Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2013

Houston Habitat for Humanity, Inc.

Table of Contents

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Houston Habitat for Humanity, Inc.:

We have audited the accompanying financial statements of Houston Habitat for Humanity, Inc., which comprise the consolidated statement of financial position as of December 31, 2013 and the related consolidated statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Houston Habitat for Humanity, Inc. as of December 31, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

September 5, 2014

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Houston Habitat for Humanity, Inc.

Consolidated Statement of Financial Position as of December 31, 2013

ASSETS

Current assets:	
Cash and cash equivalents *(Notes 2 and 4)*	$ 2,861,921
Cash held in escrow for taxes and insurance *(Note 2)*	476,180
Pledges receivable	216,180
Current portion of mortgage loans receivable, net *(Note 5)*	909,836
ReStore inventory	303,208
Investments *(Notes 3 and 4)*	36,003
Other assets	241,109
Total current assets	5,044,437
Long-term assets:	
Long-term portion of mortgage loans receivable, net *(Note 5)*	12,042,444
Lots and homes available for sale	4,359,894
Home construction in progress	2,114,629
Lots and land held for development	3,637,093
Property, plant and equipment, net *(Note 6)*	1,223,865
Investments designated for endowment *(Notes 3 and 4)*	5,016,361
TOTAL ASSETS	$ 33,438,723

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 227,252
Escrow for taxes and insurance	476,180
Note payable to Northern Trust Bank *(Note 7)*	1,436,081
Total current liabilities	2,139,513
Net assets:	
Unrestricted *(Note 10)*	30,740,079
Temporarily restricted *(Note 11)*	559,131
Total net assets	31,299,210
TOTAL LIABILITIES AND NET ASSETS	$ 33,438,723

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2013

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE, GAINS AND SUPPORT:			
Contributions and other:			
Contributions	$ 238,422	$ 2,624,262	$ 2,862,684
In-kind contributions of inventory	1,020,722		1,020,722
Government grants *(Note 9)*	1,144,999		1,144,999
Investment return, net *(Note 3)*	756,033		756,033
Other income	128,563		128,563
Total contributions and other	3,288,739	2,624,262	5,913,001
Satisfaction of donor restrictions:			
Expenditures for program restrictions	3,043,488	(3,043,488)	
Expiration of time restrictions	57,287	(57,287)	
Total	3,100,775	(3,100,775)	
ReStore revenues:			
ReStore sales of donated inventory	1,020,722		1,020,722
Donated inventory expense	(1,020,722)		(1,020,722)
ReStore sales of purchased inventory	1,177,054		1,177,054
ReStore cost of goods sold	(741,598)		(741,598)
Total ReStore revenues, net	435,456		435,456
Low-cost housing income:			
Home sales	3,197,346		3,197,346
Lot sales	1,154,309		1,154,309
Mortgage discount amortization and interest	954,616		954,616
Rental income	243,142		243,142
In-kind contributions of labor and materials	188,910		188,910
Other fees	100,895		100,895
Total low-cost housing income	5,839,218		5,839,218
Total revenue, gains and support	12,664,188	(476,513)	12,187,675
EXPENSES:			
Program services:			
Low-cost housing program	9,897,006		9,897,006
ReStore program	1,212,754		1,212,754
Total program services	11,109,760		11,109,760
Supporting services:			
Management and general	238,762		238,762
Fundraising	483,633		483,633
Total expenses	11,832,155		11,832,155
CHANGES IN NET ASSETS	832,033	(476,513)	355,520
Net assets, beginning of year	29,908,046	1,035,644	30,943,690
Net assets, end of year	$ 30,740,079	$ 559,131	$ 31,299,210

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2013

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Cost of homes sold	$ 4,563,931				$ 4,563,931
Cost of land sold	1,287,423				1,287,423
Discount on mortgages issued	811,042				811,042
Home repair program	276,927				276,927
Salaries and related benefits	1,832,015	$ 764,710	$ 121,275	$ 356,981	3,074,981
Property taxes and insurance	316,134	59,927	3,460	19,523	399,044
Utilities, telephone and trash	168,792	74,946	1,304	12,118	257,160
Depreciation	70,301	117,939	1,844	15,588	205,672
Repairs and maintenance	177,251	11,548	478	2,699	191,976
Travel and auto	59,894	56,318	861	3,044	120,117
Legal and professional fees	7,464	5,000	93,810		106,274
Equipment expense	56,905	21,305	819	4,624	83,653
Computer and technology expense	40,043	26,526	715	15,543	82,827
Supplies	49,384	10,957	564	5,550	66,455
Security	46,051	7,114	42	236	53,443
Interest expense	38,527				38,527
Advertising and marketing	3,786	9,079	1,075	20,589	34,529
Postage, delivery and printing	17,134	13,148	608	3,000	33,890
Tithes to other non-profits	33,375				33,375
Professional development	9,981	500	7,354	5,127	22,962
Other	30,646	33,737	4,553	19,011	87,947
Total expenses	$ 9,897,006	$ 1,212,754	$ 238,762	$ 483,633	11,832,155
Cost of goods sold and donated inventory					1,762,320
Investment expenses					19,654
Total					$13,614,129
Percent of total expenses	84%	10%	2%	4%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Cash Flows for year ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 355,520
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	205,672
Discount on mortgages issued	811,042
Mortgage discount amortization	(923,914)
Net realized and unrealized gain on investments	(699,208)
Changes in operating assets and liabilities:	
Pledges receivable	(163,000)
Mortgage loans receivable	(651,127)
ReStore Inventory	(76,037)
Other assets	(114,714)
Lots and homes available for sale	876,252
Home construction in progress	574,873
Lots and land held for development	784,120
Accounts payable and accrued expenses	39,662
Escrow for taxes and insurance	(4,783)
Net cash provided by operating activities	1,014,358
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(181,014)
Purchases of investments	(1,792,303)
Net proceeds from sale or maturity of investments	1,760,626
Net change in money market mutual funds held as investments	(25,342)
Net cash used by investing activities	(238,033)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on note payable	(550,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	226,325
Cash and cash equivalents, beginning of year	2,635,596
Cash and cash equivalents, end of year	$ 2,861,921

Supplemental disclosure of cash flow information:

Interest paid	$38,527

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Habitat for Humanity, Inc. (Houston Habitat) is a non-profit corporation founded in 1987 whose purpose is to encourage, promote and assist in the building and redevelopment of low-income housing in Houston, Texas. Houston Habitat's purpose is accomplished through a privately operated and financed program to sell such housing to low-income persons at or below actual cost, utilizing non-interest bearing mortgage loans. Houston Habitat builds homes in the Houston metropolitan area utilizing volunteer labor, donated materials and contributed funds. The homes are then sold to pre-qualified, low-income families. Homebuyers are selected based on need, ability to repay the Houston Habitat mortgage, and willingness to partner. Long-term mortgage financing is a key component, which makes Houston Habitat homes affordable. Homes sold to local low-income buyers are 100% financed by Houston Habitat. Homebuyers are provided an affordable 0% interest, 10-30 year mortgage. Monthly mortgage payments collected by Houston Habitat are used to further the mission of Houston Habitat. Houston Habitat is an affiliate of Habitat for Humanity International (HFHI) located in Americus, Georgia.

Houston Habitat also operates The ReStore, a building supply outlet that is open to the public. The ReStore accepts donations from individuals, corporations and retail stores in the area and purchases some material for resale.

The Endowment for Houston Habitat for Humanity (the Endowment) was incorporated in 1999 as a Texas non-profit corporation to receive and maintain contributed funds to support Houston Habitat. Houston Habitat is the sole member of the Endowment.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of Houston Habitat and the Endowment (collectively Habitat). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Houston Habitat and the Endowment are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. Houston Habitat is classified as a public charity under §509(a)(1). The Endowment is classified as a Type I supporting organization under §509(a)(3). Houston Habitat and the Endowment file annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. Houston Habitat and the Endowment believe they are no longer subject to examinations of returns for tax years ended before December 31, 2010.

Cash equivalents include highly liquid investments with original maturities of three months or less.

Cash held in escrow for taxes and insurance are escrow funds collected from homeowners for payment of their property taxes, homeowner's association dues and homeowner's insurance. These custodial funds are held in a fiduciary capacity by Habitat and a corresponding liability is reported in the statement of financial position.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows. All pledges receivable are expected to be collected in 2014. At December 31, 2013, pledges from two donors represent 65% of total pledges receivable.

Mortgage loans receivable primarily consist of non-interest bearing mortgages, which are secured by improved real estate and are payable in monthly installments over a 10 to 30 year period. The mortgage loans receivable are discounted based upon prevailing market interest rates for low-income housing at the inception of the mortgage. The discount is amortized using the effective interest method.

Habitat's allowance for loan losses is based on historical collection experience and a review of the status of the mortgage loans receivable. Habitat considers the majority of the mortgage loans receivable to be fully collectible, or if not fully collectible, that the value of the homes collaterizing the loans exceeds the unpaid amount of the related receivable. Accordingly, no allowance for loan losses is included in Habitat's financial statements.

The ReStore inventory consists of primarily donated and purchased building materials. Purchased goods are valued at cost or using the first-in, first-out method. Because many of the donations are the result of overstocked or low demand items or items from deconstruction projects of homes and businesses tearing down or upgrading their homes or businesses, the value of the donations is not readily determinable until such merchandise is sold. Therefore, the donated retail inventory of the store has not been valued in these financial statements.

Investments in marketable securities are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless its use is limited by donor-imposed restrictions.

Home construction in progress is stated at lower of cost or fair value less costs to sell and consists of labor, materials, property taxes, land costs and overhead incurred during the development period incurred on incomplete homes in progress and completed homes not yet conveyed to a recipient family. Cost is determined by the specific identification method. Construction in progress is expensed to cost of homes sold within the low-cost housing program when the home is transferred to the recipient family.

Lots and homes available for sale and lots and land held for development are stated at lower of cost or fair value less costs to sell and include land under development, developed lots held for development and available for sale, and foreclosed and repossessed homes available for sale. Homes acquired through loan repossession or foreclosure are held for sale and/or rent and are initially recorded at fair value less estimated costs to sell at the date acquired.

Asset impairment – Real estate assets are evaluated for impairment if impairment indications are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. No impairment loss was recorded during the year.

Property, plant and equipment is reported at cost if purchased and at fair value at date of gift if donated. Depreciation is computed using the straight-line method over estimated useful lives of 20 years for building and improvements and 3 to 5 years for furniture and equipment.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations limiting their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Government grants – Habitat receives funding through various grants, cost reimbursement and performance-based contracts. Revenue is recognized on grants and cost reimbursement contracts subject to the terms of the contract or agreement; generally when the specifications of the agreement have been met and the grant or reimbursement has been approved by the grantor.

Non-cash contributions – Donated materials (other than The ReStore donations) and use of facilities are recognized at estimated fair value as contributions when an unconditional commitment is received from the donor. The ReStore donations are recognized as a contribution when sold. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with home construction for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under the generally accepted accounting principles.

The ReStore revenue is reported as revenue at the point of sale.

Home and lot sales – Homes are sold to qualified buyers at approximately the cost to build the home. Lot sales are recorded at closing. Non-interest bearing mortgages are accepted as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. During the year ended December 31, 2013, 37 homes were sold by Habitat. Habitat recognizes revenue from home sales when a closing occurs.

Rental income is recognized as rent becomes due. Rental payments received in advance are deferred until earned and reported as prepaid rent.

Advertising costs are expensed as incurred.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – CASH AND CASH EQUILAVENTS

Cash and cash equivalents at December 31, 2013 consist of the following:

Demand deposits	$ 2,899,042
Money market mutual funds	439,059
Total	3,338,101
Less: Cash held in escrow for taxes and insurance	(476,180)
Total cash and cash equivalents	$ 2,861,921

Demand deposits exceed the federally insured limit per deposit per institution.

NOTE 3 – INVESTMENTS AND INVESTMENT RETURN

Investments at December 31, 2013 consist of the following:

Equity mutual funds	$ 3,115,228
Fixed-income mutual funds	1,789,317
Money market mutual funds	147,819
Total investments	$ 5,052,364

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return at December 31, 2013 includes earnings on demand deposits and consists of the following:

Net realized and unrealized gain on investments	$ 699,208
Interest and dividend income	76,479
Investment expenses	(19,654)
Investment return, net	$ 756,033

NOTE 4 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.

- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2013 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity mutual funds:				
Large-cap blend	$ 656,247			$ 656,247
International	606,054			606,054
Large-cap growth	584,880			584,880
Large-cap value	454,214			454,214
Mid-cap blend	425,670			425,670
Small-cap	246,888			246,888
Emerging markets	141,275			141,275
Intermediate-term bond mutual funds	1,789,317			1,789,317
Money market mutual funds	147,819			147,819
Total investments measured at fair value	5,052,364			5,052,364
Cash and cash equivalents:				
Money market mutual funds	439,059			439,059
Total assets measured at fair value	$ 5,491,423	$ 0	$ 0	$ 5,491,423

Mutual funds are valued at the reported net asset value. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Habitat believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 5 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable at December 31, 2013 consists of the following:

Mortgage loans receivable, at par value	$ 21,882,214
Less: Unamortized discount based on imputed interest, at rates ranging from 6.50% to 8.64%	(8,929,934)
Mortgage loans receivable, net	12,952,280
Less: Current portion due within one year	(909,836)
Long-term portion of mortgage loans receivable, net	$ 12,042,444

Prior to June 30, 2004, the initial amount of each mortgage loan approximated Habitat's cost to build the house, plus mortgage discount expense. Habitat also obtained a second mortgage that approximated the difference between this cost and market value. Beginning in the fiscal year ending June 30, 2005, the difference between cost and market value is included in the first mortgage. Both this difference and the second mortgage, which are forgiven subject to conditions, are assumed to have no economic value and, accordingly, are not recognized in Habitat's financial statements.

Mortgage loans receivable with a combined par value of $3,580,664 have been pledged to secure a $2,500,000 credit line with Northern Trust Bank (NTB) (see Note 7).

Annual collection of the mortgage loan receivable at December 31, 2013 is as follows:

2014	$ 1,582,273
2015	1,670,464
2016	1,773,379
2017	1,876,612
2018	2,011,612
Thereafter	12,967,874
Total	$ 21,882,214

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2013 consists of the following:

Land	$ 189,030
Building and improvements	2,192,877
Construction equipment and vehicles	211,063
Furniture and office equipment	129,919
Total property, plant and equipment, at cost	2,722,889
Accumulated depreciation	(1,499,024)
Property, plant and equipment, net	$ 1,223,865

NOTE 7 – NOTE PAYABLE

Habitat has a line of credit agreement with NTB that allows for borrowings up to $2.5 million. Borrowings under this agreement bear interest at variable rates based on LIBOR. As of December 31, 2013, this rate was 2% per annum. The agreement matured on June 30, 2014 and was collaterized by deeds of trust and beneficial interest in certain mortgage loans receivable. The outstanding balance at December 31, 2013 was $1,436,081 and the par value of the mortgage loans securing this debt as of that date was $3,580,664.

NOTE 8 – COMMITMENTS AND CONTINGENICES

Habitat sold certain of its mortgage loans receivable to Houston Housing Finance Corporation (HHFC) under a sale and servicing agreement with HHFC; however, Habitat still services the loans previously sold to HHFC. All loans sold to HHFC were sold with full recourse at par value, net of the portion of the note that was forgiven. In accordance with the terms of the agreement, Habitat provides the servicing of the mortgages and remits payments to HHFC; any delinquencies or defaults are retained by Habitat. As of December 31, 2013, HHFC held mortgages sold by Habitat with full recourse at par values totaling $4,144,442. Habitat has a similar arrangement with NTB. As of December 31, 2013, NTB held mortgages sold by Habitat with full recourse at par values totaling $1,451,017. The contingent liability for these loans is not reflected in the statement of financial position.

Commitments and contingencies include the usual obligations of homebuilding companies for the completion of contracts and other obligations incurred in the ordinary course of business.

Habitat receives government grants for specific purposes that are subject to review and audit by government agencies. Such audits could result in a request for reimbursement for expenditures disallowed under terms and conditions of the appropriate agency. Habitat's management believes such disallowances, if any, would not be significant.

NOTE 9 – GOVERNMENT GRANTS

In 2010, Habitat entered into an agreement with the City of Houston (the City) to acquire vacant residential lots and to build new affordable homes on the sites up to $1,000,000. The City received funding for this agreement from the federal government under the Neighborhood Stabilization Program (NSP) of the Housing and Economic Recovery Act of 2008. Habitat acquired 11 eligible properties in 2013 and received $999,999 of such funds in 2013.

The 11 NSP properties were sold to homebuyers in 2013. The homebuyers were low-income qualified homebuyers, defined by Housing and Urban Development (HUD) as households whose annual income does not exceed 60% of the median household income in the area of the project. The City signed partial releases of deeds of trust for the 11 properties. The properties closed under this program have land use restrictive covenants, which require that the properties continue to be the principal residence of an owner whose family qualifies as a low-income qualified family (as determined by HUD regulations) for a period of five years. This restriction was not released by the partial releases of deeds of trust signed by the City. In the event that the properties are not used for the intended purpose or there is a breach of other restrictive covenants by the homebuyer then Habitat would take ownership of the property and the homebuyer would have to repay any amounts forgiven under the note agreement between the homebuyer and Habitat. In the event Habitat is unable to maintain a qualified low-income family in one of the 11 homes for the period of five years, the portion of the funds used to construct the home would be payable to the City.

In 2010, Habitat received funds from the City from the Neighborhood Stabilization Program and utilized these funds to acquire seventeen properties in 2010 and 2011. These properties were sold to homebuyers in 2011 and 2012. The properties have restrictive covenants, which require the properties continue to be the principal residence of an owner whose family qualifies as a low-income qualified family for a period of 20 consecutive years. In the event the properties are not used for their intended purpose or there is a breach of other restrictive covenants, approximately $1,387,000 of grant funds would be payable immediately to the City.

In 2012, Habitat entered into an agreement with Houston Advanced Research Center's (HARC) Geotechnology Research Institute (GTRI). HARC/GTRI received its funds for the agreement from the City, which received its funding from the Energy Efficiency and Conservation Block Grant Program under the American Recovery and Reinvestment Act of 2009. Under the agreement, Habitat is to receive reimbursement of certain costs that improve the energy efficiency of homes in amounts ranging from $25,000 to $50,000 for each home, depending on the Home Energy Ratings of the homes. In 2013, Habitat received $145,000 from HARC/GTRI for three homes that closed under the agreement.

NOTE 10 – ENDOWMENT FUNDS

The Endowment is a board-designated fund established to support and further enhance the mission of Houston Habitat. Changes in the board-designated endowment fund are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, December 31, 2012	$ 4,270,521			$ 4,270,521
Investment return:				
Net realized and unrealized gain	689,266			689,266
Interest and dividends	76,034			76,034
Investment expenses	(19,460)			(19,460)
Net investment return	745,840			745,840
Endowment net assets, December 31, 2013	$ 5,016,361	$ 0	$ 0	$ 5,016,361

Investment Objectives

The Endowment has adopted an investment policy to provide growth of the principal and income from the endowment assets without exposure to undue risk. Over a 12-month moving time period, investments are expected to exceed the composite performance of the S&P MidCap 400/BARR Growth Index and fixed-income investments are expected to exceed the Barclays Intermediate Government/Corporate Bond Index.

Spending Policy

The Endowment policy is that interest and dividends, as well as the realized and unrealized appreciation, be available for distribution unless otherwise prohibited. In keeping with this policy, it is anticipated that in each year a minimum distribution of 8% of the market value as determined on December 31 of each year will be distributed for operations. From time to time, additional distributions may be required for special projects. At no time shall distributions be made if the market value of the endowment assets falls below $5,000,000.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013 are available for the following purposes:

Home construction	$ 454,675
Home repairs and energy improvements	79,456
Restricted for future periods	25,000
Total temporarily restricted net assets	$ 559,131

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 5, 2014, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.