributions to support Habitat work outside their own country. These contributions totaled \$14,359,960 and \$14,844,498 in 2010 and 2009, 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, 2010 and 2009, Habitat recorded \$18,303,167 and \$33,333,987 in contributions, respectively, and \$16,518,726 and \$9,952,796 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, 2010 and 2009, Habitat had \$7,586,007 and \$25,603,273, of pledges receivable, respectively, from members of Habitat's IBOD or from companies that they or their families represent.

## Habitat for Humanity International, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **16. Related-Party Transactions (continued)**

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

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

In June 2005, the IBOD approved a loan to Habitat for Humanity-South Africa (HFHSA), an unconsolidated national organization, for \$500,000. The loan was intended to help HFHSA build additional houses that were committed as part of the 2002 Jimmy Carter Work Project. It is payable over five years at 0% interest. A member of the IBOD is also a member of the Board of HFHSA. This potential conflict was disclosed to the IBOD, and this member did not participate in the vote to approve this loan. The IBOD determined that the loan was in furtherance of Habitat's exempt purpose. The balance outstanding on this loan as of June 30, 2010, was \$174,713.

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