Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
with Supplementary Information
and Independent Auditors' Report
for the years ended December 31, 2015 and 2014

Houston Habitat for Humanity, Inc.

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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, 2015 and 2014 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, 2015 and 2014 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.

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, 2015 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 our 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 14, 2016

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Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents *(Notes 2 and 4)*	$ 5,099,836	$ 3,452,642
Cash held in escrow for taxes and insurance *(Note 2)*	648,126	405,881
Pledges receivable	286,650	227,000
Current portion of mortgage loans receivable, net *(Note 5)*	1,642,138	1,571,232
ReStore inventory	154,181	309,569
Investments *(Notes 3 and 4)*	35,769	39,196
Other assets	345,682	403,956
Total current assets	8,212,382	6,409,476
Long-term assets:		
Homes available for sale	1,900,405	2,115,249
Home construction in progress	2,810,478	2,365,890
Lots and land held for development	3,531,040	4,318,836
Long-term portion of mortgage loans receivable, net *(Note 5)*	11,041,806	11,714,955
Property, plant and equipment, net *(Note 6)*	1,043,843	1,070,412
Investments designated for endowment *(Notes 3 and 4)*	5,048,455	5,088,086
TOTAL ASSETS	$ 33,588,409	$ 33,082,904
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 451,430	$ 386,405
Escrow for taxes and insurance	648,126	405,881
Note payable *(Note 7)*	286,081	1,366,081
Total current liabilities	1,385,637	2,158,367
Commitments and contingencies *(Note 8)*		
Net assets:		
Unrestricted *(Note 10)*	31,115,548	30,358,013
Temporarily restricted *(Note 11)*	1,087,224	566,524
Total net assets	32,202,772	30,924,537
TOTAL LIABILITIES AND NET ASSETS	$ 33,588,409	$ 33,082,904

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	$ 2,704,703		$ 2,704,703
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	4,040,490		4,040,490
Contributions and other:			
Contributions	503,066	$ 2,478,661	2,981,727
Gain on sale of mortgage loans receivable *(Note 8)*	926,589		926,589
Government contract income *(Note 9)*	600,390		600,390
In-kind contributions of inventory	853,683		853,683
Investment return, net *(Note 3)*	(39,682)		(39,682)
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 donated inventory	853,683		853,683
Donated inventory expense	(853,683)		(853,683)
ReStore sales of purchased inventory	1,174,382		1,174,382
ReStore cost of goods sold	(797,999)		(797,999)
Total ReStore revenues, net	376,383		376,383
Total revenue, gains and support	9,260,360	520,700	9,781,060
EXPENSES:			
Low-cost housing program	6,656,953		6,656,953
ReStore program	934,743		934,743
Management and general	171,123		171,123
Fundraising	740,006		740,006
Total expenses	8,502,825		8,502,825
CHANGES IN NET ASSETS	757,535	520,700	1,278,235
Net assets, beginning of year	30,358,013	566,524	30,924,537
Net assets, end of year	$ 31,115,548	$ 1,087,224	$ 32,202,772

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	82,828		82,828
Total low-cost housing income	6,124,272		6,124,272
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	54,255		54,255
Subtotal 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	25,000	(25,000)	
Total contributions and other	4,284,012	7,393	4,291,405
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	(772,845)		(772,845)
Total ReStore revenues, net	398,958		398,958
Total revenue, gains and support	10,807,242	7,393	10,814,635
EXPENSES:			
Low-cost housing program	9,493,937		9,493,937
ReStore program	989,367		989,367
Management and general	152,279		152,279
Fundraising	553,725		553,725
Total expenses	11,189,308		11,189,308
CHANGES IN NET ASSETS	(382,066)	7,393	(374,673)
Net assets, beginning of year	30,740,079	559,131	31,299,210
Net assets, end of year	$ 30,358,013	$ 566,524	$ 30,924,537

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
Salaries and related benefits	$ 1,654,777	$ 607,721	$ 93,460	$ 573,875	$ 2,929,833
Cost of homes sold	2,769,866				2,769,866
Discount on mortgages issued	1,163,896				1,163,896
Property taxes and insurance	246,786	35,694	1,935	15,841	300,256
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
Legal and professional fees	51,652		58,295	35,099	145,046
Computer and technology	42,378	25,074	792	22,174	90,418
Travel and auto	48,538	23,113	2,744	4,865	79,260
Equipment	47,923	19,224	344	2,813	70,304
Tithes to other non-profits	56,300				56,300
Supplies	20,430	6,056	233	2,737	29,456
Security	19,072	5,663	50	411	25,196
Advertising and marketing				23,676	23,676
Postage, delivery and printing	11,186	2,298	281	5,526	19,291
Professional development	3,373	2,478	6,224	5,297	17,372
Home repair program	16,592				16,592
Interest	13,900				13,900
Other	29,813	36,263	2,964	22,143	91,183
Total expenses	$ 6,656,953	$ 934,743	$ 171,123	$ 740,006	8,502,825
Cost of goods sold and donated inventory					1,651,682
Investment expenses					21,094
Total					$10,175,601
Percent of total expenses	78%	11%	2%	9%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

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

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related benefits	$ 1,754,655	$ 633,716	$ 93,572	$ 439,117	$ 2,921,060
Cost of homes sold	3,320,753				3,320,753
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
Depreciation	79,845	99,490	1,083	10,179	190,597
Utilities, telephone and trash	112,502	66,744	831	6,635	186,712
Legal and professional fees	10,302		47,549		57,851
Computer and technology	36,392	25,925	391	16,060	78,768
Travel and auto	56,779	25,911	2,100	6,022	90,812
Equipment	48,943	21,347	203	1,763	72,256
Tithes to other non-profits	53,375				53,375
Supplies	31,231	4,218	119	1,744	37,312
Security	37,607	6,059	15	130	43,811
Advertising and marketing		6,044		36,622	42,666
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
Home repair program	192,814				192,814
Interest	27,833				27,833
Cost of land sold	2,216,462				2,216,462
Other	27,078	33,493	3,258	11,804	75,633
Total expenses	$ 9,493,937	$ 989,367	$ 152,279	$ 553,725	11,189,308
Cost of goods sold and donated inventory					1,736,346
Investment expenses					20,007
Total					$12,945,661
Percent of total expenses	85%	9%	1%	5%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,278,235	$ (374,673)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	185,693	190,597
Discount on mortgages issued	1,163,896	901,487
Mortgage discount amortization	(846,153)	(932,214)
Gain on sale of mortgage loans receivable	(926,589)	
Net realized and unrealized (gain) loss on investments	112,517	(198,520)
Changes in operating assets and liabilities:		
Pledges receivable	(29,650)	(10,820)
Mortgage loans receivable	(791,736)	(303,180)
ReStore inventory	155,388	(6,361)
Other assets	28,274	(162,847)
Lots and homes available for sale	214,844	2,244,645
Home construction in progress	(444,588)	(251,261)
Lots and land held for development	787,796	(681,743)
Accounts payable and accrued expenses	65,025	159,153
Net cash provided by operating activities	952,952	574,263
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of mortgage loans receivable	2,002,825	
Purchases of property, plant and equipment	(159,124)	(37,144)
Purchases of investments	(281,556)	(1,420,413)
Net proceeds from sale or maturity of investments	226,597	1,532,401
Net change in money market mutual funds held as investments	(14,500)	11,614
Net cash provided by investing activities	1,774,242	86,458
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(1,080,000)	(70,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,647,194	590,721
Cash and cash equivalents, beginning of year	3,452,642	2,861,921
Cash and cash equivalents, end of year	$ 5,099,836	$ 3,452,642

Supplemental disclosure of cash flow information:

Interest paid	$13,900	$27,833

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.

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).

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 2016.

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. 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.

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.

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 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.

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, 2015 and 2014, 21 and 23 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 need to be purchased if not provided by donation. Volunteers provide more than 29,000 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.

NOTE 2 – CASH AND CASH EQUILAVENTS

Cash and cash equivalents consist of the following:

	2015	2014
Demand deposits	$ 5,308,698	$ 3,419,562
Money market mutual fund	439,264	438,961
Total	5,747,962	3,858,523
Less: Cash held in escrow for taxes and insurance	(648,126)	(405,881)
Total cash and cash equivalents	$ 5,099,836	$ 3,452,642

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

NOTE 3 – INVESTMENTS AND INVESTMENT RETURN

Investments consist of the following:

	2015	2014
Equity mutual funds	$ 3,218,832	$ 3,303,996
Fixed-income mutual funds	1,714,687	1,687,081
Money market mutual fund	150,705	136,205
Total investments	$ 5,084,224	$ 5,127,282

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:

	2015	2014
Interest and dividend income	$ 93,929	$ 97,388
Net realized and unrealized gain (loss) on investments	(112,517)	198,520
Investment expenses	(21,094)	(20,007)
Investment return, net	$ (39,682)	$ 275,901

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, 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

Assets measured at fair value at December 31, 2014 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
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 growth	260,150			260,150
Emerging markets	142,510			142,510
Intermediate-term bond mutual funds	1,687,081			1,687,081
Money market mutual fund	136,205			136,205
Total investments measured at fair value	5,127,282			5,127,282
Cash and cash equivalents:				
Money market mutual fund	438,961			438,961
Total assets measured at fair value	$ 5,566,243	$ 0	$ 0	$ 5,566,243

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:

	2015	2014
Mortgage loans receivable, at par value	$ 20,902,677	$ 22,185,394
Less: Unamortized discount based on imputed interest, at rates ranging from 6.50% to 8.64%	(8,218,733)	(8,899,207)
Mortgage loans receivable, net	12,683,944	13,286,187
Less: Current portion due within one year	(1,642,138)	(1,571,232)
Long-term portion of mortgage loans receivable, net	$ 11,041,806	$ 11,714,955

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, 2015 were approximately $154,000.

The annual collection of mortgage loans receivable at December 31, 2015 is as follows:

2016	$ 1,642,138
2017	1,622,404
2018	1,616,159
2019	1,606,568
2020	1,589,098
Thereafter	12,826,310
Total	$ 20,902,677

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2015	2014
Land	$ 189,030	$ 189,030
Building and improvements	2,131,682	2,131,682
Construction equipment and vehicles	304,956	164,578
Furniture and office equipment	131,619	117,548
Total property, plant and equipment, at cost	2,757,287	2,602,838
Accumulated depreciation	(1,713,444)	(1,532,426)
Property, plant and equipment, net	$ 1,043,843	$ 1,070,412

NOTE 7 – 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, 2015, this rate was 2.12% per annum. The agreement is collaterized by deeds of trust and beneficial interest in certain mortgage loans receivable. 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, 2016. It is management's intent to renew the line of credit.

NOTE 8 – 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, 2015, NTB held mortgages sold by Habitat at par value, totaling $3,056,698. Habitat has a similar arrangement with Houston Housing Finance Corporation (HHFC). As of December 31, 2015, HHFC held mortgages sold by Habitat with full recourse to Habitat at par value totaling $3,144,046. 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.

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 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 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 2015, Habitat recognized $600,390 from the City under this 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, 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 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

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:

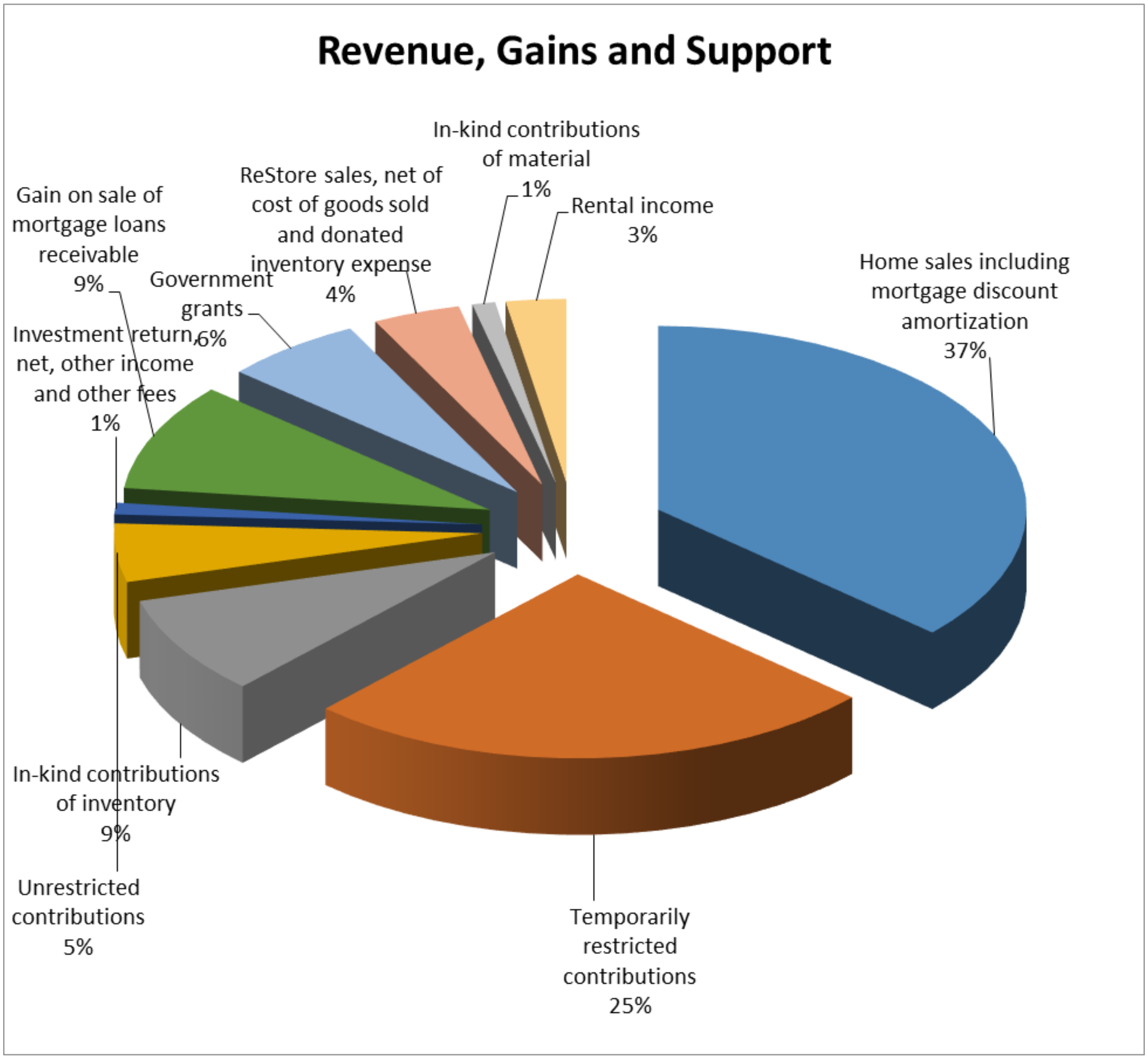
	2015	2014
Home construction	$ 1,009,724	$ 546,524
Weatherization project	27,500	
Computer upgrades	20,000	20,000
Vehicle purchases	20,000	
Down payment assistance	10,000	
Total temporarily restricted net assets	$ 1,087,224	$ 566,524

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 14, 2016, 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, 2015

Revenue, Gains and Support



Houston Habitat for Humanity, Inc.
Graphical Information
For the year ended December 31, 2015

Expenses