Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
with Supplementary Information
and Independent Auditors' Report
for the years ended December 31, 2016 and 2015

Houston Habitat for Humanity, Inc.

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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. (Habitat), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015 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 Habitat as of December 31, 2016 and 2015 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.

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Restatement of Beginning Net Assets

As described in Note 2 to the financial statements, Habitat's net assets as of January 1, 2015 were restated to properly include the assets, liabilities and net assets of Family Housing Development Corporation in the consolidated financial statements of Habitat. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the graphical information for the year ended December 31, 2016 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

June 28, 2017

Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents *(Notes 3 and 5)*	$ 5,894,761	$ 5,453,015
Cash held in escrow for taxes and insurance *(Note 3)*	515,724	648,126
Pledges receivable	146,112	286,650
Current portion of mortgage loans receivable, net *(Note 6)*	1,684,761	1,642,138
ReStore inventory	183,271	154,181
Investments *(Notes 4 and 5)*	41,257	35,769
Other assets	257,119	227,265
Total current assets	8,723,005	8,447,144
Long-term assets:		
Homes available for sale	1,817,709	1,900,405
Home construction in progress	2,439,130	2,810,478
Lots and land held for development	2,755,818	3,531,040
Long-term portion of mortgage loans receivable, net *(Note 6)*	11,999,148	11,041,806
Property, plant and equipment, net *(Note 7)*	917,619	1,043,843
Investments designated for endowment *(Notes 4 and 5)*	5,305,753	5,048,455
TOTAL ASSETS	$ 33,958,182	$ 33,823,171
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 341,697	$ 472,130
Escrow for taxes and insurance	515,724	648,126
Note payable *(Note 8)*	231,081	286,081
Total current liabilities	1,088,502	1,406,337
Commitments and contingencies *(Note 9)*		
Net assets:		
Unrestricted *(Note 12)*	31,594,488	31,329,610
Temporarily restricted *(Note 13)*	1,274,084	1,087,224
Permanently restricted *(Note 12)*	1,108	
Total net assets	32,869,680	32,416,834
TOTAL LIABILITIES AND NET ASSETS	$ 33,958,182	$ 33,823,171

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE, GAINS AND SUPPORT:				
Low-cost housing income:				
Home sales	$ 4,704,887			$ 4,704,887
Mortgage discount amortization and interest	937,327			937,327
Rental income	249,300			249,300
In-kind contributions of materials	179,427			179,427
Other fees	187,782			187,782
Total low-cost housing income	6,258,723			6,258,723
Contributions and other:				
Contributions	1,072,954	$ 2,117,121	$ 1,108	3,191,183
In-kind contributions of inventory	872,884			872,884
Investment return, net *(Note 4)*	366,126			366,126
Government contract income *(Note 10)*	66,000			66,000
Other income	93,968			93,968
Subtotal contributions and other	2,471,932	2,117,121	1,108	4,590,161
Satisfaction of donor restrictions:				
Expenditures for program restrictions	1,930,261	(1,930,261)		
Total contributions and other	4,402,193	186,860	1,108	4,590,161
ReStore revenues:				
ReStore sales of inventory	1,925,808			1,925,808
ReStore cost of goods sold	(1,496,901)			(1,496,901)
Total ReStore revenues, net	428,907			428,907
Total revenue, gains and support	11,089,823	186,860	1,108	11,277,791
EXPENSES:				
Low-cost housing program	9,016,174			9,016,174
ReStore program	862,975			862,975
Management and general	224,091			224,091
Fundraising	721,705			721,705
Total expenses	10,824,945			10,824,945
CHANGES IN NET ASSETS	264,878	186,860	1,108	452,846
Net assets, beginning of year *(Note 2)*	31,329,610	1,087,224	0	32,416,834
Net assets, end of year	$ 31,594,488	$ 1,274,084	$ 1,108	$ 32,869,680

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE, GAINS AND SUPPORT:			
Low-cost housing income:			
Home sales	$ 2,836,647		$ 2,836,647
Mortgage discount amortization and interest	880,407		880,407
Rental income	258,420		258,420
In-kind contributions of materials	98,485		98,485
Other fees	98,475		98,475
Total low-cost housing income	4,172,434		4,172,434
Contributions and other:			
Contributions	503,066	$ 2,478,661	2,981,727
Gain on sale of mortgage loans receivable *(Note 9)*	926,589		926,589
In-kind contributions of inventory	853,683		853,683
Investment return, net *(Note 4)*	(39,682)		(39,682)
Government contract income *(Note 10)*	600,390		600,390
Other income	41,480		41,480
Subtotal contributions and other	2,885,526	2,478,661	5,364,187
Satisfaction of donor restrictions:			
Expenditures for program restrictions	1,957,961	(1,957,961)	
Total contributions and other	4,843,487	520,700	5,364,187
ReStore revenues:			
ReStore sales of inventory	2,028,065		2,028,065
ReStore cost of goods sold	(1,651,682)		(1,651,682)
Total ReStore revenues, net	376,383		376,383
Total revenue, gains and support	9,392,304	520,700	9,913,004
EXPENSES:			
Low-cost housing program	6,804,565		6,804,565
ReStore program	934,743		934,743
Management and general	185,798		185,798
Fundraising	740,006		740,006
Total expenses	8,665,112		8,665,112
CHANGES IN NET ASSETS *(Note 2)*	727,192	520,700	1,247,892
Net assets, beginning of year *(Note 2)*	30,602,418	566,524	31,168,942
Net assets, end of year *(Note 2)*	$ 31,329,610	$ 1,087,224	$ 32,416,834

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2016

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Cost of homes sold	$ 4,628,938				$ 4,628,938
Salaries and related benefits	1,676,849	$ 534,596	$ 113,547	$ 574,985	2,899,977
Discount on mortgages issued	1,482,601				1,482,601
Property taxes and insurance	317,567	45,469	8,913	22,163	394,112
Home repair program	183,146				183,146
Repairs and maintenance	158,978	14,962	1,870	1,194	177,004
Depreciation	64,265	85,161	8,435	9,960	167,821
Utilities, telephone and trash	83,438	62,255	5,196	7,292	158,181
Tithes to other non-profits	123,000				123,000
Computer and technology	51,896	29,098	4,477	23,154	108,625
Legal and professional fees	25,635	2,500	66,294	1,000	95,429
Equipment	59,532	25,535	676	2,989	88,732
Travel and auto	59,044	17,346	2,847	5,258	84,495
Supplies	40,773	5,615	420	2,885	49,693
Security	14,957	2,069	427	658	18,111
Postage, delivery and printing	9,158	1,327	171	5,644	16,300
Professional development	3,314	2,086	3,143	4,269	12,812
Advertising and marketing				7,946	7,946
Interest	5,975				5,975
Other	27,108	34,956	7,675	52,308	122,047
Total expenses	$ 9,016,174	$ 862,975	$ 224,091	$ 721,705	10,824,945
Donated inventory and cost of goods sold					1,496,901
Investment expenses					21,009
Total					$12,342,855
Percent of total expenses	83%	8%	2%	7%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2015

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Cost of homes sold	$ 2,917,478				$ 2,917,478
Salaries and related benefits	1,654,777	$ 607,721	$ 93,460	$ 573,875	2,929,833
Discount on mortgages issued	1,163,896				1,163,896
Property taxes and insurance	246,786	35,694	6,592	15,841	304,913
Home repair program	16,592				16,592
Repairs and maintenance	278,357	13,736	1,189	1,549	294,831
Depreciation	78,310	91,220	1,528	14,635	185,693
Utilities, telephone and trash	103,804	66,203	1,084	9,365	180,456
Tithes to other non-profits	56,300				56,300
Computer and technology	42,378	25,074	792	22,174	90,418
Legal and professional fees	51,652		67,842	35,099	154,593
Equipment	47,923	19,224	344	2,813	70,304
Travel and auto	48,538	23,113	3,042	4,865	79,558
Supplies	20,430	6,056	233	2,737	29,456
Security	19,072	5,663	50	411	25,196
Postage, delivery and printing	11,186	2,298	389	5,526	19,399
Professional development	3,373	2,478	6,224	5,297	17,372
Advertising and marketing				23,676	23,676
Interest	13,900				13,900
Other	29,813	36,263	3,029	22,143	91,248
Total expenses	$ 6,804,565	$ 934,743	$ 185,798	$ 740,006	8,665,112
Donated inventory and cost of goods sold					1,651,682
Investment expenses					21,094
Total					$10,337,888
Percent of total expenses	78%	11%	2%	9%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 452,846	$ 1,247,892
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	167,821	185,693
Discount on mortgages issued	1,482,601	1,163,896
Mortgage discount amortization	(907,544)	(846,153)
Gain on sale of mortgage loans receivable		(926,589)
Net realized and unrealized (gain) loss on investments	(286,183)	112,517
Changes in operating assets and liabilities:		
Pledges receivable	140,538	(59,650)
Mortgage loans receivable	(1,575,022)	(791,736)
ReStore inventory	(29,090)	155,388
Other assets	(29,854)	138,549
Homes available for sale	82,696	214,844
Home construction in progress	371,348	(444,588)
Lots and land held for development	775,222	787,796
Accounts payable and accrued expenses	(130,433)	81,225
Net cash provided by operating activities	514,946	1,019,084
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of mortgage loans receivable		2,002,825
Purchases of property, plant and equipment	(41,597)	(159,124)
Purchases of investments	(539,941)	(281,556)
Net proceeds from sale or maturity of investments	574,758	226,597
Net change in money market mutual fund held as investments	(11,420)	(14,500)
Net cash provided (used) by investing activities	(18,200)	1,774,242
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(55,000)	(1,080,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	441,746	1,713,326
Cash and cash equivalents, beginning of year	5,453,015	3,739,689
Cash and cash equivalents, end of year	$ 5,894,761	$ 5,453,015

Supplemental disclosure of cash flow information:

Interest paid	$5,975	$13,900

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 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 fair market value, utilizing zero-interest equivalent 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 persons. 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 approved qualified buyers are financed by Houston Habitat for a term ranging from 10 to 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.

Family Housing Development Corporation (Family Housing) was incorporated as a non-profit organization in accordance with the laws of the State of Texas. Family Housing is sponsored by Houston Habitat and has been certified by Harris County, Texas as a Community Housing Development Organization (CHDO). This means that Family Housing has met the requirements as specified by the U. S. Department of Housing and Urban Development to act in the capacity of a CHDO. As such, Family Housing is eligible to participate in government programs that provide special set-aside funds that can be used to provide safe, affordable housing to low and moderate-income families within Harris County. Additionally, when Houston Habitat repossesses or forecloses on homes they are transferred to Family Housing, which rents them until they are re-sold. The board of Family Housing is composed of employees of Houston Habitat.

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, Family Housing and the Endowment (collectively Habitat). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Houston Habitat, Family Housing 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). Family Housing is classified as a private foundation. The Endowment is classified as a Type I supporting organization under §509(a)(3).

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 2017.

Mortgage loans receivable primarily consist of zero-interest equivalent 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 primarily of donated and purchased building materials. Purchased goods are valued at cost or using the first-in, first-out method and donated goods are valued at fair value at time of donation.

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.

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.

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.

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, equipment and vehicles.

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.
- *Permanently restricted net assets* are non-expendable endowment funds that have been restricted by the donor to investment in perpetuity. The investment return may be used to support the activities of Houston Habitat as specified by the donor.

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. Zero-interest equivalent mortgages are provided to qualified persons 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. Some qualified persons may receive down payment assistance from other agencies to reduce their loan amount. During the years ended December 31, 2016 and 2015, 31 and 21 homes were sold by Habitat, respectively. Habitat recognizes revenue from home sales when a closing occurs.

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

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.

Non-cash contributions – Donated materials and use of facilities are recognized at estimated fair value as contributions when an unconditional commitment is received from the donor. 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 typically need to be purchased if not provided by donation. Volunteers provide more than 26,000 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.

Government contract income – 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.

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

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.

Recent financial accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Houston Habitat plans to adopt this ASU for its fiscal year ending December 31, 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when revenue is recognized. The ASU is effective for fiscal periods that begin after December 15, 2017 and must be applied retrospectively. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – RESTATEMENT OF 2015 FINANCIAL STATEMENT

As of December 31, 2014, Habitat recorded a prior period adjustment to include the assets, liabilities and net assets of Family Housing in the consolidated financial statements of Houston Habitat as the criteria for consolidation of both control and economic interest had been met as the Board of Directors is composed of employees of Houston Habitat. The effect of the restatement on the consolidated financial statements as of and for the year ended December 31, 2015 is as follows:

	PREVIOUSLY ISSUED	RESTATED	CHANGE
Net assets, December 31, 2014	$31,168,942	$30,924,537	$(244,405)
Cash and cash equivalents	$5,099,836	$5,453,015	$353,179
Other assets	$345,682	$227,265	$(118,417)
Accounts payable and accrued expenses	$451,430	$472,130	$20,700
Net assets, December 31, 2015	$32,202,722	$32,416,834	$214,112
Home sales	$2,704,703	$2,836,647	$131,944
Low-cost housing program	$6,656,953	$6,804,565	$147,612
Management and general	$171,123	$185,798	$14,675
Changes in net assets	$1,278,235	$1,247,892	$(30,343)

All statements have been reflected to make this change.

NOTE 3 – CASH AND CASH EQUILAVENTS

Cash and cash equivalents consist of the following:

	2016	2015
Demand deposits	$ 5,969,334	$ 5,661,877
Money market mutual fund	441,151	439,264
Total	6,410,485	6,101,141
Less: Cash held in escrow for taxes and insurance	(515,724)	(648,126)
Cash and cash equivalents	$ 5,894,761	$ 5,453,015

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

NOTE 4 – INVESTMENTS AND INVESTMENT RETURN

Investments consist of the following:

	2016	2015
Equity mutual funds	$ 3,283,076	$ 3,218,832
Fixed-income mutual funds	1,901,809	1,714,687
Money market mutual fund	162,125	150,705
Total investments	$ 5,347,010	$ 5,084,224

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:

	2016	2015
Interest and dividend income	$ 100,952	$ 93,929
Net realized and unrealized gain (loss) on investments	286,183	(112,517)
Investment expenses	(21,009)	(21,094)
Investment return, net	$ 366,126	$ (39,682)

NOTE 5 – 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, 2016 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity mutual funds:				
Large-cap blend	$ 763,205			$ 763,205
International	633,799			633,799
Large-cap value	543,172			543,172
Large-cap growth	498,633			498,633
Mid-cap blend	468,569			468,569
Small-cap growth	164,627			164,627
Emerging markets	157,880			157,880
Small-cap blend	53,191			53,191
Intermediate-term bond mutual funds	1,901,809			1,901,809
Money market mutual fund	162,125			162,125
Total investments measured at fair value	5,347,010			5,347,010
Cash and cash equivalents:				
Money market mutual fund	441,151			441,151
Total assets measured at fair value	$ 5,788,161	$ 0	$ 0	$ 5,788,161

Assets measured at fair value at December 31, 2015 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity mutual funds:				
Large-cap blend	$ 740,652			$ 740,652
International	660,902			660,902
Large-cap value	528,510			528,510
Large-cap growth	507,099			507,099
Mid-cap blend	411,425			411,425
Small-cap growth	192,659			192,659
Emerging markets	116,530			116,530
Small-cap blend	61,055			61,055
Intermediate-term bond mutual funds	1,714,687			1,714,687
Money market mutual fund	150,705			150,705
Total investments measured at fair value	5,084,224			5,084,224
Cash and cash equivalents:				
Money market mutual fund	439,264			439,264
Total assets measured at fair value	$ 5,523,488	$ 0	$ 0	$ 5,523,488

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 6 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of the following:

	2016	2015
Mortgage loans receivable, at par value	$ 22,477,699	$ 20,902,677
Less: Unamortized discount based on imputed interest, at rates ranging from 6.50% to 8.64%	(8,793,790)	(8,218,733)
Mortgage loans receivable, net	13,683,909	12,683,944
Less: Current portion due within one year	(1,684,761)	(1,642,138)
Long-term portion of mortgage loans receivable, net	$ 11,999,148	$ 11,041,806

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, 2016 were approximately $140,000.

The annual collection of mortgage loans receivable at December 31, 2016 is as follows:

2017	$ 1,684,761
2018	1,675,636
2019	1,662,306
2020	1,658,714
2021	1,649,314
Thereafter	14,146,968
Total	$ 22,477,699

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2016	2015
Land	$ 189,030	$ 189,030
Building and improvements	2,148,691	2,131,682
Construction equipment and vehicles	329,544	304,956
Furniture and office equipment	131,619	131,619
Total property, plant and equipment, at cost	2,798,884	2,757,287
Accumulated depreciation	(1,881,265)	(1,713,444)
Property, plant and equipment, net	$ 917,619	$ 1,043,843

NOTE 8 – NOTE PAYABLE

Habitat has a line of credit agreement with Northern Trust Bank (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, 2016 and 2015, this rate was 2.54% and 2.12% per annum, respectively. The agreement is collaterized by deeds of trust and beneficial interest in certain mortgage loans receivable. The outstanding balance at December 31, 2016 was $231,081 and the par value of the mortgage loans securing this debt as of that date was $2,866,492. The outstanding balance at December 31, 2015 was $286,081 and the par value of the mortgage loans securing this debt as of that date was $3,105,381. The agreement matures on June 30, 2017. It is management's intent to renew the line of credit.

NOTE 9 – COMMITMENTS AND CONTINGENICES

Habitat has sold certain of its mortgage loans receivable to NTB; 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 NTB; any delinquencies or defaults are retained by Habitat. In 2015, Habitat sold $2 million of such mortgage loans receivable to NTB and recognized a gain on the sale of mortgage loans receivable of $926,589. As of December 31, 2016, NTB held mortgages sold by Habitat at par value, totaling $2,808,200. Habitat has a similar arrangement with Houston Housing Finance Corporation (HHFC). As of December 31, 2016, HHFC held mortgages sold by Habitat with full recourse to Habitat at par value totaling $2,813,609. Neither the mortgage loans receivable sold nor the contingent liability for these loans is 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.

NOTE 10 – GOVERNMENT GRANTS AND CONTRACTS

In 2013, Habitat received $999,999 from the City of Houston (the City) to acquire vacant residential lots and to build new affordable homes on the sites. The City received this funding from the federal government under the Neighborhood Stabilization Program (the NSP) of the Housing and Economic Recovery Act of 2008. Habitat acquired and sold 11 eligible properties to homebuyers in 2013. 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 U. S. Department of Housing and Urban Development 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 2008, Habitat entered into a developer participation agreement with the City to develop water, sanitary sewer and storm sewer for a tract of land located within the municipal boundaries of the City. Under this agreement, Habitat is to receive reimbursement of certain costs of the project in an amount not to exceed $792,837. In 2016 and 2015, Habitat recognized $66,000 and $600,390 from the City under this agreement, respectively.

NOTE 11 – CONDITIONAL PLEDGES RECEIVABLE

In October 2016, Habitat received a $200,000 pledge to assist individuals with down payments and other closing costs. The pledge is conditioned upon closing home sales. As of December 31, 2016, contribution revenue of $109,956 has been recognized from this pledge. The remaining commitment of $90,044 will be recognized as contribution revenue when the conditions are substantially met.

NOTE 12 – ENDOWMENT FUNDS

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

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, December 31, 2014	$ 5,088,086	$ 0	$ 0	$ 5,088,086
Investment return:				
Net realized and unrealized loss	(108,553)			(108,553)
Interest and dividends	90,016			90,016
Investment expenses	(21,094)			(21,094)
Net investment return	(39,631)			(39,631)
Endowment net assets, December 31, 2015	5,048,455	0	0	5,048,455
Contribution			1,108	1,108
Investment return:				
Net realized and unrealized gain	281,364			281,364
Interest and dividends	95,835			95,835
Investment expenses	(21,009)			(21,009)
Net investment return	356,190			356,190
Distributions	(100,000)			(100,000)
Endowment net assets, December 31, 2016	$ 5,304,645	$ 0	$ 1,108	$ 5,305,753

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 13 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

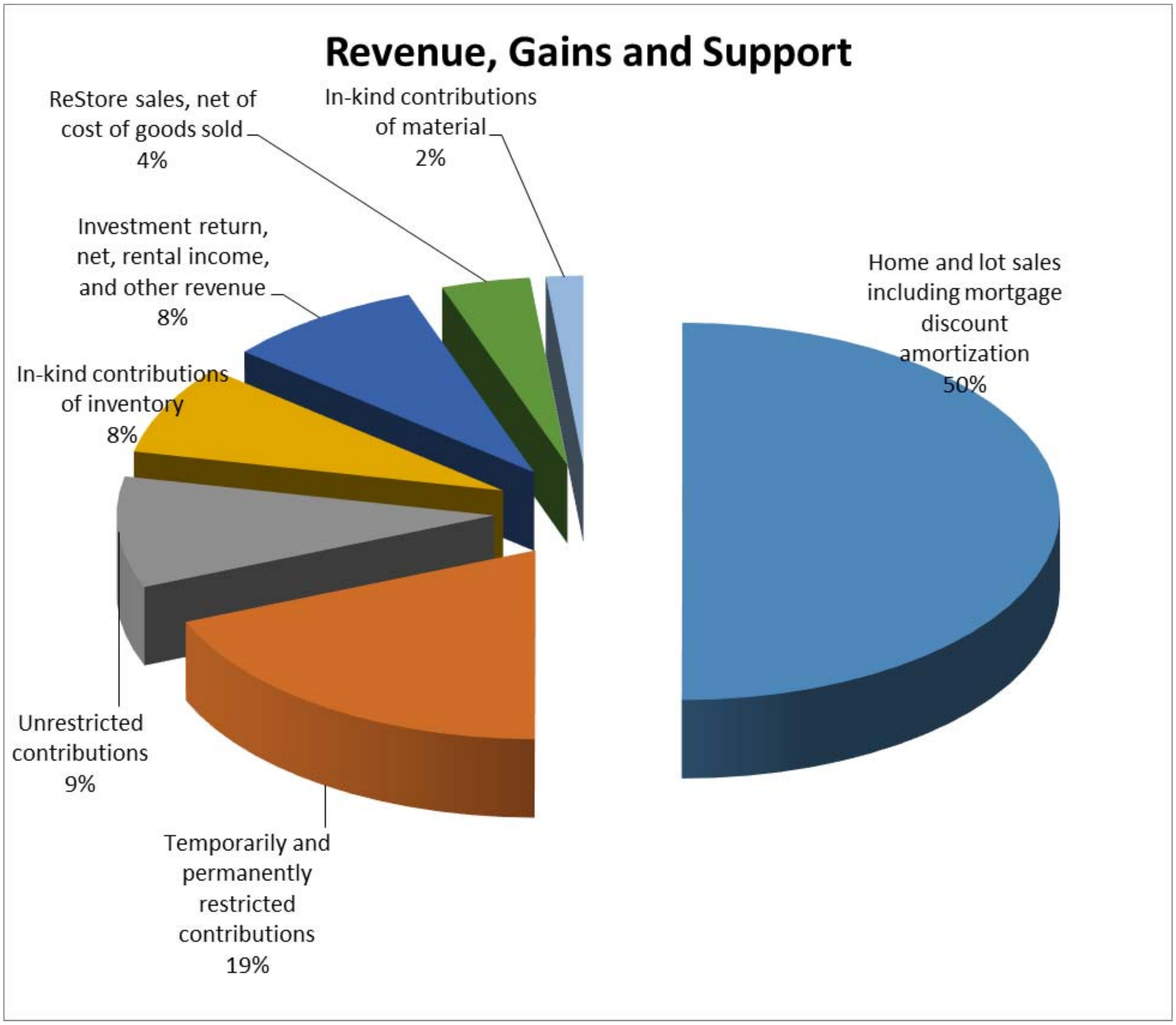
	2016	2015
Home construction	$ 978,988	$ 1,009,724
Home repairs	197,300	
Weatherization project	37,796	27,500
Vehicle purchases	25,000	20,000
Computer upgrades	20,000	20,000
Down payment assistance	15,000	10,000
Total temporarily restricted net assets	$ 1,274,084	$ 1,087,224

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2017, 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.

Houston Habitat for Humanity, Inc.
Graphical Information
For the year ended December 31, 2016

Revenue, Gains and Support



Houston Habitat for Humanity, Inc.
Graphical Information
For the year ended December 31, 2016

Expenses