



2005 ANNUAL REPORT

Respecting Our Past
Building for the Future

Respecting Our Past, Building for the Future

The more things change, the more they stay the same. So it was for Habitat for Humanity International during fiscal year 2005.

Habitat for Humanity Mission

Habitat for Humanity works in partnership with God and people everywhere, from all walks of life, to develop communities with people in need by building and renovating houses so that there are decent houses in decent communities in which every person can experience God's love and can live and grow into all that God intends.


Leadership within the organization changed. Habitat for Humanity debuted a newly designed logo, which will grow brand identity and facilitate the building of even more homes. The organization moved toward the 200,000-house mark—a milestone that represents 1 million people living in Habitat homes. And, on a solemn note, the year was marked by unprecedented natural disasters, exacerbating the massive suffering that continues silently, daily, as people around the world are forced to live in housing conditions that are substandard and inhumane.

To meet these challenges, Habitat for Humanity's mission remains unchanged. Founded as a Christian ministry dedicated to eradicating poverty housing nearly 30 years ago, Habitat for Humanity remains steadfast to its principles and goals. The millions of people worldwide who make up the Habitat for Humanity movement continue to strive for the day when everyone, everywhere, has at minimum a simple, decent place to live.

Working together, volunteers raise the walls of a Habitat house. Since 1976, volunteers have provided the labor—and heart—to build more than 200,000 Habitat homes.



STEFFAN HACKER



Vivitha and Michel are the owners of Habitat for Humanity's 200,001st house, built in Kanyakumari, India.

Koffi Kouassi and Tonya Harper hold the key to their new Habitat house in Knoxville, Tenn., the 200,000th Habitat home dedicated worldwide since the organization's founding in 1976.



A Message from Habitat for Humanity International's CEO

My first official workday at Habitat for Humanity International was slated to be Sept. 12, 2005. But when Hurricane Katrina struck the Gulf Coast on Aug. 29, my plans—like those of so many others—changed.

I began work immediately, and things have not slowed down since. In this first year serving with Habitat for Humanity, I have had the privilege of seeing first hand how God is working through the Habitat movement—through volunteers, donors and homeowner families along the Gulf Coast and across the world. I've been blessed to work side by side with Habitat homeowners who are picking up the pieces and rebuilding their lives and their communities—who are rebuilding hope.

My tenure with Habitat for Humanity actually began after the fiscal year that is the subject of this annual report. However, much of the activity that Habitat is undertaking around the world today began with careful planning during FY2005—which was an

“...It is our commitment moving forward to exponentially grow the number of families served as we seek to bring creative solutions to the housing hardships endured by countless families...”

*—Jonathan Reckford,
CEO of Habitat for Humanity International*

incredibly productive year for the work of this organization.

Habitat for Humanity raised more money and served more families in FY05 than in any other year of its history. But given the need for decent shelter in our world, those numbers still fall far short of what is needed.

So it is our commitment moving forward to exponentially grow the number of families served as we seek to bring creative solutions to the housing hardships endured by countless families across the globe. I'm pleased to say that our revenue growth during the past fiscal year leads us in the right direction to attain such a rapid house-building surge.

Total revenue for Habitat for Humanity International in FY05 approached \$200 million, increasing 16 percent from the previous fiscal year. While total contributions increased by some \$31 million from FY2004, unrestricted donations fell by almost \$2 million, reflecting a growing trend among donors to designate their dollars toward a certain geographic region or to a special effort such as our disaster response in the tsunami-devastated region.

However, with the world's need for decent shelter so immense, many more resources are needed and many more donors, volunteers and homeowner partners are necessary before we can dramatically increase the number of families we serve each year.



STEFFAN HACKER

Habitat for Humanity International CEO Jonathan Reckford works on the site of Habitat for Humanity's milestone 200,000th house in Knoxville, Tenn.



Erik Cullen of Seattle, Wash., joined other volunteers in New York City's Rockefeller Plaza to help frame houses for families affected by Hurricane Katrina. The Rockefeller Plaza build was part of Habitat for Humanity's Operation Home Delivery initiative and was featured on NBC's "Today" morning show.

As Habitat for Humanity International prepares for this kind of global growth, I'm excited by the extent to which Habitat affiliates and national organizations are embracing the new strategic plan. Though not approved by Habitat's international board of directors until the 2006 fiscal year, most of the groundwork for the plan was diligently laid during FY05.

What is so exciting about the strategic plan is that it provides a five-year framework within which Habitat for Humanity can and will exponentially increase its house building worldwide, transform more lives and communities globally, and explore creative ways of fulfilling Habitat's mission—all while adhering responsibly to this organization's core principles.

Habitat for Humanity is broadening its perspective to reflect a genuine partnership approach to community development. We will always focus on housing, but we also recognize that housing is only one part of a larger community development effort. After all, how helpful would it be if we worked with a family to build a Habitat house—but we did so in an area that offers the family no access to sanitation, the children no access to education, the parents no access to jobs or other means of generating income?

As we prepare for the coming year, and as we prepare to serve more families, we want to be sure that we are doing so in the most responsible, transparent, accountable, professional, efficient, effective and compassionate way possible. We want to be a part of the solution, in true partnership with other organiza-

tions. Our plan for the next five years provides both the flexibility and the direction necessary to accomplish our goals.

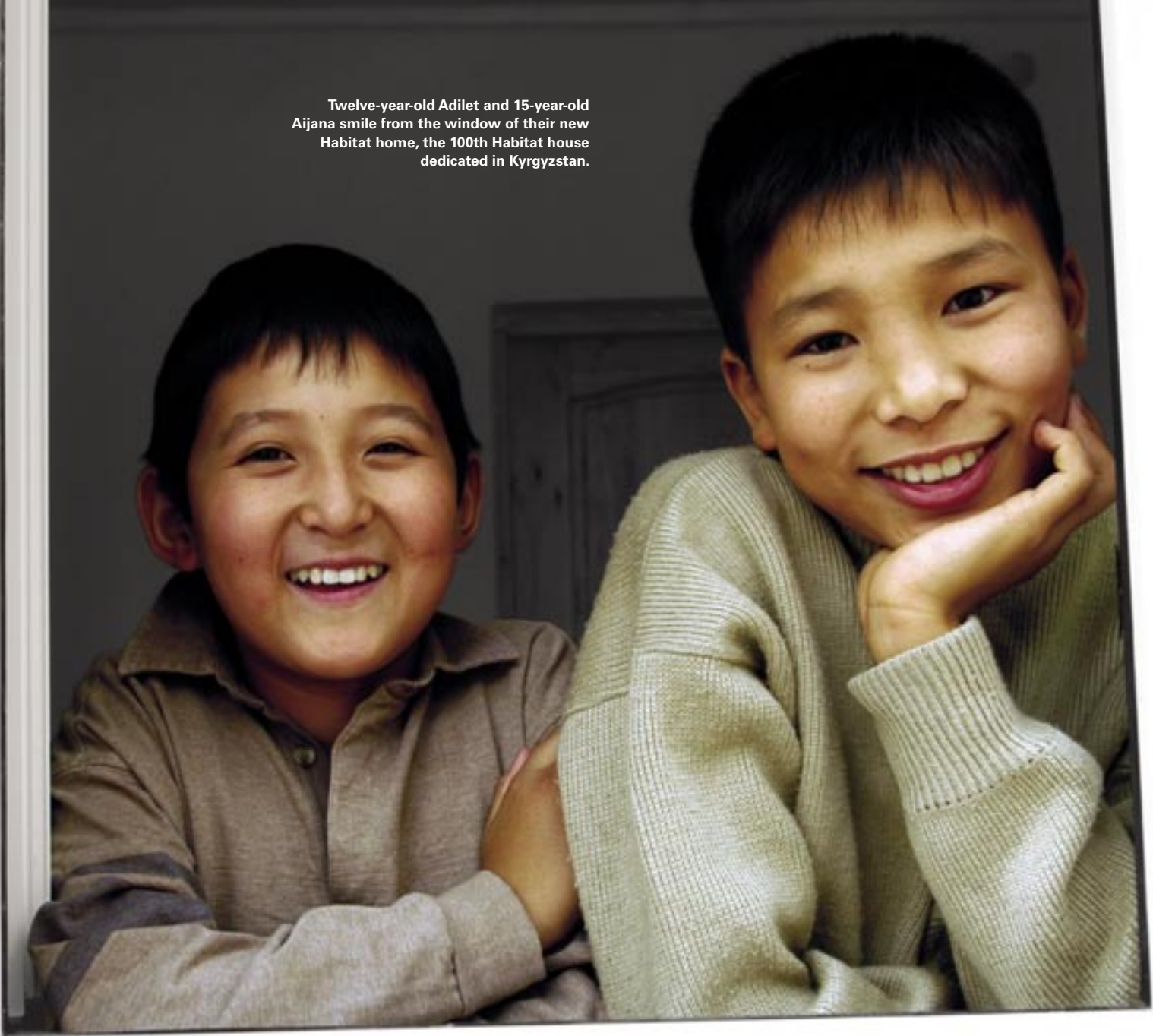
We are developing staff and leaders within Habitat for Humanity International. We're creating new and lasting relationships with individuals, corporations and other groups who share our concern for families in deplorable conditions and our commitment to helping them find a better way through decent shelter.

We are strengthening the infrastructure that will better equip us to address the enormity that is the housing problem in our world. So, as we reflect on the accomplishments of the past fiscal year, we also look ahead to the possibility that next year holds, to the transformation that's possible when we come together honestly, humbly, respectfully—and for the sake of families in need of decent housing.

A handwritten signature in black ink, which reads "Jonathan Reckford". The signature is fluid and cursive.

Jonathan T. M. Reckford
CEO, Habitat for Humanity International

Twelve-year-old Adilet and 15-year-old Aijana smile from the window of their new Habitat home, the 100th Habitat house dedicated in Kyrgyzstan.





Volunteer Mercy Garcia Fierro of the Universidad del Valle de Mexico works on the wall of a house in Puebla during the 2004 Jimmy Carter Work Project in Mexico.

From Major Projects to Single-house Builds, Progress Continues

In a fiscal year of significant challenges, Habitat for Humanity continued to bring hope and joy into the lives of its partners—not only in the wake of disasters, but under “everyday circumstances” as well.

FY2005 was marked by two Jimmy Carter Work Projects—in Puebla and Veracruz, Mexico, in October 2004, and in Michigan, USA, in June 2005. The annual Jimmy Carter Work Project is Habitat’s premiere event, and each year it positively impacts homeowners, volunteers, donors and host communities immeasurably.

In Mexico, a total of 150 families—75 in each community—built houses in partnership with Habitat for Humanity. Among the families were individuals like Cecilia Ruiz Acevedo. She had tried to buy a home of her own before, but she was cheated by a dishonest contractor. When she began to investigate partnering with Habitat for Humanity, her wary daughters discouraged her. But as Cecilia attended orientation meetings and learned more—and shared what she was learning with her children—they all realized what a positive experience they were about to embark upon. “We did start to believe,” Cecilia said. In addition to their new house in a close-knit Puebla neighborhood, Cecilia and her daughters also gained intangibles that they value: learning about themselves, seeing the beauty in other people, and appreciating people’s individual talents and skills. The process of partnering with Habitat was more than a construction project; as Cecilia put it, “It was a journey within myself.”

Just eight months later, families across the state of Michigan were also on that journey. The Jimmy Carter Work Project focused on the communities of Benton Harbor and Detroit, where “in-fill” building helped bring blighted neighborhoods back to life. However, the project did not stop there: Throughout the state, and even in nearby Ontario, Canada, Habitat affiliates rallied in support of the Jimmy Carter Work Project to dedicate more than 230 homes on June 24, 2005.

Among those celebrating that day were Lisa Fuller and her children, in Saginaw, Mich. A single mom, Lisa had applied to partner with Habitat before, but her credit was not good enough to repay Habitat’s no-profit mortgage. “They wouldn’t give up on me, though,” she said. The affiliate staff helped her get her finances in order and encouraged her to reapply. She learned in March 2005 that she had been accepted to partner during the June blitz build, which she saw as “putting life back in the neighborhood” where she is raising her family. “We’ve got a lot of good things going on over here,” she said, “a lot of good assets—it’s just a matter of bringing them out.”

In Mexico, in Michigan—and in nearly 100 countries worldwide—Habitat has worked tirelessly to bring good things into new and existing neighborhoods: hope, health, safety, security and all of the other blessings that come with a simple, decent, affordable place to live.



President Jimmy Carter waves to volunteers from the porch of a Habitat house under construction during the 2005 Jimmy Carter Work Project in Detroit, Mich.

RICK DIAMOND

When Disaster Strikes, Habitat for Humanity Strikes Back



KIM MacDONALD

In the town of Nagapattinam, in southern India, as elsewhere in the tsunami-affected region, entire communities were destroyed. This woman and her family were forced to live with four other families—nearly 30 people—in one remaining house.



KIM MacDONALD

Burhanuddin Lubis and his wife Asiah Nuh stand in front of their nearly complete Habitat house near Banda Aceh, Indonesia. They have lived in this region since 1961, but lost everything in the tsunami. They say that they look forward to rebuilding for the future in this place where they have deep roots.

On Dec. 26, 2004, a tsunami rocked part of Asia, killing thousands of people and displacing another 2 million. The death and devastation were of historic proportions—a natural disaster barely comprehensible.

The tsunami severely impacted Habitat for Humanity staff, volunteers and homeowners living in the areas. While Habitat personnel themselves survived, many others were not so fortunate, losing their houses, to be sure, but, more importantly, their fathers and mothers, sisters, brothers, cousins and children.

“We’ll never know how many died,” said Vinayaga Murthy, a tsunami survivor in India. “There were whole families lost, with no one to identify them or tell if all the family members’ bodies were found.”

Having lost loved ones, their homes and everything they owned, many tsunami survivors were forced to move into temporary tent camps, which can be dangerous, unsanitary and demoralizing.

Habitat staff and volunteers on the ground immediately began assessing and responding to the disaster. They traveled throughout India, Indonesia, Sri Lanka and Thailand, encountering the very worst of circumstances and the very best in people.

In the first days and weeks after the tsunami struck, Habitat for Humanity staff met with survivors and began the recovery process. As early as January 2005,

Habitat launched its first-phase response: a plan to build thousands of permanent one-room structures in the affected countries. These “core” houses would allow families to move from tent camps into more secure, stable housing.

The next phase of Habitat’s response focused on establishing technical centers in tsunami-affected areas where survivors could learn construction skills. Volunteers with construction experience were recruited for “First Builder” teams to supplement in-country construction resources. In addition to the support of volunteer teams, Habitat partnered with other nongovernmental organizations, religious entities, corporations, civic groups and governments to provide housing for displaced families.

Six months after the tsunami, emergency relief and recovery efforts had begun to give way to reconstruction. Habitat for Humanity’s expertise in community organization and construction has placed the organization in the forefront of building activities. By the end of FY2005, more than US\$50 million had been raised to assist an estimated 25,000 families directly with housing and 10,000 others indirectly through training at Habitat’s technical centers.

“I was very lucky; I was in the church [when the tsunami struck],” said Renuka, a survivor in Sri Lanka. “Now I am lucky again. We are safe and people are helping us to rebuild.”

Building materials for Habitat rebuilding projects are unloaded in Banda Aceh, Indonesia—one of the areas hardest hit by the Dec. 26, 2004, tsunami.



Habitat for Humanity's new logo provides a uniform identity for affiliates around the world.



New Look, Same Vision

Building for a Strong Future: A United 'Face', a Bold Strategy

Since May 2005, Habitat for Humanity has been presenting a “fresh face.” A new logo was released to give Habitat a consistent image around the world.

Throughout its history, Habitat has been blessed with a clear mission, dedicated partners and a well-established name. What the organization needed was an identifier that could be easily recognized by all of its supporters. This new identifier will help pave the way for Habitat to communicate its identity and mission for years to come. It will unify all Habitat partners—regardless of size or location—under a common look echoing their common goal.

Also, unlike the previous logo, the new logo is registered as Habitat's own. It is protected, and thus will help Habitat for Humanity protect its brand identity—a brand which is worth nearly \$2 billion and is recognized by more than 90 percent of the public (based on a study by Interbrand), placing Habitat in the range of corporations such as Starbucks and FedEx.

HFHI's Five-year Strategic Vision

“Mobilizing people, and financial and social capital, HFHI will demonstrate the love and teachings of Jesus Christ by serving as a partner and catalyst for worldwide access to decent, safe, affordable housing.”

Such recognition has put Habitat for Humanity in a position to launch its new five-year strategic plan. Habitat's 2007–2011 strategic plan calls for the organization to serve as a partner and catalyst for worldwide access to decent, safe, affordable housing through the following four goals:

- Exponentially increase the number of families served annually.
- Mobilize new capital to the global affordable housing market.
- Help lead the transformation of systems that impact affordable housing.
- Be diverse, motivated and high-performing.

With a strong brand identity and a bold and exciting strategic plan, Habitat for Humanity is set to accomplish its ultimate goal: eliminating poverty housing and homelessness from the face of the earth.

A Meditation on Our New Identifier

Habitat for Humanity uplifts people by building decent, affordable housing in partnership with them. It fosters unity by connecting them through a shared concern: that far too many people endure sleepless nights in deplorable conditions. Following the teachings of Jesus, Habitat aligns itself with equality and compassion, with service, tolerance and love.

Habitat for Humanity's logo incorporates these ideals and reflects the principles that shape the Habitat movement. In it, human forms stand united in common purpose, their arms lifted to act on the world's need for decent housing, not hanging idle as if the work were complete. The logo's rounded edges suggest a search for harmony, the universality of family, and the gentleness of spirit that springs from the heart of Habitat partners. The roofline represents shelter, to be sure, but also symbolizes the Habitat mission under which people of all races, ages, and religious beliefs come together for the common good.

The organization's name itself is prominently featured in the logo, signifying the two components that fuel Habitat's mission. By creating decent habitat, we strengthen humanity, assembling the framework that translates into new lives and new hope, not only for those who will make a home there, but also for those whose labor and love embody the very best in people.

Global Stewardship

Habitat for Humanity is committed to working toward the day that all people have a simple, decent place to live. By using wisely all funds that are entrusted to it, the organization is better able to touch the lives of individuals, communities, nations and the world.

Revenue

Habitat for Humanity International is a tax-exempt 501(c)(3) nonprofit corporation supported by those who believe in its work. This support comes in the form of contributions from individuals (cash, stock gifts, estate gifts and an annuity program), corporations (both cash and donated assets and services), foundations and other organizations.

Government assistance also is welcomed provided it does not limit Habitat's ability to demonstrate the love and teachings of Jesus. Habitat for Humanity participates in select government initiatives such as

the Self-help Homeownership Opportunity Program and the AmeriCorps program in the United States.

Total revenue in FY2005 was \$197.6 million, up 16 percent from FY2004. Total contributions in FY2005 were \$150.8 million, up \$30.9 million from FY2004. Unrestricted contributions to the organization during FY2005 totaled \$85.0 million, down \$1.8 million from FY2004. Government grants had an increase of \$3.1 million to a total of \$18.8 million in FY2005. Also included in total revenue is \$13.6 million in donations-in-kind and \$14.4 million in other income.

Expense

Habitat for Humanity International classifies expense in three primary categories: program expense, fund-raising expense, and management and general expense. Program expense is further divided into three subcategories: U.S. affiliates, international affiliates,

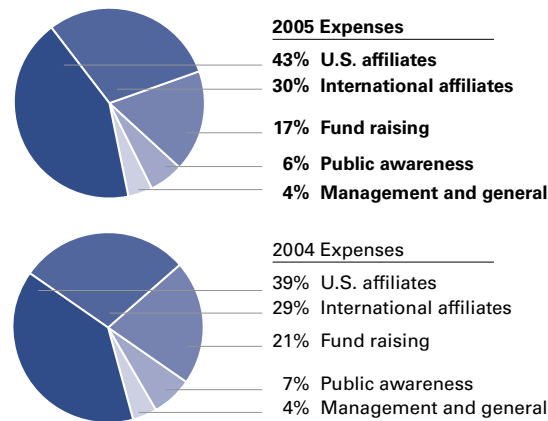
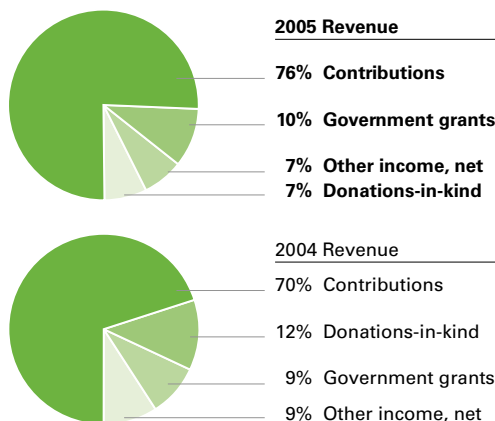
and public awareness and education. Total expense amounted to \$178.4 million—up \$17.3 million (10.7 percent) from FY2004.

Program Expense

In FY2005, Habitat for Humanity International spent a total of \$139.9 million on program expense, representing 79 percent of total expense. These funds were used for direct cash and gift-in-kind transfers to affiliates and national organizations around the world for house construction and other expenses. HFHI's program expense in FY2005 included costs for programs that directly benefit affiliates and national organizations, such as youth programs, prison partnerships, disaster response, training seminars and information materials. Additionally, program expense includes the cost of monitoring and evaluating the work of affiliates and national organizations, along with providing technical assistance and other program support.

Included in international transfer expense is \$11.0 million in tithe funds collected from U.S. affiliates and used to support the work of affiliates in other countries. Tithing on locally raised income is a commitment set forth in covenants signed by all Habitat for Humanity affiliates. Affiliates outside the United States also tithed to support Habitat for Humanity's work in other countries, often making direct contributions that are not reflected in these financial statements.

Habitat for Humanity International's program expense also includes costs associated with HFHI's



goal of making decent shelter a matter of conscience and action. Public awareness and education expense includes special events like the Jimmy Carter Work Project, Global Village work trips, our Web site, videos, Habitat World magazine and other costs associated with responding to inquiries from the public and media.

Fund-raising Expense

In FY2005, fund-raising expense totaled \$30.7 million, representing 17 percent of total expense. Major fund-raising programs include direct mail and tele-marketing campaigns and direct contact with major donors, foundations and corporations. FY2005 saw a continued emphasis on targeted proposals to major donors, and HFHI continued to support fund-raising efforts in Western Europe.

Many of HFHI's fund-raising appeals result in donations made directly to U.S. and international affiliates or other national and international organizations. In such cases, HFHI bears the fund-raising expense but does not reflect the resulting donations as revenue.

Management and General Expense

For FY2005, management and general expense totaled \$7.8 million, representing 4 percent of total expense. This includes costs of staffing (other than program and fund-raising staff), supplies, utilities, building maintenance and other costs incurred in the day-to-day operations of HFHI.

Habitat for Humanity's Unaudited Combined Financials

The audited financial statements of Habitat for Humanity International reflect only part of the story of Habitat for Humanity's scope of work around the world. As autonomous nonprofit organizations, Habitat for Humanity affiliates and national organizations keep their own records of revenues and expenditures; those figures are not included in the financial statements of Habitat for Humanity International because the affiliates do not meet the control and economic interest tests required for consolidation.

To better demonstrate the magnitude of the movement, HFHI annually compiles combined financial amounts for Habitat for Humanity in total. These unaudited amounts include financial information from many of the largest U.S. affiliates, along with estimates for smaller U.S. affiliates and international efforts, to produce organizationwide totals.

For the fiscal year that ended June 30, 2004, we estimate the entire Habitat for Humanity movement grossed \$904.7 million in revenue: \$432.4 million in cash contributions and grants, \$48.7 million in gifts-in-kind, \$318.2 million in sales of houses and \$105.4 million in other support. Overall, Habitat for Humanity's estimated expense ratios in FY2004 were 83 percent program, 8 percent fund raising, and 9 percent management and general expense.



Volunteers in Memphis, Tenn., load house frames into a container for shipment to the Gulf Coast. Habitat's Operation Home Delivery initiative brought people together around the United States to "pre-build" house components to help families affected by Hurricanes Katrina and Rita.

A Message from Habitat for Humanity International's Chairman of the Board

Decent, affordable housing is fundamental to the well being of individuals, families and communities. This is “bred in the bone” of countless Habitat for Humanity partners around the world.

However, the sobering reality is that such decent, affordable housing in our world is becoming more and more elusive for low-income families. In the United States, home prices and rents have dramatically soared in recent years, placing affordable housing out of reach for millions of working-class families. Many families are severely cost-burdened, spending far too much on shelter—which leaves far too little for other necessities such as health care, clothing and food.

According to the National Low Income Housing Coalition, there is no county in the United States where a minimum-wage worker can afford a two-bedroom apartment at a Fair Market Rent—and the minimum wage has not increased in nearly a decade. The Harvard Joint Center for Housing Studies reports that one out of three families spends over thirty percent of their income for housing, and one out of eight spends over fifty percent.

Outside the United States, the problem is more acute with more than a billion of the world's people barely surviving on less than a single dollar a day. They live in hovels in dried up riverbeds that flood when heavy rains come, in mud huts on rural sun-swept planes and in overcrowded urban slums with few, if any, public services. Each week, more than a million people move to the cities of the world, and over the

next quarter-century 95 percent of this urbanization will occur in developing countries whose cities already bend under the pressure of too many people competing for too few housing opportunities.

Simply put, the world's need for decent housing is outpacing the Herculean efforts of Habitat for Humanity.

In spite of these glaring realities, however, I am cautiously optimistic, because Habitat is creating some promising new realities.

Today, we are committed more than ever to seeking new solutions to the housing needs of families all over the world—and to doing so at a rate of exponential growth.

Habitat for Humanity International's new strategic plan provides the guidance, framework and flexibility for Habitat to be creative in its approaches to working with families in need of decent shelter, while ensuring that we adhere to the core principles that have guided Habitat for three decades.

We will increase our partnerships with governments, individuals, corporations, churches, foundations and other nongovernmental organizations. We will be a catalyst for individual and community transformation, a catalyst for decent, affordable shelter. We will view housing as one component in a larger framework of community development—and we will respond accordingly. We will reach families who cling



STEFAN HACKER

Nic Retsinas, chair of Habitat for Humanity International's board of directors, positions a wall frame at a build in Americus, Ga.

International Board of Directors

(as of January 1, 2006)

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(as of January 1, 2006)

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Marian Cooper, *Vice President, Human Resources*

to lower and lower rungs of the economic ladder. We will find and capture those opportunities where it makes sense to complement our historical model through innovation, always mindful of our purpose to improve the lives of families in need.

In the last fiscal year, we accomplished a great deal, serving a record number of families. In Michigan, former President Jimmy Carter and his wife Rosalynn led the 22nd annual Jimmy Carter Work Project in which volunteers from around the world built Habitat houses in Benton Harbor and Detroit, other affiliates throughout Michigan and in Canada. As it does every year, the JCWP helped shine a bright light on Habitat for Humanity and on the poverty and housing problems it seeks so intently to overcome.

In response to the tsunami in Asia, Habitat immediately sent personnel to the region to assess the devastation, and to plan accordingly for the most massive long-term disaster response effort in our history at that time. Already, we have provided direct housing assistance to thousands of families. In the Gulf Coast, we have plans to build over 1,000 homes in the impacted areas.

We have a lot to be thankful for and a lot of momentum, support and compassion to build upon. As we look ahead, I am humbled to chair this organization's board of directors. I am honored to work with the people and groups all over the world who envision a better world through better housing, stronger families and healthier communities. While our task is great, our capacity is potent, our hope is powerful and the inspiration that unites us is profound.



Nicolas P. Retsinas
Chair, Habitat for Humanity International
Board of Directors

Audited Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

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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, 2005 and 2004, 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 pro-

cedures 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 at June 30, 2005 and 2004, and the consolidated changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

September 23, 2005

Habitat for Humanity International, Inc.

Consolidated Statements of Financial Position

	June 30	
	2005	2004
Assets		
Cash and cash equivalents	\$ 41,517,340	\$ 17,342,999
Investments at fair value	20,682,534	21,285,517
Receivables:		
Contributions and grants, net	33,202,042	37,754,292
Affiliate notes, net	26,816,751	25,657,510
Due from affiliates, net	6,843,870	6,929,830
Mortgages receivables, net	1,534,306	1,024,382
Other, net	1,000,680	1,197,739
Total receivables	69,397,649	72,563,753
Inventories, net	525,505	610,182
Prepays and other assets	1,432,955	1,930,994
Land, buildings, capital leases and equipment – net of accumulated depreciation and amortization	11,922,066	10,435,509
	\$ 145,478,049	\$ 124,168,954
Liabilities and net assets		
Accounts payable, accrued expenses	\$ 15,724,693	\$ 14,111,572
Capitalized lease obligations payable	1,568,777	530,982
Notes payable	2,923,448	3,173,282
Annuity obligation	6,433,261	6,312,034
Investor notes payable	30,282,760	28,695,483
Total liabilities	56,932,939	52,823,353
Net assets:		
Unrestricted	13,789,984	13,218,058
Temporarily restricted	74,755,126	58,127,543
Total net assets	88,545,110	71,345,601
	\$ 145,478,049	\$ 124,168,954

See accompanying notes.

Consolidated Statements of Activities and Changes in Net Assets

Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Total
Revenues and gains			
Contributions	\$ 85,003,468	\$ 65,843,530	\$ 150,846,998
Government grants	18,835,782	—	18,835,782
Other income, net	14,352,014	—	14,352,014
Donations-in-kind	4,906,630	8,693,221	13,599,851
Total revenues and gains	123,097,894	74,536,751	197,634,645
Satisfaction of program restrictions	55,828,688	(55,828,688)	—
Total	178,926,582	18,708,063	197,634,645
Expenses			
Program services:			
U.S. affiliates	75,024,222	—	75,024,222
International affiliates	53,493,724	—	53,493,724
Public awareness and education	11,384,403	—	11,384,403
Total program services	139,902,349	—	139,902,349
Supporting services:			
Fund raising	30,629,004	—	30,629,004
Management and general	7,823,303	—	7,823,303
Total supporting services	38,452,307	—	38,452,307
Total expenses	178,354,656	—	178,354,656
Losses on contributions receivable	—	2,080,480	2,080,480
Total expenses and losses on contributions receivable	178,354,656	2,080,480	180,435,136
Change in net assets	571,926	16,627,583	17,199,509
Net assets at beginning of year	13,218,058	58,127,543	71,345,601
Net assets at end of year	\$ 13,789,984	\$ 74,755,126	\$ 88,545,110

See accompanying notes.

Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Total
Revenues and gains			
Contributions	\$ 86,796,589	\$ 33,106,487	\$ 119,903,076
Government grants	15,727,356	—	15,727,356
Other income, net	14,450,289	—	14,450,289
Donations-in-kind	914,365	19,742,126	20,656,491
Total revenues and gains	117,888,599	52,848,613	170,737,212
Satisfaction of program restrictions	51,512,333	(51,512,333)	—
Total	169,400,932	1,336,280	170,737,212
Expenses			
Program services:			
U.S. affiliates	63,722,892	—	63,722,892
International affiliates	47,027,203	—	47,027,203
Public awareness and education	10,776,364	—	10,776,364
Total program services	121,526,459	—	121,526,459
Supporting services:			
Fund raising	33,328,584	—	33,328,584
Management and general	6,243,564	—	6,243,564
Total supporting services	39,572,148	—	39,572,148
Total expenses	161,098,607	—	161,098,607
Losses on contributions receivable	—	2,421,939	2,421,939
Total expenses and losses on contributions receivable	161,098,607	2,421,939	163,520,546
Change in net assets	8,302,325	(1,085,659)	7,216,666
Net assets at beginning of year	4,915,733	59,213,202	64,128,935
Net assets at end of year	\$ 13,218,058	\$ 58,127,543	\$ 71,345,601

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Cash Flows

	Year ended June 30	
	2005	2004
Operating activities		
Change in net assets	\$ 17,199,509	\$ 7,216,666
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,093,327	1,470,516
Net loss on disposal of land, buildings, and equipment	30,924	29,093
Losses on contributions receivable	2,080,480	2,421,939
Losses on other receivables	270,281	199,200
Change in reserve for inventory obsolescence	(94,887)	109,668
Net realized and unrealized losses (gains) on investments	165,277	(306,340)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	1,888,624	(4,413,342)
Decrease in inventories	179,564	363,265
Decrease (increase) in prepaids and other assets	498,039	(971,118)
Increase in accounts payable and accrued expenses	1,613,121	2,959,632
Net cash provided by operating activities	25,924,259	9,079,179
Investing activities		
Purchases of investments	(10,528,153)	(11,557,732)
Proceeds from sales and maturities of investments	10,965,859	10,434,787
Loans to affiliates	(10,996,482)	(9,942,851)
Repayments from affiliates	9,923,201	9,107,228
Purchases of land, buildings, and equipment	(3,707,094)	(2,575,086)
Proceeds from sale of land, buildings, and equipment	96,286	10,378
Net cash used in investing activities	(4,246,383)	(4,523,276)
Financing activities		
Proceeds from capitalized lease obligations payable	1,595,276	578,605
Principal repayments on capitalized lease obligations payable	(557,481)	(47,623)
Proceeds from notes payable	481,788	2,341,741
Principal repayments on notes payable	(731,622)	(2,741,491)
Increase in annuity obligation	554,441	1,332,844
Payments of annuity obligation	(433,214)	(376,676)
Proceeds from issuance of investor notes payable	8,335,600	6,678,300
Payments on investor notes payable	(6,748,323)	(5,871,200)
Net cash provided by financing activities	2,496,465	1,894,500
Increase in cash and cash equivalents	24,174,341	6,450,403
Cash and cash equivalents:		
Beginning of year	17,342,999	10,892,596
End of year	\$ 41,517,340	\$ 17,342,999

See accompanying notes.

Consolidated Statements of Functional Expenses

Year ended June 30, 2005

	Program Services				Supporting Services			Total
	U.S. Affiliates	International Affiliates	Public Awareness and Education	Total Program Services	Fund Raising	Management and General	Total Supporting Services	
Program and house building transfers	\$ 38,258,442	\$ 30,884,578	\$ 907,010	\$ 70,050,030	\$ —	\$ —	\$ —	\$ 70,050,030
Donated assets distributed	14,832,143	—	—	14,832,143	—	—	—	14,832,143
Salaries and benefits	13,637,658	15,129,263	4,738,277	33,505,198	5,171,438	3,433,508	8,604,946	42,110,144
Payroll tax expense	919,081	404,792	293,455	1,617,328	310,904	180,231	491,135	2,108,463
Professional services—direct mail	—	—	—	—	19,608,258	—	19,608,258	19,608,258
Professional services—other	1,057,871	1,285,611	1,073,529	3,417,011	1,512,271	1,235,890	2,748,161	6,165,172
Postage and freight	202,191	97,364	959,335	1,258,890	974,427	83,202	1,057,629	2,316,519
Travel	1,736,800	2,125,743	762,753	4,625,296	584,220	353,511	937,731	5,563,027
Printing	117,095	115,984	889,052	1,122,131	305,538	17,599	323,137	1,445,268
Service agreements and utilities	661,539	744,487	511,916	1,917,942	1,013,369	1,199,683	2,213,052	4,130,994
Insurance	662,406	181,921	166,965	1,011,292	153,471	159,287	312,758	1,324,050
Interest, service charges and taxes	1,010,932	373,332	32,052	1,416,316	67,012	61,212	128,224	1,544,540
Office and equipment	410,949	720,198	585,496	1,716,643	289,843	239,966	529,809	2,246,452
Depreciation and amortization	650,161	471,183	232,908	1,354,252	407,337	331,738	739,075	2,093,327
Other	866,954	959,268	231,655	2,057,877	230,916	527,476	758,392	2,816,269
Total	\$ 75,024,222	\$ 53,493,724	\$ 11,384,403	\$ 139,902,349	\$ 30,629,004	\$ 7,823,303	\$ 38,452,307	\$ 178,354,656

See accompanying notes.

Habitat for Humanity International, Inc.

Consolidated Statements of Functional Expenses

Year ended June 30, 2004

	Program Services				Supporting Services			Total
	U.S. Affiliates	International Affiliates	Public Awareness and Education	Total Program Services	Fund Raising	Management and General	Total Supporting Services	
Program and house building transfers	\$ 25,417,932	\$ 25,557,290	\$ 169,718	\$ 51,144,940	\$ —	\$ —	\$ —	\$ 51,144,940
Donated assets distributed	18,190,272	—	—	18,190,272	—	—	—	18,190,272
Salaries and benefits	12,322,084	14,741,084	4,765,332	31,828,500	5,192,025	3,222,710	8,414,735	40,243,235
Payroll tax expense	814,832	366,591	281,671	1,463,094	290,314	176,811	467,125	1,930,219
Professional services—direct mail	—	—	—	—	22,439,933	—	22,439,933	22,439,933
Professional services—other	714,185	921,098	730,432	2,365,715	1,783,445	603,100	2,386,545	4,752,260
Postage and freight	213,486	119,029	1,407,798	1,740,313	1,200,057	64,578	1,264,635	3,004,948
Travel	1,455,801	2,534,138	918,699	4,908,638	480,255	195,593	675,848	5,584,486
Printing	118,312	110,920	1,194,405	1,423,637	298,302	21,466	319,768	1,743,405
Service agreements and utilities	900,159	467,608	601,931	1,969,698	703,511	1,027,959	1,731,470	3,701,168
Insurance	824,646	174,942	142,696	1,142,284	141,226	146,435	287,661	1,429,945
Interest, service charges and taxes	1,240,878	160,531	31,477	1,432,886	64,213	76,595	140,808	1,573,694
Office and equipment	238,856	707,288	223,714	1,169,858	215,648	52,334	267,982	1,437,840
Depreciation and amortization	449,363	361,673	160,976	972,012	300,426	198,078	498,504	1,470,516
Other	822,086	805,011	147,515	1,774,612	219,229	457,905	677,134	2,451,746
Total	\$ 63,722,892	\$ 47,027,203	\$ 10,776,364	\$ 121,526,459	\$ 33,328,584	\$ 6,243,564	\$ 39,572,148	\$161,098,607

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization and Purpose

Habitat for Humanity International, Inc. (Habitat) is an ecumenical Christian not-for-profit organization whose purposes are to partner with Habitat programs worldwide in building decent, affordable housing and to associate with other organizations that have a kindred purpose. Habitat's goal is to eliminate poverty housing everywhere and to put shelter on the hearts and minds of people in such a powerful way that poverty housing and homelessness become socially, politically, and religiously unacceptable.

Habitat is comprised of the organization's headquarters based in Americus, 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 efforts of affiliates working in more than 3,000 communities in approximately 90 countries around the globe. Habitat is exempt from federal income taxation under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, pursuant to a group exemption letter received from the Internal Revenue Service.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements as of and for the years ended June 30, 2005 and 2004, include the activities of Habitat for Humanity-

Middle East in which Habitat effectively has control and an economic interest. All material intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

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

Investments

Investments in equity and debt securities are reported at fair value with realized and unrealized gains and losses included in the consolidated statements of activities and changes in net assets.

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

Fair value for securities that are traded on a national securities exchange is based upon the last reported sales price on the last business day of the year; fair value for investments traded in the over-the-counter market and listed securities for which no sale was reported on that date is based upon the average of the last reported bid and ask price.

Investment income and net increase (decrease) on investments of donor restricted contributions are reported as follows: an increase (decrease) in temporarily restricted net assets if the terms of the gift or

Habitat's interpretation of relevant state law imposes a restriction on the current use of the investment income or net increase (decrease); otherwise, such increase (decrease) is reported in unrestricted net assets.

Contributions Receivable

Contributions receivable that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Contributions receivable are reflected net of an allowance for uncollectible amounts based on management's judgment and analysis of the creditworthiness of the donors, past payment experience, and other relevant factors and have been discounted at rates ranging from 4% to 6%. The discount rate on new contributions receivable is set at the ten-year Treasury bill rate in effect at the date the contribution is made.

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, 2005 and 2004, conditional promises to give amounted to \$4,326,750 and \$5,157,201, respectively, and are not recorded in these financial statements.

Accelerated Asset Recovery Program

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

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

investor notes payable were disbursed to those affiliates that signed affiliate notes receivable with Habitat. Affiliate notes receivable have interest rates ranging from 3.25% to 4.275% over seven and one quarter years and are secured by mortgages held by those affiliates.

The real estate securing these mortgages is concentrated in the states of North Carolina (15%) and Florida (12%). The remaining balance is secured by real estate in other cities throughout the United States with no city comprising more than 4% of the balance.

Due From Affiliates

Due from affiliates consists primarily of non-interest-bearing, unsecured, demand notes from Habitat affiliates in the United States. 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.

Mortgages Receivable

Mortgage receivable balances represent the amount charged to the homeowners for Habitat houses built and secured with loans that are to be paid back over an established and mutually agreed period of time. These mortgages are typically paid back on a monthly basis. However, in some cases, mortgages might be paid back in different installment periods.

Habitat's mortgages are non-interest bearing. Mortgages in the African countries are effectively discounted to reflect inflation rates due to the fact that they are repaid with local commodities. In Asian countries, the mortgage receivable balances are discounted using a bank long-term lending rate as of the balance sheet date.

Inventories

Inventories represent donated building materials and purchased merchandise available for sale and ministry purposes. Donated inventory is recorded at the fair market value on the date of receipt, and such items are expensed as program services expense when used or shipped to U.S. affiliates, based upon the specific identification method and adjusted when market value is less than recorded value. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method or fair market value.

Land, Buildings, Capital Leases, and Equipment

Land, buildings, capital leases, and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Depreciation expense and amortization expense of assets under capital leases are provided on a straight-line basis over the estimated useful lives of the respective assets, as follows:

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

Depreciation expense was \$1,570,208 and \$1,401,321 for the years ended June 30, 2005 and 2004, respectively. Amortization expense of assets under capital leases was \$523,119 and \$69,195 for the years ended June 30, 2005 and 2004, respectively.

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, 2005 and 2004. The difference is classified as unrestricted contributions on the consolidated statements of activities and changes in net assets. Habitat maintains charitable gift annuities in a separate portfolio, and the assets are invested in accordance with applicable state laws.

Net Assets

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

- Temporarily restricted net assets contain donor-imposed restrictions that permit Habitat to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of Habitat.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

- Donors do not restrict unrestricted net assets, or the donor-imposed restrictions have expired.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as satisfaction of program restrictions.

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

Government Grants

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

Contributed Services

A substantial number of volunteers have made

significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in the consolidated financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, where provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenue and expense. Such amounts, which are included in the accompanying consolidated statements of activities and changes in net assets, totaled \$677,089 and \$848,923 for the years ended June 30, 2005 and 2004, respectively.

Program Services

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

Estimates in the Financial Statements

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

Reclassifications

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

3. Investments

Investments at June 30 consist of the following:

	2005	2004
Certificates of deposit and short-term investments	\$ 4,876,822	\$ 4,844,508
Stocks	3,516,293	5,896,337
Commercial paper	4,950,130	5,996,130
Bonds – U.S., state government, and corporate	7,339,289	4,548,542
	\$ 20,682,534	\$ 21,285,517

Notes to Consolidated Financial Statements

3. Investments (continued)

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

	2005	2004
Net (decrease) increase in fair value of investments, including realized and unrealized gains and losses	\$ (165,277)	\$ 306,340
Interest and dividend income	414,523	388,225
	\$ 249,246	\$ 694,565

4. Contributions and Grants Receivable

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

	2005	2004
Contributions	\$ 39,578,047	\$ 48,348,475
Government grants	1,770,346	1,154,986
	41,348,393	49,503,461
Less unamortized discount	2,885,039	4,262,997
	38,463,354	45,240,464
Less allowance for uncollectibles	5,261,312	7,486,172
	\$ 33,202,042	\$ 37,754,292

These receivables are due as follows:

	2005	2004
Due in less than one year	\$ 10,094,509	\$ 18,138,969
Due in one to five years	23,102,044	19,334,252
Thereafter	5,489	281,071
	\$ 33,202,042	\$ 37,754,292

Contributions receivable include noncash amounts of \$20,629,371 and \$26,222,367 for the years ended June 30, 2005 and 2004, respectively.

Net contributions receivable includes two contributions in 2005 and one contribution in 2004 whose individual net outstanding receivable are greater than 10% of the net outstanding contributions receivable. At June 30, 2005 and 2004, the net contributions receivable associated with these gifts totaled \$15,027,375 and \$11,152,099, respectively.

5. Due From Affiliates

Due from affiliates at June 30 consist of the following:

	2005	2004
Self-Help Home Ownership Program Grant	\$ 5,578,812	\$ 5,446,704
Other	2,291,475	2,531,053
	7,870,287	7,977,757
Less allowance for uncollectibles	1,026,417	1,047,927
	\$ 6,843,870	\$ 6,929,830

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

6. Land, Buildings, Capital Leases, and Equipment

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

	2005	2004
Land	\$ 878,236	\$ 890,972
Buildings	10,762,806	10,596,541
Computer hardware and software	6,795,132	7,625,666
Computer hardware and software under capital leases	2,168,246	577,041
Furniture and equipment	2,545,601	2,759,394
Vehicles	782,665	685,456
	23,932,686	23,135,070
Less accumulated depreciation and amortization	12,010,620	12,699,561
	\$ 11,922,066	\$ 10,435,509

Accumulated amortization related to computer hardware and software under capital leases was \$592,314 and \$69,195 for the years ended June 30, 2005 and 2004, respectively.

Notes to Consolidated Financial Statements

7. Notes Payable

Notes payable at June 30 consist of the following:

	<u>2005</u>	<u>2004</u>
Non-interest-bearing, unsecured notes payable to various individuals and organizations, payable principally on demand	\$ 451,742	\$ 497,557
Unsecured note bearing interest at 3% per annum	-	50,000
Non-interest-bearing notes payable to affiliates upon completion of their accelerated asset recovery payable	<u>1,917,706</u>	<u>1,751,725</u>
Non-interest-bearing, unsecured note payable to Freddie Mac in annual installments through 2006	<u>554,000</u>	<u>874,000</u>
	<u>\$ 2,923,448</u>	<u>\$ 3,173,282</u>

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

2006	\$ 1,156,481
2007	200,024
2008	237,282
2009	380,352
2010	311,625
Thereafter	<u>637,684</u>
	<u>\$ 2,923,448</u>

The amount of future principal payments for 2006 includes \$451,742 of non-interest bearing, unsecured

notes payable to various individuals and organizations which are payable principally on demand. The amounts actually demanded and repaid for such notes payable during the years ended June 30, 2005 and 2004, was \$45,815 and \$2,897, respectively.

8. Accelerated Asset Recovery Program

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

Investor Notes Payable	
2006	\$ 6,454,258
2007	6,058,543
2008	5,472,742
2009	4,668,178
2010	3,472,895
Thereafter	<u>4,156,144</u>
	<u>\$ 30,282,760</u>

Interest expense during the years ended June 30, 2005 and 2004, was \$1,033,452 and \$1,288,545, respectively.

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

consolidated statements of financial position.

9. Temporarily Restricted Net Assets

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

	<u>2005</u>	<u>2004</u>
Home building activities:		
Internationally	\$ 23,984,594	\$ 5,527,812
Domestically	<u>20,433,289</u>	<u>19,185,783</u>
	<u>44,417,883</u>	<u>24,713,595</u>
Time restricted	<u>30,337,243</u>	<u>33,413,948</u>
	<u>\$ 74,755,126</u>	<u>\$ 58,127,543</u>

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>2005</u>	<u>2004</u>
Home building activities:		
Internationally	\$ 15,817,387	\$ 9,659,804
Domestically	<u>40,011,301</u>	<u>41,852,529</u>
	<u>\$ 55,828,688</u>	<u>\$ 51,512,333</u>

Notes to Consolidated Financial Statements

11. Revenue From Government Grants

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

	2005	2004
Self-Help Home Ownership		
Program Grant	\$ 9,441,231	\$ 8,495,082
Capacity Build Grant	4,260,955	2,928,914
AmeriCorps	4,629,441	3,757,865
USAID	140,071	101,112
State grants	—	159,169
Other	364,084	285,214
	\$ 18,835,782	\$ 15,727,356

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 \$3,771,345 and \$4,207,660 for the years ended June 30, 2005 and 2004, respectively.

Habitat also provides through the Habitat for Humanity Retirement Plan (the Retirement Plan) a defined contribution retirement plan to its full-time employees with one or more years of service. The annual required contribution per eligible employee is the greater of 3% of the participant's wages or \$750, not to exceed 25% of the participant's wages for the year. Habitat will match 100% of the first 3% of contributions made by eligible participants to the plan. Participants are fully vested after five years of service. Habitat's contributions to the Retirement Plan were \$751,651 and \$807,583 for the fiscal years ended June 30, 2005 and 2004, respectively.

13. Leases

Habitat leases certain fixed assets under operating and capital leases. Many of these lease agreements contain renewal clauses and yearly escalations in monthly rent payments. At June 30, 2005, future minimum rental payments under the operating and capital leases are as follows:

	Operating	Capital
2006	\$ 233,084	\$ 994,604
2007	190,381	925,172
2008	61,037	271,116
2009	32,961	—
2010	7,354	—
Total minimum payments	\$ 524,817	2,190,892
Less amounts representing executory costs and interest		622,115
Present value of net minimum payments		\$ 1,568,777

Rent expense amounted to \$330,710 and \$622,378 for the years ended June 30, 2005 and 2004, 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 a covenant agreement with Habitat. All affiliates are encouraged to be self-supporting in their fund-raising efforts; however, Habitat also solicits contributions, both cash and in-kind, on behalf of its affiliates. Habitat has transferred \$84,882,173 and \$69,335,212 in 2005 and 2004, 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 affiliates are expected to tithe 10% of their unrestricted cash contributions to support Habitat work outside their own country. Tithes from U.S. affiliates totaled \$10,984,589 and \$9,262,501 in 2005 and 2004, respectively.

Notes to Consolidated Financial Statements

15. Commitments

Habitat agreed to guarantee a \$590,000 Mortgage Note made on February 1, 1999, by 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 grants 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, 2005 and 2004, Habitat recorded \$5,683,089 and \$3,785,873 in contributions, respectively, and \$5,079,309 and \$3,309,223 in pledge payments, respectively, from members of Habitat's International Board of Directors (IBOD) or from companies that they represent. At June 30, 2005 and 2004, Habitat had \$8,267,371 and \$5,713,047, respectively, of pledges receivable from members of Habitat's IBOD or from companies that they represent.

A member of Habitat's IBOD represents a large financial institution that is an investor in the Accelerated Asset Recovery Program. The financial institution was owed \$9,304,268 and \$8,645,938 as of June 30, 2005 and 2004, respectively. Interest payments made to the financial institution totaled \$322,824 and \$314,202 during the years ended June 30, 2005 and 2004, respectively. Additionally, this financial institution performs certain international transfers, international payroll, and credit card transactions on Habitat's behalf. Habitat pays bank fees for these transactions. This financial institution is also a 50% owner of Citistreet, which is a service provider for our employee benefit pension plans. Habitat pays fees for these services. All of these transactions have been reviewed by counsel and Habitat's IBOD, and they are all deemed to be arms-length transactions.

A director of Habitat also serves as the Director General of an organization that maintains the mortgage portfolio and performs house building activities in the country of Egypt. Transfers from Habitat to this organization totaled \$75,000 and \$-0- for the years ended June 30, 2005 and 2004, respectively. This relationship has also been reviewed by counsel and the IBOD, and all transactions are deemed to be proper.

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

In June 2005, the IBOD approved a loan to Habitat

for Humanity-South Africa (HFHSA) for \$500,000. The loan is 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. These funds had not been disbursed as of June 30, 2005.

17. Consolidation

At June 30, 2005, HFH-Tanzania is a national organization in which Habitat has both an economic interest and control through management, but Habitat does not control the majority of Board appointments, so it is deemed that this entity does not have to be consolidated in the accompanying financial statements. Summarized financial information for the year ended June 30, 2005 for this entity is reflected below (in U.S. dollars):

Total assets	\$ 655,704	Total revenue	\$ 319,045
Total liabilities	40,104	Total expenses	159,470
Total net assets	615,600	Increase in net assets	159,575

Habitat for Humanity International, Inc.

International Board of Directors (as of June 30, 2005)

Rey Ramsey, *Chair*

Jim Copeland, *Vice Chair*

Nicolas P. Retsinas, *Vice Chair*

Chantal Hudicourt-Ewald, *Secretary*

Charles Thiemann, *Treasurer*

Nabil Abadir

Tony Lanigan

Kathleen Bader

Paul Leonard (ex-officio)

Navasard Dadyan

William McGivern

Ted Dosch

Symon Msefula

Paul Ekelschot

Anugerah Pekerti

John Gilbert

Larry Prible

David Hicks

Ed Schreyer

Janet Huckabee

Juel Shannon Smith

G. Carol Johnson

John Stack

Mary Kazunga

Ron Terwilliger

Jack Kemp

Bob Willumstad

Ken Klein

Fernando Zobel de Ayala

Senior Leadership Team (as of June 30, 2005)

Paul Leonard, *Managing Director and Chief Executive Officer*

Mike Carscaddon, *Executive Vice President, International*

Chris Clarke, *Senior Vice President, Communications*

Mark Crozet, *Senior Vice President, Development*

Lyn Jensen, *Senior Vice President, Administration and Chief Financial Officer*

Marian Cooper, *Vice President, Human Resources*

Tom Jones, *Vice President, Managing Director, HFHI Washington Office*

Debra Pettitt (Price, Waterhouse, Coopers), *Vice President, Internal Audit (interim)*

Jim Thie, *Vice President, Information Systems*

Don Haszcyn, *Area Vice President, Europe/Central Asia*

Matthew Maury, *Area Vice President, Africa/Middle East*

Torre Nelson, *Area Vice President, Latin America/Caribbean*

Ted Swisher, *Area Vice President, United States/Canada*

Steve Weir, *Area Vice President, Asia/Pacific*

Regina Hopkins, *General Counsel*

Habitat for Humanity International Offices

Habitat for Humanity International

121 Habitat St.
Americus, GA 31709 USA
(229) 924-6935

Africa and the Middle East Area Office

Celtis Plaza, North Block, 1085 Schoeman Street,
Hatfield, Pretoria 0083, South Africa

Mailing address:

Box 11179
Pretoria 0028, South Africa
Tel. + 27-12-430-9200
info@habitatame.org.za

Asia and the Pacific Area Office

Q. House, 8th FL
38 Convent Rd.
Silom
Bangrak, Bangkok 10500
Thailand
Tel. + 66-2-632-0415
info@hfhap.org

Europe and Central Asia Area Office

Karoly Krt. 3/A, felemelet 1.
1075 Budapest
Hungary
Tel. + 36-1-411-2170
info@habitateurope.org.hu

Latin America and the Caribbean Area Office

Del Hotel Irazu 300 Noreste y 100 Este, La Uruca, San
Jose, Costa Rica

Mailing address:

SJO-2268, 1601 NW-97 Ave.
PO Box 25216
Miami, FL 33102
Tel. + 506-296-8120
LAC@habitat.org

U.S./Canada Area Office

121 Habitat St.
Americus, GA 31709 USA
(229) 924-6935
publicinfo@habitat.org

HFHI Office of Government Relations, Public Policies and Strategic Alliances

1000 Vermont Ave., NW
Suite 1100
Washington, DC 20005 USA
(202) 628-9171



A volunteer puts the finishing touches on a Habitat home's front porch in Detroit, Mich. The Habitat house, which represents hope for the future to a family, stands in stark contrast to the dilapidated home in the background. It is Habitat's goal that one day such substandard houses all will be a thing of the past.

Habitat for Humanity's Ultimate Goal

The ultimate goal of Habitat for Humanity is to eliminate poverty housing and homelessness from the face of the earth by building adequate and basic housing. Furthermore, all of our words and actions are for the ultimate purpose of putting shelter on the hearts and minds of people in such a powerful way that poverty housing and homelessness become socially, politically and religiously unacceptable in our nations and world.



INTERNATIONAL HEADQUARTERS: 121 Habitat St. Americus, GA 31709-3498 USA
(229) 924-6935 (800) HABITAT fax (229) 928-8811 publicinfo@habitat.org www.habitat.org

Cover: Tanner Hiller, 7, looks to the future with excitement as he shows off his partially finished bedroom in his family's Habitat house in Cheboygan, Mich. Photo by Steffan Hacker