HABITAT FOR HUMANITY OF OMAHA, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

BLAND & ASSOCIATES, P.C.
Certified Public Accountants

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Omaha, Inc.
Omaha, Nebraska

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Omaha, Inc. (the Organization), a Nebraska non-profit corporation, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

INDEPENDENT MEMBERS OF BKR INTERNATIONAL

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INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Bland + Associates, P.C.

Omaha, Nebraska
May 11, 2017

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HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(WITH COMPARATIVE FINANCIAL INFORMATION FOR 2015)

	December 31,	
ASSETS	**2016**	**2015**
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,871,735	$ 4,203,544
Cash Restricted for Joint Ventures	178,800	231,314
Investments	2,566,185	2,004,375
Current Portion of Unconditional Promises to Give	973,206	776,640
Current Portion of Mortgage Loans	485,940	458,160
Current Portion of Home Repair Loans	141,588	135,900
Other Receivables	186,973	259,607
Prepaid Expenses	51,307	18,972
Materials Inventory	170,838	188,269
Total Current Assets	8,626,572	8,276,781
PROPERTY AND EQUIPMENT		
Land	570,700	570,700
Buildings	5,229,140	5,212,772
Equipment and Furniture	787,174	690,149
Vehicles	193,598	171,073
	6,780,612	6,644,694
Less Accumulated Depreciation	(1,325,115)	(963,175)
Total Property and Equipment	5,455,497	5,681,519
Unconditional Promises to Give, Less Current Portion	940,900	878,200
Note Receivable - Building	161,686	168,078
Construction in Progress	5,976,799	6,235,047
Mortgage Loans, Less Current Portion	3,976,214	3,508,392
Home Repair Loans, Less Current Portion and Allowance for Doubtful Accounts of $30,000 and $20,000, Respectively	340,277	404,413
Investment in Joint Ventures	5,843,525	5,773,981
Note Receivable from Joint Venture	5,096,045	5,096,045
Total Other Assets	22,335,446	22,064,156
	$ 36,417,515	**$ 36,022,456**

	December 31,	
LIABILITIES AND NET ASSETS	**2016**	**2015**
CURRENT LIABILITIES		
Accounts Payable	$ 302,613	$ 345,991
Accrued Expenses	164,587	83,940
Accrued Payroll and Compensated Absences	521,999	450,680
Current Portion of Long-Term Debt	305,358	80,165
Total Current Liabilities	1,294,557	960,776
LONG-TERM LIABILITIES		
Long-Term Debt		
Principal Amount	13,805,667	14,058,803
Less Debt Issuance Costs	(329,522)	(394,934)
Total Long-Term Liabilities, Net of Current Portion and Debt Issuance Costs	13,476,145	13,663,869
Total Liabilities	14,770,702	14,624,645
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Unrestricted:		
Operating	19,088,219	19,900,114
Designated as Funds Functioning as an Endowment	15,629	14,905
Temporarily Restricted	2,542,965	1,482,792
Total Net Assets	21,646,813	21,397,811
	$ 36,417,515	**$ 36,022,456**

The accompanying notes to consolidated financial statements
are an integral part of these statements

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015)

	Years Ended December 31,			
	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
OPERATING REVENUES AND SUPPORT				
Sales to Homeowners	$ 4,493,600	$ -	$ 4,493,600	$ 3,122,300
Contributions	1,540,052	2,752,543	4,292,595	3,492,469
Grants	1,514,606	1,128,740	2,643,346	3,016,880
ReStore Sales	1,862,648	-	1,862,648	1,525,221
Discount Recovery on Sale of Mortgage Loans	1,667,040	-	1,667,040	2,120,145
In-Kind Contributions	1,259,451	-	1,259,451	1,166,173
Loan Discount Interest Income - Homeowner Sales	461,842	-	461,842	762,094
Event Income	384,140	15,000	399,140	375,972
Revenue from Homeowners - Home Repair	216,090	-	216,090	273,245
Investment Income	140,226	-	140,226	100,936
Income from Joint Venture	123,788	-	123,788	111,032
Other Revenue	63,078	-	63,078	46,018
Loan Discount Interest Income - Home Repair	40,387	-	40,387	67,232
Loss on Sale of Land, Property and Equipment	(83,378)	-	(83,378)	(9,392)
Satisfaction of Program Restrictions	2,836,110	(2,836,110)	-	-
Total Operating Revenues and Support	16,519,680	1,060,173	17,579,853	16,170,325
OPERATING EXPENSES				
Program Services	15,571,204	-	15,571,204	12,121,189
Management and General	1,037,863	-	1,037,863	936,298
Fundraising	721,784	-	721,784	600,304
Total Operating Expenses	17,330,851	-	17,330,851	13,657,791
CHANGES IN NET ASSETS	(811,171)	1,060,173	249,002	2,512,534
NET ASSETS - BEGINNING OF YEAR	19,915,019	1,482,792	21,397,811	18,885,277
NET ASSETS - END OF YEAR	**$ 19,103,848**	**$ 2,542,965**	**$ 21,646,813**	**$ 21,397,811**

The accompanying notes to consolidated financial statements
are an integral part of these statements

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015)

	Program Services					Supporting Services			Totals	
	Construction	Home Repair	ReStore	Discounts on Mortgage Originations	Total Program Services	Management and General	Fundraising and Developmental	Total Supporting Services	2016	2015
Cost of Homes Sold	$ 6,274,554	$ -	$ -	$ -	$ 6,274,554	$ -	$ -	$ -	$ 6,274,554	$ 4,351,534
Salaries and Benefits	2,216,405	50,297	897,295	-	3,163,997	687,065	555,257	1,242,322	4,406,319	3,967,770
Mortgage Discounts	-	-	-	2,672,485	2,672,485	-	-	-	2,672,485	1,823,504
Demolition and Deconstruction Accomplished	705,718	-	29,988	-	735,706	-	-	-	735,706	397,047
Building Costs and Call Backs	93,235	341,727	-	-	434,962	-	-	-	434,962	442,642
Depreciation and Amortization	133,535	-	161,491	-	295,026	55,374	-	55,374	350,400	347,582
Interest	217,545	-	-	-	217,545	15,925	-	15,925	233,470	219,928
Information Technology	72,988	4,161	36,059	-	113,208	56,981	17,551	74,532	187,740	126,356
Professional Fees	96,018	341	7,974	-	104,333	73,794	2,380	76,174	180,507	137,350
Occupancy	52,356	1,267	91,509	-	145,132	15,200	10,133	25,333	170,465	153,969
VISTA/Americorps	148,737	-	8,736	-	157,473	5,300	-	5,300	162,773	190,530
Vehicle Expense	77,094	2,420	51,131	-	130,645	4,050	4,774	8,824	139,469	126,771
Publicity	15,326	917	55,454	-	71,697	-	65,207	65,207	136,904	150,967
Tithe to Habitat for Humanity International	127,184	-	-	-	127,184	-	-	-	127,184	114,200
Maintenance and Small Equipment	77,269	524	27,348	-	105,141	6,783	5,659	12,442	117,583	128,180
Training and Travel	53,889	404	10,203	-	64,496	33,877	15,440	49,317	113,813	96,429
Merchandise Costs	-	-	96,704	-	96,704	-	-	-	96,704	90,334
Miscellaneous	13,935	20,945	35,175	-	70,055	10,065	7,314	17,379	87,434	107,105
International Build	85,487	-	-	-	85,487	-	-	-	85,487	70,228
Supplies	45,390	2,365	12,572	-	60,327	15,317	4,547	19,864	80,191	91,790
Family Partners and Public Education	66,462	-	336	-	66,798	-	4,112	4,112	70,910	60,807
Mortgage Discounts - Roof and Repair	-	-	-	54,639	54,639	-	-	-	54,639	78,908
Insurance and Taxes	21,847	-	10,425	-	32,272	20,638	-	20,638	52,910	48,965
Printing and Postage	15,691	1,927	3,924	-	21,542	2,655	26,610	29,265	50,807	58,319
Telephone	17,629	450	7,843	-	25,922	19,008	2,800	21,808	47,730	46,262
Bad Debt Expense	-	36,308	-	-	36,308	10,750	-	10,750	47,058	35,236
	10,628,294	464,053	1,544,167	2,727,124	15,363,638	1,032,782	721,784	1,754,566	17,118,204	13,462,713
In-Kind Expense	150,037	48,366	9,163	-	207,566	5,081	-	5,081	212,647	195,078
TOTAL FUNCTIONAL EXPENSES	$ 10,778,331	$ 512,419	$ 1,553,330	$ 2,727,124	$ 15,571,204	$ 1,037,863	$ 721,784	$ 1,759,647	$ 17,330,851	$ 13,657,791

The accompanying notes to consolidated financial statements
are an integral part of these statements

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(WITH COMPARATIVE FINANCIAL INFORMATION FOR 2015)

	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	$ 249,002	$ 2,512,534
Adjustments to Reconcile Changes in Net Assets to Net Cash Used In Operating Activities:		
Sales to and Revenues from Homeowners	(3,490,203)	(3,500,263)
Loan Discount Interest Income - Homeowner Sales	(461,842)	(762,094)
Loan Discount Interest Income - Home Repair	(40,387)	(67,232)
Realized Loss (Gain) on Investments	23,081	(14,218)
Unrealized (Gain) Loss on Investments	(49,672)	28,644
Income From Joint Venture	(123,789)	(111,032)
Decrease (Increase) in Construction in Progress	521,922	(1,183,070)
Loss on Sale of Property and Equipment	83,378	9,392
Depreciation and Amortization	350,400	347,582
Increase in Allowance for Doubtful Accounts	10,000	10,000
Imputed Interest on Debt Issuance Costs	65,412	62,525
(Increase) Decrease in Current Assets:		
Unconditional Promises to Give	(259,266)	(841,390)
Other Receivables	79,026	129,171
Prepaid Expenses	(32,335)	22,205
Materials Inventory	17,431	(72,106)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(43,378)	(293,602)
Accrued Expenses	80,647	(24,008)
Accrued Payroll and Compensated Absences	71,319	73,110
Net Cash Used In Operating Activities	(2,949,254)	(3,673,852)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (Increase) in Cash Restricted for Joint Venture	52,514	(56,115)
Proceeds from Sale of Investments	1,280,997	908,623
Purchase of Investments	(1,816,216)	(944,098)
Purchase of Property and Equipment	(124,378)	(89,923)
Mortgage Loans Sold	2,432,894	3,313,208
Home Repair Loans Sold	105,453	201,937
Mortgage Loans Payments Received	497,284	522,617
Home Repair Loans Payments Received	162,595	212,807
Purchase of Joint Venture	-	(1,471,654)
Cash Payments Received From Joint Venture	54,245	42,472
Net Cash Provided By Investing Activities	2,645,388	2,639,874
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Loan Costs	-	(130,059)
Proceeds from Long-Term Debt	40,769	2,554,759
Payments on Long-Term Debt	(68,712)	(53,256)
Net Cash (Used In) Provided By Financing Activities	(27,943)	2,371,444
Net (Decrease) Increase in Cash and Cash Equivalents	(331,809)	1,337,466
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,203,544	2,866,078
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 3,871,735**	**$ 4,203,544**
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Issuance of Mortgage Loans	$ 4,550,287	$ 3,282,528
Discount on Mortgage Loans	(1,060,084)	217,735
Transfers to Homeowners Subject to Non-Interest Bearing Mortgage Loans	$ 3,490,203	$ 3,500,263
Real Property Received for Outstanding Mortgages	$ 347,052	$ 643,698
Interest Paid	$ 168,058	$ 157,402

The accompanying notes to consolidated financial statements are an integral part of these statements

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Habitat for Humanity of Omaha, Inc., HFHO Real Estate Holdings, Inc., and 1701, LLC (the Organization) is presented to assist in understanding the Organization's consolidated financial statements. The consolidated financial statements and notes are representations of the Organization's management who are responsible for the integrity and objectivity of the consolidated financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the consolidated financial statements.

Reporting Entity

Habitat for Humanity of Omaha, Inc. (Habitat), a Nebraska non-profit company incorporated on January 1, 1984, is an affiliate of Habitat for Humanity International, Inc. (Habitat International). Habitat International was organized for the purpose of creating decent, affordable housing with those in need and to make decent shelter a matter of conscience for all. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat builds and sells new and remodeled homes and also funds certain home repair projects for homeowners. The home sales are typically at or below the total cost of construction while the repair projects are typically completed at third-party cost. Both home sales and repair projects are done in exchange for non-interest bearing mortgage loans provided by Habitat to the homeowner. Certain home sales and certain repair projects are also partially funded by grants and/or donations. Habitat also raises and spends funds for acquiring land and blighted structures which are demolished. Such land may be used for future construction or sold to outside parties for redevelopment. Habitat also operates two retail stores (ReStores) designed to provide for resale of primarily used home and office materials – keeping such materials out of landfills and providing low-cost construction materials to the general public.

1701, LLC, a wholly-owned subsidiary of Habitat, was incorporated on December 20, 2012. 1701, LLC was organized to purchase the main warehouse and office facilities and aid Habitat in completing Tax Increment Financing arrangements.

HFHO Real Estate Holdings, Inc. (HFHO RE), a Nebraska non-profit corporation, was incorporated on June 27, 2013. HFHO RE was organized to acquire and operate certain assets previously owned by Habitat, for the purpose of qualifying for the benefits of the New Market Tax Credit (NMTC) transaction that occurred in 2013 (See Notes G and H). As part of the 2013 NMTC transaction, HFHO RE purchased Habitat's ReStore retail stores and Habitat's main warehouse and office facilities which are being leased back to Habitat.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

These entities whose financial statements are included in the consolidated financial statements are collectively referred to as the Organization.

Basis of Presentation

The Organization's consolidated financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. The Organization is required to provide consolidated financial statements which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The Organization maintains its accounts on the accrual basis of accounting.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – Net assets which are not subject to any donor-imposed stipulations. Income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets, i.e. the donor-stipulated purposes have been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Principles of Consolidation

The consolidated financial statements include the accounts of Habitat for Humanity of Omaha, Inc., its affiliate, HFHO Real Estate Holdings, Inc. and its wholly-owned subsidiary, 1701, LLC. Intercompany transactions and accounts have been eliminated in the accompanying consolidated financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measure of Operations

In the consolidated statements of activities and changes in net assets, the Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Investment income, including net realized and unrealized gains and losses, are recognized as operating support, revenues, gains, and losses.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash or cash equivalents for purposes of the consolidated statements of cash flows.

Restricted Cash

The Organization has classified certain cash that is restricted for specific purposes. At December 31, 2016 and 2015, the Organization has restricted $178,800 and $231,314 for joint venture commitments, respectively.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Management reports promises to give net of allowance for uncollectible promises on its consolidated financial statements. The Organization considers promises to give to be nearly 100% collectible; therefore, no allowance for uncollectible amounts has been established.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Materials Inventory

Materials inventory is recorded using the average cost method, which is not an acceptable method in accordance with accounting principles generally accepted in the United States of America. Management estimates that this does not have a material impact to the consolidated financial statements.

Investments and Investment in Joint Ventures

The Organization follows FASB ASC 958-320, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Any unrealized gains and losses are reported in the consolidated statements of activities and changes in net assets as a change in unrestricted net assets.

Investments in joint ventures such as partnerships that are not consolidated, but over which the Organization exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Organization exercises significant influence with respect to a specified investment depends on an evaluation of several factors including, among others, representation on the joint venture partnership's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the respective partnership.

If the Organization's carrying value in an equity method investment is reduced to zero, subsequent losses are not recorded in the Organization's consolidated financial statements unless the Organization guaranteed obligations of the joint venture partnership or has committed additional funding. If the joint venture partnership subsequently reports income, the Organization will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for additions and betterments are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. The cost of assets disposed and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses from property disposals are recognized in the year of disposal.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

	Years
Buildings	5-40
Equipment and Furniture	3-15
Vehicles	5-10

Construction in Progress

The Organization carries the cost incurred in conjunction with home construction in construction in progress until sold to homeowners.

Loans and Discount

Home repair and mortgage loans are non-interest bearing and are secured by real estate and payable in monthly installments over the life of the loan. Management determines the allowance for doubtful accounts by regularly evaluating the home repair and mortgage loan listing and considering prior years' experience and analysis of specific promises made. As of December 31, 2016 and 2015, the allowance for the home repair loan receivables was $30,000 and $20,000, respectively. The Organization considers all mortgage loans to be 100% collectible; therefore, no allowance for uncollectible accounts has been established.

Non-interest bearing loans have been discounted at 7.48% during 2016, 7.51% during 2015, and at various rates ranging from 6.0% to 9.0% in prior years based upon prevailing market rates for low income housing at the inception of the loan. Utilizing a straight-line basis, this discount is amortized over the term of the loan.

From time to time the Organization will sell mortgages to financial institutions. If the loan is sold, the unamortized balance of the loan discount recorded at the inception of the loan is recorded as income in the consolidated financial statements as discount recovery on the sale of mortgage loans. The Organization retains full recourse on these mortgages and continues to service and guarantee the mortgages. The Organization retains the right to substitute similar mortgages in case of default by the homeowners to pay the mortgage. At December 31, 2016 the amount of loans sold and still outstanding was approximately $17.4 million.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees of the Organization are entitled to certain amounts of paid personal time off. In the event of termination, an employee is reimbursed for accumulated unused paid time off.

Contingent Equity and Sales to Homeowners

Habitat International requires a $500 cash down payment (contingent equity) that is applied towards the purchase of the home at the time that the purchase contract is signed.

Sales to homeowners are recorded at the gross mortgage amount plus contingent equity payments received.

Revenues and Reclassifications

Support is provided in the form of federal and state grants and grants from non-governmental entities. All support and revenues are considered unrestricted unless stipulated by the grantor.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted revenue and increase unrestricted net assets. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Third-party reimbursement contracts (grant reimbursements) are recognized as revenue upon submission of the reimbursement request. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In-Kind Contributions and Donated Services

Contributions of gifts in-kind that can be used by the Organization are recorded at fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by an individual possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions and Donated Services (Continued)

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services, which do not meet the above criteria. The value of this contributed time is not reflected in these consolidated financial statements since there is not an objective measure or valuation of these services.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program Services

Program services include construction, home repairs, the Organization's ReStore operations, the discount on mortgage originations, support of families, and education of the general public. Program services also include the cost of homes sold to homeowners.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense was $136,904 and $150,967 for the years ended December 31, 2016 and 2015, respectively.

Income Taxes

Habitat and HFHO RE have received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code and are not classified as private foundations. As such, no provision for income taxes is reflected in the consolidated financial statements. 1701, LLC is a disregarded entity for income tax purposes, so it is considered a part of the Organization's tax exemption.

The Organization follows the accounting requirements associated with uncertainty in income taxes as required by FASB ASC 740, *Income Taxes*. The guidance prescribes recognition threshold principles for the consolidated financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Organization files two Form 990's, *Return of Organization Exempt from Income Tax*. The Organization's returns are subject to review and examination by federal authorities. As of December 31, 2016, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

financial statements. Tax years subsequent to 2013 remain subject to examination by major tax jurisdictions.

FASB ASC 740 does not have a material impact on the Organization's consolidated financial statements. The Organization has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

Change in Accounting Principle

In 2016, the Organization adopted FASB Accounting Standards Update, No. 2015-03, *Interest – Imputation of Interest*, which simplified the presentation of debt issuance costs. The amendment requires debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct deduction from that debt liability. As a result of the retroactive application of the standard, debt issuance costs for the Organization have been reclassified to the liability section of the consolidated statements of financial position (see Note K). The effect of this change had no material impact on the Organization's results of operations or financial condition.

Subsequent Events

Management has evaluated subsequent events through May 11, 2017, which is the date the consolidated financial statements were available to be issued.

Summarized Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

NOTE B – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist of cash, investments, receivables, and unconditional promises to give. The Organization maintains cash balances in financial institutions in which balances sometimes exceed the federally insured limits.

NOTE C – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are as follows at December 31,:

	2016	2015
Corporate and Foundation	$ 1,747,206	$ 1,294,640
Capital Campaign Donations	166,900	360,200
Total Unconditional Promises to Give	$ 1,914,106	$ 1,654,840

The maturities of unconditional promises to give at December 31, 2016 are as follows:

Receivable in Less than One Year	$ 973,206
Receivable in One to Five Years	940,900
Total Unconditional Promises to Give	$ 1,914,106

In 2012, the Organization commenced a capital campaign for the purpose of acquiring certain properties, renovating facilities, and funding strategic land acquisition all for its mission of constructing affordable housing. During 2012 and 2013, the campaign raised approximately $6.5 million in the form of cash and pledges. At December 31, 2016 approximately $0.2 million in pledges remain to be collected.

The campaign resulted in the investment of approximately $3 million for the acquisition and remodel of the Organization's main warehouse and office, approximately $2 million for the acquisition and remodel of its 2nd Restore location, and the remainder for the acquisition of strategic land for future home construction.

NOTE D – INVESTMENTS

The Organization's investments at December 31, 2016 consist of the following:

	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Cash Equivalents	$ 674,247	$ -	$ -	$ 674,247
U.S. Treasury and Corporate Notes	1,158,958	5,956	45,190	1,119,724
Equity Mutual Funds	644,877	196,863	85,155	756,585
Beneficial Interest in Net Assets Held by Omaha Community Foundation	12,101	3,528	-	15,629
	$2,490,183	$ 206,247	$ 130,345	$2,566,185

NOTE D – INVESTMENTS (Continued)

The Organization's investments at December 31, 2015 consist of the following:

	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Cash Equivalents	$ 576,497	$ 7	$ 693	$ 575,811
U.S. Treasury and Corporate Notes	903,473	4,032	31,868	875,637
Equity Mutual Funds	485,382	65,095	12,455	538,022
Beneficial Interest in Net Assets Held by Omaha Community Foundation	12,101	2,804	-	14,905
	$1,977,453	$ 71,938	$ 45,016	$2,004,375

The following schedule summarizes the investment return and its classification in the consolidated statements of activities and changes in net assets for the years ended December 31,:

	2016	2015
Interest and Dividend Income	$ 113,635	$ 115,362
Unrealized Gain (Loss) on Investments	49,672	(28,644)
Realized (Loss) Gain on Sale of Investments	(23,081)	14,218
	$ 140,226	$ 100,936

In connection with the sale of certain loans, the Organization has granted security interest rights in a portion of its investment portfolio to another party. Such rights restrict the ability of the Organization to use such funds unless and until the associated loans are repaid. The amount subject to these rights was $500,000 of investments as of December 31, 2016 and 2015, respectively.

NOTE E – FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below.

NOTE E – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

- Level 2 - Inputs to the valuation methodology include:

    - Quoted prices for similar assets or liabilities in active markets;

    - Quoted prices for identical or similar assets or liabilities in inactive markets;

    - Inputs other than quoted prices that are observable for the asset or liability;

    - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

    - If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Common stocks, equity mutual funds, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE E – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2016 and 2015.

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash Equivalents	$ 674,247	$ -	$ -	$ 674,247
U.S. Treasury and Corporate Notes	1,119,724	-	-	1,119,724
Equity Mutual Funds	756,585	-	-	756,585
Beneficial Interest in Net Assets Held by Omaha Community Foundation	-	-	15,629	15,629
Total Assets at Fair Value	$ 2,550,556	$ -	$ 15,629	$ 2,566,185

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash Equivalents	$ 575,811	$ -	$ -	$ 575,811
U.S. Treasury and Corporate Notes	875,637	-	-	875,637
Equity Mutual Funds	538,022	-	-	538,022
Beneficial Interest in Net Assets Held by Omaha Community Foundation	-	-	14,905	14,905
Total Assets at Fair Value	$ 1,989,470	$ -	$ 14,905	$ 2,004,375

There were no transfers in and out of Levels 1, 2, and 3 in years 2016 and 2015.

NOTE E – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Organization uses the following methods and significant assumptions to estimate fair value:

Investments: The fair value of investments is determined by obtaining quoted market prices on nationally recognized securities exchanges.

Beneficial interest in net assets held by the Omaha Community Foundation: The fair value of the beneficial interests is determined based on the investments in the underlying portfolio. The fair value of the investments in the underlying portfolio is determined by the Omaha Community Foundation based on quoted market prices from nationally recognized securities exchanges.

The assets held by Omaha Community Foundation are measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The beneficial interest in net assets held by the Omaha Community Foundation as of December 31, 2016 and 2015 is included in Note F.

NOTE F – ENDOWMENTS

The Organization's endowment consists of a designated endowment managed by the Omaha Community Foundation. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of restrictions.

Changes in Endowment Unrestricted Net Assets for the years ended December 31 are as follows:

	2016	2015
Endowment Net Assets, January 1	$ 14,905	$ 15,306
Total Gains or Losses (realized/unrealized)	694	(409)
Interest and Dividends	330	308
Contributions and Distributions, Net	(300)	(300)
Endowment Net Assets, December 31	$ 15,629	$ 14,905

Investment expenses were $300 for both of the years ended December 31, 2016 and 2015.

NOTE G – NEW MARKET TAX CREDITS AND ASSOCIATED JOINT VENTURES

The Organization has participated in four New Market Tax Credit (NMTC) transactions. These transactions provide funds to eligible organizations for making qualified low-income community investments. Such funds are the result of outside investors who effectively purchase the tax credits associated with the Organization's community investment.

Transaction requirements for the Organization include the creation of a promissory note (see Note K) and an associated investment in, or associated loan made to, a qualified community development entity through a joint venture. The tax credits produced by the transactions are subject to recapture if compliance requirements are not met over a seven year period.

In connection with these NMTC transactions, the Organization recorded:

- an investment of $2,514,254 for its 22.5825% ownership of the first joint venture in 2010,
- an investment of $1,448,867 for its 9.9945% ownership of a 2nd joint venture in 2012,
- a note receivable of $5,096,045 from a 3rd joint venture in 2013 (see Note H), and
- an investment of $1,471,654 for its 9.54% ownership of a 4th joint venture in 2015.

After investment earnings and distributions, the investments in joint venture balance totaled $5,843,525 and $5,773,981 as of December 31, 2016 and 2015, respectively.

In the future (approximately 7 years from the inception of each of the transactions noted above), the entities that are the effective owner of the Organization's promissory notes are expected to exercise put options whereby the promissory notes will become the property of the associated joint venture. The exercise of the put options will effectively allow the Organization to extinguish the outstanding debt and realize its joint venture investments and note receivable without further cash flow activity.

NOTE H – NOTE RECEIVABLES

As discussed in Note G, during 2013 the Organization recorded a note receivable and a promissory note (see note K) in connection with a NMTC transaction. The receivable accrues interest at 1.6% per year, payable each quarter, and is due in full January 1, 2042. The balance of the receivable was $5,096,045 at December 31, 2016 and 2015.

NOTE H – NOTE RECEIVABLES (Continued)

The Organization entered into a note receivable financing agreement resulting from the sale of a building. The note requires monthly cash receipts of $1,221 plus interest at 5% with final payment to be received on January 1, 2019. The principal portion of the note receivable is due as follows:

Years Ending December 31,		
2017	$	6,392
2018		6,719
2019		154,967
	$	168,078

NOTE I – NON-INTEREST BEARING LOANS

Traditional Home Loans

The Organization sells homes to program participants in exchange for mortgage loans with no interest. These loans are all payable to the Organization, and are shown on the consolidated statements of financial position discounted at various rates ranging from 6.0% to 9.0% at the inception of the mortgages, as dictated by Habitat International. The Organization had 119 and 131 loans outstanding at December 31, 2016 and 2015, respectively. Management feels no provision for loan losses is required because the Organization is a secured creditor and the fair market value of the homes is typically in excess of the related mortgage loan balance.

The Organization also sells homes to program participants under the NMTC programs in exchange for mortgage notes with no interest. These notes are all payable to the Organization, and are shown on the consolidated statement of financial position discounted at various rates ranging from 6.0% to 9.0% at the inception of the mortgages, as dictated by Habitat International. The Organization had 32 and 21 loans outstanding at December 31, 2016 and 2015, respectively. Management feels no provision for loan losses is required because the Organization is a secured creditor and the fair market value of the homes is typically in excess of the related mortgage note balance.

NOTE I – NON-INTEREST BEARING LOANS (Continued)

Traditional Home Loans (Continued)

The Organization's mortgage home loans are as follows at December 31,:

	2016	2015
Mortgage Home Loans	$ 11,208,503	$ 10,139,350
Loan Discount	(6,746,349)	(6,172,798)
Basis in Loan	$ 4,462,154	$ 3,966,552

Home Repair Loans

The Organization funds certain home repairs for program participants in exchange for mortgage loans with no interest. These notes are all payable to the Organization, and are shown on the consolidated statements of financial position discounted at various rates ranging from 6.0% to 9.0% at the inception of the mortgages, as dictated by Habitat International. The Organization had 112 and 108 loans outstanding at December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the allowance for the home repairs loan receivables was $30,000 and $20,000, respectively.

The Organization's home repair loans are as follows at December 31,:

	2016	2015
Home Repair Loans	$ 705,278	$ 769,422
Loan Discount	(193,413)	(209,109)
Allowance for Doubtful Accounts	(30,000)	(20,000)
Basis in Loan	$ 481,865	$ 540,313

NOTE J – BANK REVOLVING LINE OF CREDIT

At December 31, 2016, the Organization had a bank revolving line of credit in the amount of $1,000,000, payable on February 24, 2018, including interest at .25% below the national prime rate. Interest rate on the line of credit at December 31, 2016 was 3.5%. The Organization had no outstanding balance on the line of credit at December 31, 2016 and 2015, respectively.

NOTE K – LONG-TERM DEBT

Long-term debt consists of the following at December 31,:

	2016	2015
Interest-free promissory notes payable to Habitat International. Monthly payments range from $7 to $1,953 and due dates range from January 2017 to December 2022.	$ 326,850	$ 354,793
Note payable to HFHI-SA NMTC III, LLC, semi-annual interest only payments until June 2017 at 0.76%, then semi-annual payments in an amount sufficient to fully amortize the remaining balance by June 2025. The note has a put option feature that is exercisable by July 2017. The note is secured by substantially all assets acquired from the project loan proceeds. (See Note G)	3,301,470	3,301,470
Note payable to CCM Community Development XVII, LLC, semi-annual interest only payments until May 2020 at 0.77%, then semi-annual payments of $121,386, until due April 2028. The note has a put option feature that is exercisable by April 2019. The note is secured by substantially all assets acquired from the project loan proceeds. (See Note G)	1,880,000	1,880,000
Note payable to Stonehenge Community Development LXXXVIII, LLC, quarterly interest only payments until January 1, 2020 at 1.606%, then quarterly payments of $64,628, until due October 23, 2043. The note has a put option feature that is exercisable in 2020. The note is secured by substantially all the assets of HFHO RE. (See Note G)	5,095,045	5,095,045
Note payable to Stonehenge Community Development LXXXVIII, LLC, quarterly interest only payments until January 1, 2020 at 1.606%, then quarterly payments of $12,664, until due October 23, 2043. The note has a put option feature that is exercisable in 2020. The note is secured by substantially all the assets of HFHO RE. (See Note G)	999,620	999,620

NOTE K – LONG TERM DEBT (Continued)

	2016	2015
Note payable to HFHI NMTC SUB CDE I, LLC, semi-annual interest only payments until November 2023 at 0.68%, then semi-annual payments in an amount sufficient to fully amortize the remaining balance by December 2044. The associated agreements include a put option feature that is exercisable in 2023. The note is secured by substantially all assets acquired from the project loan proceeds. (See Note G)	$ 2,157,398	$ 2,157,398
Note payable to bank, monthly interest-only payments for 24 months (beginning February 2015) at 4.5%, then semi-annual payments of approximately $18,000 beginning July 2017 at primarily variable interest rates until maturity in January 2030. The note is secured by an agreement associated with a Tax Increment Redevelopment Project between the Organization and the City of Omaha.	350,642	350,642
Total Long-Term Debt	14,111,025	14,138,968
Less Debt Issuance Costs	(329,522)	(394,934)
Less Current Portion of Long-Term Debt	(305,358)	(80,165)
	$13,476,145	$13,663,869

The aggregate maturities of long-term debt for the years ending after December 31, 2016 are as follows:

Years Ending December 31,	
2017	$ 305,358
2018	532,516
2019	491,984
2020	861,182
2021	893,747
Thereafter	11,026,238
	$ 14,111,025

NOTE L – TRANSACTIONS WITH HABITAT INTERNATIONAL

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended December 31, 2016 and 2015, the Organization contributed $127,184 and $114,200 to Habitat International, respectively. This amount is included in the program services expense in the consolidated statements of activities and changes in net assets.

NOTE M – OPERATING LEASES

The Organization leases various office equipment under operating lease agreements expiring at various times through October 2017.

The future minimum lease payments required under the above operating leases as of December 31, 2016 are as follows:

Year Ending December 31,	Amount
2017	$ 23,478

NOTE N – IN-KIND CONTRIBUTIONS

Included in the consolidated financial statements are in-kind contributions and corresponding expenses, which consisted of the following at December 31,:

	2016		2015	
	Contribution	Expense	Contribution	Expense
Construction in Progress	$ 930,336	$ -	$ 931,798	$ -
Professional Fees	140,777	140,777	116,895	116,895
Inventory	68,769	-	14,597	-
Publicity	29,069	29,069	58,641	58,641
Miscellaneous	42,801	42,801	15,303	15,303
Training and Travel	-	-	4,239	4,239
Property and Equipment	47,699	-	24,700	-
Total In-Kind Contribution	$ 1,259,451	$ 212,647	$ 1,166,173	$ 195,078

NOTE O – RETIREMENT PLAN

The Organization participates in a 403(b) retirement savings plan covering substantially all employees. The Organization's contributions are discretionary. There were Organization contributions of $92,492 and $84,773 for the years ended December 31, 2016 and 2015, respectively.

NOTE P – RECLASSIFICATIONS

Certain reclassifications were made to the 2015 consolidated financial statements to conform to the 2016 presentation.