

Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2014 and 2013

Houston Habitat for Humanity, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position as of December 31, 2014 and 2013	2
Consolidated Statement of Activities for the year ended December 31, 2014	3
Consolidated Statement of Activities for the year ended December 31, 2013	4
Consolidated Statement of Functional Expenses for the year ended December 31, 2014	5
Consolidated Statement of Functional Expenses for the year ended December 31, 2013	6
Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013	7
Notes to Consolidated Financial Statements for the years ended December 31, 2014 and 2013	8

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 statements of financial position as of December 31, 2014 and 2013 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

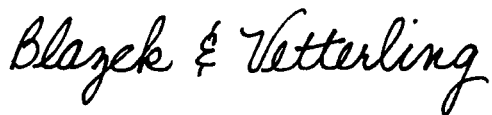
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits 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, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



July 29, 2015

Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents (<i>Notes 2 and 4</i>)	\$ 3,452,642	\$ 2,861,921
Cash held in escrow for taxes and insurance (<i>Note 2</i>)	405,881	476,180
Pledges receivable	227,000	216,180
Current portion of mortgage loans receivable, net (<i>Note 5</i>)	1,571,232	909,836
ReStore inventory	309,569	303,208
Investments (<i>Notes 3 and 4</i>)	39,196	36,003
Other assets	<u>403,956</u>	<u>241,109</u>
Total current assets	6,409,476	5,044,437
Long-term assets:		
Long-term portion of mortgage loans receivable, net (<i>Note 5</i>)	11,714,955	12,042,444
Lots and homes available for sale	2,115,249	4,359,894
Home construction in progress	2,365,890	2,114,629
Lots and land held for development	4,318,836	3,637,093
Property, plant and equipment, net (<i>Note 6</i>)	1,070,412	1,223,865
Investments designated for endowment (<i>Notes 3 and 4</i>)	<u>5,088,086</u>	<u>5,016,361</u>
TOTAL ASSETS	<u>\$ 33,082,904</u>	<u>\$ 33,438,723</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 386,405	\$ 227,252
Escrow for taxes and insurance	405,881	476,180
Note payable (<i>Note 7</i>)	<u>1,366,081</u>	<u>1,436,081</u>
Total current liabilities	<u>2,158,367</u>	<u>2,139,513</u>
Net assets:		
Unrestricted (<i>Note 10</i>)	30,358,013	30,740,079
Temporarily restricted (<i>Note 11</i>)	<u>566,524</u>	<u>559,131</u>
Total net assets	<u>30,924,537</u>	<u>31,299,210</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,082,904</u>	<u>\$ 33,438,723</u>

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE, GAINS AND SUPPORT:			
Low-cost housing income:			
Home sales	\$ 2,674,508		\$ 2,674,508
Lot sales	1,996,479		1,996,479
Mortgage discount amortization and interest	969,948		969,948
Rental income	245,514		245,514
In-kind contributions of materials	154,995		154,995
Other fees	<u>82,828</u>		<u>82,828</u>
Total low-cost housing income	<u>6,124,272</u>		<u>6,124,272</u>
Contributions and other:			
Contributions	248,534	\$ 2,749,214	2,997,748
In-kind contributions of inventory	963,501		963,501
Investment return, net (Note 3)	275,901		275,901
Other income	<u>54,255</u>		<u>54,255</u>
Total contributions and other	1,542,191	2,749,214	4,291,405
Satisfaction of donor restrictions:			
Expenditures for program restrictions	2,716,821	(2,716,821)	
Expiration of time restrictions	<u>25,000</u>	<u>(25,000)</u>	
Total	<u>4,284,012</u>	<u>7,393</u>	<u>4,291,405</u>
ReStore revenues:			
ReStore sales of donated inventory	963,501		963,501
Donated inventory expense	(963,501)		(963,501)
ReStore sales of purchased inventory	1,171,803		1,171,803
ReStore cost of goods sold	<u>(772,845)</u>		<u>(772,845)</u>
Total ReStore revenues, net	<u>398,958</u>		<u>398,958</u>
Total revenue, gains and support	<u>10,807,242</u>	<u>7,393</u>	<u>10,814,635</u>
EXPENSES:			
Program services:			
Low-cost housing program	9,493,937		9,493,937
ReStore program	<u>989,367</u>		<u>989,367</u>
Total program services	10,483,304		10,483,304
Supporting services:			
Management and general	152,279		152,279
Fundraising	<u>553,725</u>		<u>553,725</u>
Total expenses	<u>11,189,308</u>		<u>11,189,308</u>
CHANGES IN NET ASSETS	(382,066)	7,393	(374,673)
Net assets, beginning of year	<u>30,740,079</u>	<u>559,131</u>	<u>31,299,210</u>
Net assets, end of year	<u>\$ 30,358,013</u>	<u>\$ 566,524</u>	<u>\$ 30,924,537</u>

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:			
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 materials	188,910		188,910
Other fees	<u>100,895</u>		<u>100,895</u>
Total low-cost housing income	<u>5,839,218</u>		<u>5,839,218</u>
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	<u>128,563</u>		<u>128,563</u>
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	<u>57,287</u>	<u>(57,287)</u>	
Total	<u>6,389,514</u>	<u>(476,513)</u>	<u>5,913,001</u>
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	<u>(741,598)</u>		<u>(741,598)</u>
Total ReStore revenues, net	<u>435,456</u>		<u>435,456</u>
Total revenue, gains and support	<u>12,664,188</u>	<u>(476,513)</u>	<u>12,187,675</u>
EXPENSES:			
Program services:			
Low-cost housing program	9,901,851		9,901,851
ReStore program	<u>1,165,485</u>		<u>1,165,485</u>
Total program services	11,067,336		11,067,336
Supporting services:			
Management and general	231,151		231,151
Fundraising	<u>533,668</u>		<u>533,668</u>
Total expenses	<u>11,832,155</u>		<u>11,832,155</u>
CHANGES IN NET ASSETS	832,033	(476,513)	355,520
Net assets, beginning of year	<u>29,908,046</u>	<u>1,035,644</u>	<u>30,943,690</u>
Net assets, end of year	<u>\$ 30,740,079</u>	<u>\$ 559,131</u>	<u>\$ 31,299,210</u>

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2014

<u>EXPENSES</u>	<u>LOW-COST HOUSING PROGRAM</u>	<u>RESTORE PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Cost of homes sold	\$ 3,320,753				\$ 3,320,753
Salaries and related benefits	1,754,655	\$ 633,716	\$ 93,572	\$ 439,117	2,921,060
Cost of land sold	2,216,462				2,216,462
Discount on mortgages issued	901,487				901,487
Property taxes and insurance	311,473	55,185	1,541	13,427	381,626
Repairs and maintenance	249,702	6,778	138	1,201	257,819
Home repair program	192,814				192,814
Depreciation	79,845	99,490	1,083	10,179	190,597
Utilities, telephone and trash	112,502	66,744	831	6,635	186,712
Travel and auto	56,779	25,911	2,100	6,022	90,812
Computer and technology expense	36,392	25,925	391	16,060	78,768
Equipment expense	48,943	21,347	203	1,763	72,256
Legal and professional fees	10,302		47,549		57,851
Tithes to other non-profits	53,375				53,375
Security	37,607	6,059	15	130	43,811
Advertising and marketing		6,044		36,622	42,666
Supplies	31,231	4,218	119	1,744	37,312
Interest expense	27,833				27,833
Postage, delivery and printing	13,555	3,412	125	3,577	20,669
Professional development	11,149	1,045	1,354	5,444	18,992
Other	<u>27,078</u>	<u>33,493</u>	<u>3,258</u>	<u>11,804</u>	<u>75,633</u>
Total expenses	<u>\$ 9,493,937</u>	<u>\$ 989,367</u>	<u>\$ 152,279</u>	<u>\$ 553,725</u>	11,189,308
Cost of goods sold and donated inventory					1,736,346
Investment expenses					<u>20,007</u>
Total					<u>\$12,945,661</u>
Percent of total expenses	85%	9%	1%	5%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

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

<u>EXPENSES</u>	<u>LOW-COST HOUSING PROGRAM</u>	<u>RESTORE PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Cost of homes sold	\$ 4,563,931				\$ 4,563,931
Salaries and related benefits	1,836,860	\$ 717,441	\$ 113,664	\$ 407,016	3,074,981
Cost of land sold	1,287,423				1,287,423
Discount on mortgages issued	811,042				811,042
Property taxes and insurance	316,134	59,927	3,460	19,523	399,044
Repairs and maintenance	177,251	11,548	478	2,699	191,976
Home repair program	276,927				276,927
Depreciation	70,301	117,939	1,844	15,588	205,672
Utilities, telephone and trash	168,792	74,946	1,304	12,118	257,160
Travel and auto	59,894	56,318	861	3,044	120,117
Computer and technology expense	40,043	26,526	715	15,543	82,827
Equipment expense	56,905	21,305	819	4,624	83,653
Legal and professional fees	7,464	5,000	93,810		106,274
Tithes to other non-profits	33,375				33,375
Security	46,051	7,114	42	236	53,443
Advertising and marketing	3,786	9,079	1,075	20,589	34,529
Supplies	49,384	10,957	564	5,550	66,455
Interest expense	38,527				38,527
Postage, delivery and printing	17,134	13,148	608	3,000	33,890
Professional development	9,981	500	7,354	5,127	22,962
Other	30,646	33,737	4,553	19,011	87,947
Total expenses	<u>\$ 9,901,851</u>	<u>\$ 1,165,485</u>	<u>\$ 231,151</u>	<u>\$ 533,668</u>	11,832,155
Cost of goods sold and donated inventory					1,762,320
Investment expenses					19,654
Total					<u>\$13,614,129</u>
Percent of total expenses	84%	10%	2%	4%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (374,673)	\$ 355,520
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	190,597	205,672
Discount on mortgages issued	901,487	811,042
Mortgage discount amortization	(932,214)	(923,914)
Net realized and unrealized gain on investments	(198,520)	(699,208)
Changes in operating assets and liabilities:		
Pledges receivable	(10,820)	(163,000)
Mortgage loans receivable	(303,180)	(651,127)
ReStore Inventory	(6,361)	(76,037)
Other assets	(162,847)	(114,714)
Lots and homes available for sale	2,244,645	871,469
Home construction in progress	(251,261)	574,873
Lots and land held for development	(681,743)	784,120
Accounts payable and accrued expenses	<u>159,153</u>	<u>39,662</u>
Net cash provided by operating activities	<u>574,263</u>	<u>1,014,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(37,144)	(181,014)
Purchases of investments	(1,420,413)	(1,792,303)
Net proceeds from sale or maturity of investments	1,532,401	1,760,626
Net change in money market mutual funds held as investments	<u>11,614</u>	<u>(25,342)</u>
Net cash provided (used) by investing activities	<u>86,458</u>	<u>(238,033)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	<u>(70,000)</u>	<u>(550,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	590,721	226,325
Cash and cash equivalents, beginning of year	<u>2,861,921</u>	<u>2,635,596</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,452,642</u></u>	<u><u>\$ 2,861,921</u></u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$27,833	\$38,527

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2014 and 2013

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 is an affiliate of Habitat for Humanity International (HFHI) located in Americus, Georgia. 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 for 10-30 years at 0% interest. Monthly mortgage payments collected by Houston Habitat are used to further the mission of Houston Habitat.

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, 2011.

Cash equivalents include highly liquid investments with original maturities of three months or less. Bank deposits exceed the federally insured limit per depositor per institution.

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 2015. At December 31, 2014, pledges from two donors represent 66% of total pledges receivable. 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 collateralizing 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 primarily of 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, 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 land development costs 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 office 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 recognized 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. Volunteers provide more than 42,000 hours a year to assist Houston Habitat in providing home construction services 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 the appraised value or fair market value of 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 years ended December 31, 2014 and 2013, 23 and 37 homes were sold by Habitat, respectively. 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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2014</u>	<u>2013</u>
Demand deposits	\$ 3,419,562	\$ 2,899,042
Money market mutual funds	<u>438,961</u>	<u>439,059</u>
Total	3,858,523	3,338,101
Less: Cash held in escrow for taxes and insurance	<u>(405,881)</u>	<u>(476,180)</u>
Total cash and cash equivalents	<u>\$ 3,452,642</u>	<u>\$ 2,861,921</u>

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

NOTE 3 – INVESTMENTS AND INVESTMENT RETURN

Investments consist of the following:

	<u>2014</u>	<u>2013</u>
Equity mutual funds	\$ 3,303,996	\$ 3,115,228
Fixed-income mutual funds	1,687,081	1,789,317
Money market mutual funds	<u>136,205</u>	<u>147,819</u>
Total investments	<u>\$ 5,127,282</u>	<u>\$ 5,052,364</u>

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 includes earnings on demand deposits and consists of the following:

	<u>2014</u>	<u>2013</u>
Net realized and unrealized gain on investments	\$ 198,520	\$ 699,208
Interest and dividend income	97,388	76,479
Investment expenses	<u>(20,007)</u>	<u>(19,654)</u>
Investment return, net	<u>\$ 275,901</u>	<u>\$ 756,033</u>

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, 2014 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap blend	\$ 730,670			\$ 730,670
International	643,101			643,101
Large-cap value	553,058			553,058
Large-cap growth	520,062			520,062
Mid-cap blend	454,445			454,445
Small-cap	260,150			260,150
Emerging markets	142,510			142,510
Intermediate-term bond mutual funds	1,687,081			1,687,081
Money market mutual funds	<u>136,205</u>			<u>136,205</u>
Total investments measured at fair value	5,127,282			5,127,282
Cash and cash equivalents:				
Money market mutual funds	<u>438,961</u>			<u>438,961</u>
Total assets measured at fair value	<u>\$ 5,566,243</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,566,243</u>

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

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap blend	\$ 656,247			\$ 656,247
International	606,054			606,054
Large-cap value	454,214			454,214
Large-cap growth	584,880			584,880
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	<u>147,819</u>			<u>147,819</u>
Total investments measured at fair value	5,052,364			5,052,364
Cash and cash equivalents:				
Money market mutual funds	<u>439,059</u>			<u>439,059</u>
Total assets measured at fair value	<u>\$ 5,491,423</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,491,423</u>

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 consists of the following:

	<u>2014</u>	<u>2013</u>
Mortgage loans receivable, at par value	\$ 22,185,394	\$ 21,882,214
Less: Unamortized discount based on imputed interest, at rates ranging from 6.50% to 8.64%	<u>(8,899,207)</u>	<u>(8,929,934)</u>
Mortgage loans receivable, net	13,286,187	12,952,280
Less: Current portion due within one year	<u>(1,571,232)</u>	<u>(909,836)</u>
Long-term portion of mortgage loans receivable, net	<u>\$ 11,714,955</u>	<u>\$ 12,042,444</u>

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.

A mortgage receivable is considered delinquent if the scheduled installment payment remains unpaid 30 days after its due date. Delinquent principal amounts of mortgage receivables at December 31, 2014 were approximately \$124,000.

The annual collection of mortgage loans receivable at December 31, 2014 is as follows:

2015	\$ 1,571,232
2016	1,569,849
2017	1,558,290
2018	1,542,987
2019	1,534,912
Thereafter	<u>14,408,124</u>
Total	<u>\$ 22,185,394</u>

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 189,030	\$ 189,030
Building and improvements	2,131,682	2,192,877
Construction equipment and vehicles	164,578	211,063
Furniture and office equipment	<u>117,548</u>	<u>129,919</u>
Total property, plant and equipment, at cost	2,602,838	2,722,889
Accumulated depreciation	<u>(1,532,426)</u>	<u>(1,499,024)</u>
Property, plant and equipment, net	<u>\$ 1,070,412</u>	<u>\$ 1,223,865</u>

NOTE 7 – NOTE PAYABLE

Habitat has a line of credit agreement with Northern Trust Bank 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, 2014, this rate was 1.85% per annum. The agreement is collateralized by deeds of trust and beneficial interest in certain mortgage loans receivable. The outstanding balance at December 31, 2014 was \$1,366,081 and the par value of the mortgage loans securing this debt as of that date was \$3,336,806. The agreement matured on June 30, 2015. It is management's intent to renew the line of credit.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Habitat sold certain of its mortgage loans receivable to Houston Housing Finance Corporation (HHFC), however, Habitat still services the loans sold to HHFC. All loans sold to HHFC were sold with full recourse to Habitat at par value, excluding 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, 2014, HHFC held mortgages sold by Habitat with full recourse to Habitat at par value totaling \$3,701,921. Habitat has a similar arrangement with Northern Trust Bank. As of December 31, 2014, Northern Trust Bank held mortgages sold by Habitat with full recourse to Habitat at par value totaling \$1,303,332. 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 (the 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 NSP 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	\$ 0	\$ 0	\$ 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 return:				
Net realized and unrealized gain	195,927			195,927
Interest and dividends	95,805			95,805
Investment expenses	(20,007)			(20,007)
Net investment return	271,725			271,725
Distribution	(200,000)			(200,000)
Endowment net assets, December 31, 2014	\$ 5,088,086	\$ 0	\$ 0	\$ 5,088,086

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. Distributions are not made if the market value of the endowment assets falls below \$5,000,000.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

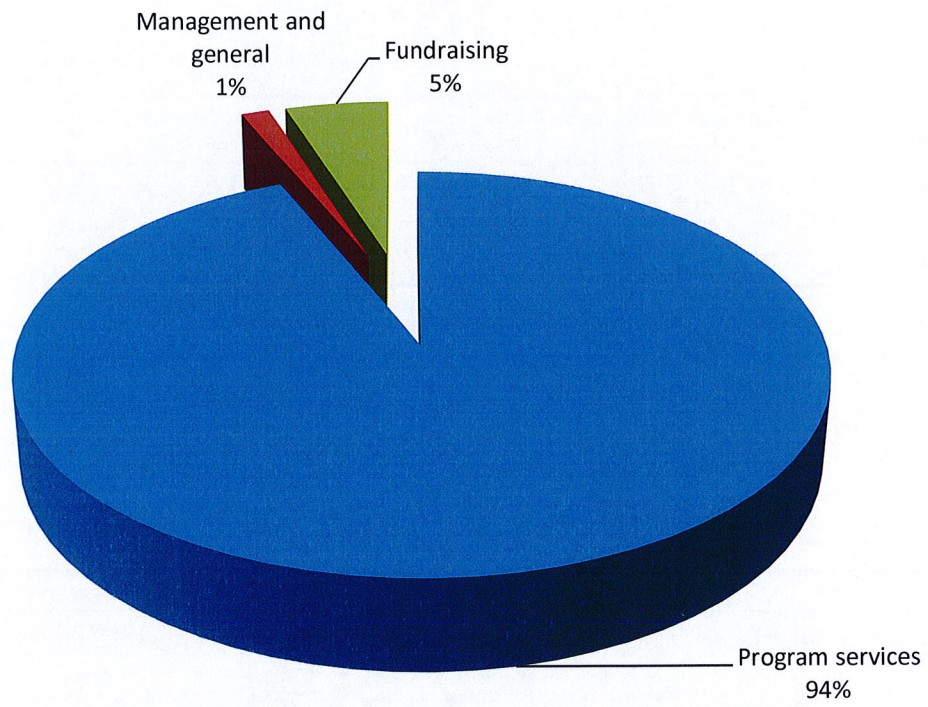
	<u>2014</u>	<u>2013</u>
Home construction	\$ 546,524	\$ 454,675
Computer upgrades	20,000	
Home repairs and energy improvements		79,456
Restricted for future periods		<u>25,000</u>
Total temporarily restricted net assets	<u>\$ 566,524</u>	<u>\$ 559,131</u>

NOTE 12 – SUBSEQUENT EVENTS

In May 2015, Habitat sold approximately \$2 million of its mortgage loans receivable to Northern Trust Bank with full recourse to Habitat. Habitat will service the mortgages and remit payments to NTB and all delinquencies or defaults will be retained by Habitat. Additionally, in May 2015 Habitat made a \$1 million payment on its line of credit with Northern Trust Bank.

Management has evaluated subsequent events through July 29, 2015, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Expenses



Revenue, Gains and Support

