STAR OF HOPE MISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Star of Hope Mission

We have audited the accompanying financial statements of Star of Hope Mission (the Mission) (a Texas non-profit corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and 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; 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 financial position of the Mission as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2017, on our consideration of the Mission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mission's internal control over financial reporting and compliance.

Harper & Pearson Company, P.C.

Houston, Texas
June 22, 2017

ASSETS	2016	2015
Cash and cash equivalents	$ 4,770,922	$ 999,885
Receivables	1,346,461	1,574,788
United Way receivable	930,368	908,957
Pledges receivable, net	1,727,673	2,011,572
Investment securities	9,168,917	8,772,882
Prepaid expenses and other assets	878,411	406,749
Inventory	311,214	505,570
Assets held for sale	4,358,949	9,643,634
Assets restricted to Cornerstone Community	16,757,668	23,645,155
Land, buildings and equipment, net	38,693,690	24,318,879
Beneficial interest in Trees of Hope	386,149	544,582
TOTAL ASSETS	$ 79,330,422	$ 73,332,653
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 4,132,667	$ 1,645,699
Deferred revenue and rent	82,809	76,760
Notes payable	-	950,000
TOTAL LIABILITIES	4,215,476	2,672,459
Unrestricted net assets		
Undesignated	18,155,882	20,718,647
Board designated endowment	8,524,079	8,285,349
Total unrestricted net assets	26,679,961	29,003,996
Temporarily restricted net assets	47,384,985	40,606,198
Permanently restricted net assets	1,050,000	1,050,000
TOTAL NET ASSETS	75,114,946	70,660,194
TOTAL LIABILITIES AND NET ASSETS	$ 79,330,422	$ 73,332,653

See accompanying notes.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Contributions from donors, foundations and other grants	$ 15,271,741	$ 8,358,592	$ -	$ 23,630,333
Special events, net of donor benefits of $610,104	1,081,258	346,366	-	1,427,624
In-kind contributions	3,482,961	770,889	-	4,253,850
Fees and grants from government agencies	1,216,002	-	-	1,216,002
Client fees	90,774	-	-	90,774
Interest and dividends	292,495	45,697	-	338,192
Net realized and unrealized gain on marketable securities	419,115	25,302	-	444,417
Net change in beneficial interest in Trees of Hope	41,567	-	-	41,567
Miscellaneous	126,820	-	-	126,820
Net assets released from restrictions	2,768,059	(2,768,059)	-	-
Total public support and revenues	24,790,792	6,778,787	-	31,569,579
Expenses:				
Program Services				
Men's Development Center	5,405,343	-	-	5,405,343
Women and Family Emergency Shelter	6,725,386	-	-	6,725,386
Transitional Living Center	6,222,961	-	-	6,222,961
Extended Services	2,163,347	-	-	2,163,347
Total program services	20,517,037	-	-	20,517,037
Management and general	2,679,860	-	-	2,679,860
Fundraising	3,917,930	-	-	3,917,930
Total expenses	27,114,827	-	-	27,114,827
Change in net assets	(2,324,035)	6,778,787	-	4,454,752
Net Assets, beginning of year	29,003,996	40,606,198	1,050,000	70,660,194
Net Assets, end of year	$ 26,679,961	$ 47,384,985	$ 1,050,000	$ 75,114,946

See accompanying notes.

STAR OF HOPE MISSION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues:				
Contributions from donors, foundations and other grants	$ 15,269,435	$ 8,626,325	$ -	$ 23,895,760
Special events, net of donor benefits of $636,953	1,266,621	635,152	-	1,901,773
In-kind contributions	3,627,004	-	-	3,627,004
Fees and grants from government agencies	1,318,509	-	-	1,318,509
Client fees	106,667	-	-	106,667
Interest and dividends	245,971	135,016	-	380,987
Net realized and unrealized loss on marketable securities	(589,681)	(75,025)	-	(664,706)
Net change in beneficial interest in Trees of Hope	(174,862)	-	-	(174,862)
Miscellaneous	223,563	-	-	223,563
Net assets released from restrictions	4,460,062	(4,460,062)	-	-
Total public support and revenues	25,753,289	4,861,406	-	30,614,695
Expenses:				
Program Services				
Men's Development Center	5,529,629	-	-	5,529,629
Women and Family Emergency Shelter	6,446,905	-	-	6,446,905
Transitional Living Center	7,641,983	-	-	7,641,983
Extended Services	1,951,004	-	-	1,951,004
Total program services	21,569,521	-	-	21,569,521
Management and general	3,084,174	-	-	3,084,174
Fundraising	4,458,702	-	-	4,458,702
Total expenses	29,112,397	-	-	29,112,397
Change in net assets	(3,359,108)	4,861,406	-	1,502,298
Net Assets, beginning of year	32,363,104	35,744,792	1,050,000	69,157,896
Net Assets, end of year	$ 29,003,996	$ 40,606,198	$ 1,050,000	$ 70,660,194

See accompanying notes.

STAR OF HOPE MISSION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Men's Development Center	Women and Family Emergency Shelter	Transitional Living Center	Extended Services	Total Program Services	Management and General	Fundraising	Total
Salaries	$ 2,304,617	$ 2,656,399	$ 2,904,599	$ 774,235	$ 8,639,850	$ 1,425,474	$ 1,061,572	$ 11,126,896
Employee benefits	425,094	617,214	585,828	166,658	1,794,794	277,045	212,358	2,284,197
Payroll taxes	203,134	231,671	252,550	64,195	751,550	99,875	83,793	935,218
Total salaries and related expenses	2,932,845	3,505,284	3,742,977	1,005,088	11,186,194	1,802,394	1,357,723	14,346,311
Professional fees and contract services	108,742	411,084	251,668	12,275	783,769	251,833	328,110	1,363,712
Occupancy	455,744	502,844	485,512	61,066	1,505,166	33,209	31,304	1,569,679
Supplies	225,367	242,558	252,114	56,235	776,274	3,937	4,280	784,491
Donor acquisition expense	-	-	-	-	-	-	851,585	851,585
Specific client assistance	35,063	72,825	68,437	557,991	734,316	132	-	734,448
Rental and maintenance of equipment	46,242	60,064	88,751	10,448	205,505	68,572	200,156	474,233
Printing and publications	3,160	1,552	2,603	458	7,773	51,761	602,952	662,486
Postage and shipping	752	491	570	(458)	1,355	8,108	171,630	181,093
Travel, oil, gas and related expenses	32,377	31,031	41,397	18,939	123,744	29,711	3,113	156,568
Telephone	36,258	49,399	55,029	17,504	158,190	24,728	18,687	201,605
Miscellaneous expense	28,884	38,136	44,545	13,565	125,130	228,777	294,108	648,015
Total operating expenses	3,905,434	4,915,268	5,033,603	1,753,111	15,607,416	2,503,162	3,863,648	21,974,226
In-kind donations	1,229,889	1,122,502	1,132,781	410,236	3,895,408	168,220	26,845	4,090,473
Depreciation expense	270,020	247,514	56,577	-	574,111	8,478	27,437	610,026
Impairment expense	-	440,102	-	-	440,102	-	-	440,102
Total Expenses	$ 5,405,343	$ 6,725,386	$ 6,222,961	$ 2,163,347	$ 20,517,037	$ 2,679,860	$ 3,917,930	$ 27,114,827

See accompanying notes.

	Men's Development Center	Women and Family Emergency Shelter	Transitional Living Center	Extended Services	Total Program Services	Management and General	Fundraising	Total
Salaries	$ 2,275,395	$ 2,736,078	$ 2,904,006	$ 796,963	$ 8,712,442	$ 1,410,139	$ 1,109,135	$ 11,231,716
Employee benefits	461,501	616,280	614,845	180,668	1,873,294	295,343	214,849	2,383,486
Payroll taxes	186,598	220,349	234,359	63,421	704,727	94,469	83,684	882,880
Total salaries and related expenses	2,923,494	3,572,707	3,753,210	1,041,052	11,290,463	1,799,951	1,407,668	14,498,082
Professional fees and contract services	139,062	460,809	297,711	21,321	918,903	201,664	759,496	1,880,063
Occupancy	381,549	471,420	444,854	75,018	1,372,841	37,137	38,093	1,448,071
Supplies	236,937	258,530	281,947	53,330	830,744	4,951	7,331	843,026
Donor acquisition expense	-	-	-	-	-	-	888,565	888,565
Specific client assistance	25,045	82,195	76,986	579,010	763,236	179	-	763,415
Rental and maintenance of equipment	72,065	87,859	78,161	11,976	250,061	65,136	163,890	479,087
Printing and publications	16,709	14,682	17,234	917	49,542	10,238	392,750	452,530
Postage and shipping	5,855	5,581	5,715	877	18,028	5,824	217,094	240,946
Travel, oil, gas and related expenses	33,030	38,355	42,798	19,312	133,495	7,649	3,078	144,222
Telephone	37,297	49,491	53,711	24,856	165,355	22,753	18,362	206,470
Miscellaneous expense	34,729	44,345	52,802	17,437	149,313	286,308	366,584	802,205
Total operating expenses	3,905,772	5,085,974	5,105,129	1,845,106	15,941,981	2,441,790	4,262,911	22,646,682
In-kind donations	1,351,196	1,111,897	634,162	105,898	3,203,153	184,093	182,430	3,569,676
Depreciation expense	272,661	249,034	358,915	-	880,610	85,998	13,361	979,969
Impairment expense	-	-	1,543,777	-	1,543,777	372,293	-	1,916,070
Total Expenses	$ 5,529,629	$ 6,446,905	$ 7,641,983	$ 1,951,004	$ 21,569,521	$ 3,084,174	$ 4,458,702	$ 29,112,397

See accompanying notes.

STAR OF HOPE MISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 4,454,752	$ 1,502,298
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized (gain) loss on marketable securities	(444,417)	664,706
Depreciation	610,026	979,969
Impairment expense	440,102	1,916,070
Contributions restricted to Cornerstone Community	(6,696,984)	(6,664,551)
Loss on disposal of property and equipment	81,976	-
Net change in beneficial interest in Trees of Hope	(41,567)	174,862
(Increase) decrease in operating assets:		
Receivables and United Way receivable	206,916	60,030
Pledges receivable, net	483,899	95,551
Prepaid expenses and other assets	(471,662)	(146,613)
Inventory	194,356	(56,889)
Change in cash restricted for Cornerstone Community	(6,448,194)	(1,387,408)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities and deferred rent	2,493,017	(575,502)
Total adjustments	(9,592,532)	(4,939,775)
Net cash used by operating activities	(5,137,780)	(3,437,477)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(967,193)	(1,437,533)
Purchase of investment securities, Cornerstone Community	(1,303,919)	(11,125,796)
Proceeds from sale or maturity of investment securities	990,273	1,965,986
Proceeds from sale of Cornerstone Community investment securities	12,445,899	6,927,274
Purchase of property and equipment	(19,622,198)	(1,477,902)
Proceeds from sale of property and equipment	9,399,968	-
Net cash provided (used) by investing activities	942,830	(5,147,971)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted to Cornerstone Community	8,915,987	7,933,947
Draws on portfolio loan account	900,000	4,250,000
Repayments on portfolio loan account	(1,850,000)	(4,650,000)
Net cash provided by financing activities	7,965,987	7,533,947
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,771,037	(1,051,501)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	999,885	2,051,386
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,770,922	$ 999,885
SUPPLEMENTAL DISCLOSURE OF SIGNIFICANT NONCASH ACTIVITIES:		
Cash paid for interest	$ 6,303	$ 45,180

See accompanying notes.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Star of Hope Mission (the Mission) is a Christ-centered community dedicated to meeting the needs of homeless men, women and their children. Positive life changes are encouraged through structured programs which focus on spiritual growth, education, employment, life management and recovery from substance abuse. Residents are provided with individual counseling services, referrals and other assistance designed to obtain permanent housing and make lasting life changes. The Mission currently operates three facilities:

The Men's Development Center is a 328 bed facility which provides emergency shelter and life-recovery services to men at various stages of self-sufficiency.

The Women and Family Emergency Shelter is a 296 bed facility offering emergency shelter and services leading to stability for homeless single women and single-parent families in crisis.

The Transitional Living Center can house up to 66 single-parent families with children and as many as 45 single women. Residents pursue a self-supporting life through various life skills and substance abuse recovery programs.

Additionally, the Mission's Extended Services program provides a partial rent and/or childcare subsidy for men, women and families who have successfully completed the transitional living center programs to begin their new, independent life in a safe neighborhood.

On February 1, 2016, the Mission formed Reed Road Partners, LLC, a single member LLC wholly-owned by the Mission. This entity was formed to facilitate the acquisition of a construction loan for the development of Cornerstone Community (see Notes D and N). Management does not have any plans to conduct further operations within this entity.

The Mission is supported primarily though donor contributions, the United Way, and government grants.

<u>Concentration of Credit and Market Risk</u> - Financial instruments which subject the Mission to concentrations of credit risk consist principally of cash, receivables and marketable securities. The Mission places its cash with a financial institution it believes to be creditworthy. Deposits with this financial institution may exceed Federal Deposit Insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Mission periodically evaluates the stability of the financial institution.

The Mission's investments in marketable and nonmarketable securities subject the Mission to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Mission' investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially impact the amounts reflected in the accompanying financial statements.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Mission considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents.

Donations in Transit - Contributions postmarked by December 31 and received in January are included in receivables as donations in transit and contributions revenue in the current year.

Pledges Receivables - Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. At December 31, 2016, pledges from five donors represented 51% of pledges. At December 31, 2015, pledges from five donors represented 81% of pledges.

Investment Securities - All marketable securities are measured at 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. Investment income or loss (including realized and change in unrealized gains and losses on marketable securities, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

It is the policy of the Mission to promptly sell all donated securities.

Inventory - Inventory consists of contributions of food and supplies which are primarily valued based on a per pound calculation obtained from the audited financial statements of Feeding America, a national food bank organization.

Land, Building and Equipment - Purchased land, building and equipment are recorded at cost. Donated land, building and equipment are recorded at fair value at the date of donation. Buildings and equipment are depreciated using the straight-line method based on the estimated useful lives of the assets, generally as follows:

Buildings and improvements	5-40 years
Equipment and furniture	5-12 years
Vehicles	5-6 years

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation - Information regarding the financial position and activities of the Mission is reported in three categories as follows:

Unrestricted Net Assets - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Temporarily Restricted Net Assets - consist of contributed funds subject to donor or grantor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent.

Permanently Restricted Net Assets - are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations.

Contributions - Contributions are recognized when the donor makes a promise to give to the Mission that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions consist of amounts to be held perpetually, based on donor-imposed requirements.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The Mission reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

If the only restriction on the unconditional promise to give is the construction or purchase of specified long-lived assets and absent explicit donor stipulations about how long those long-lived assets must be maintained, the Mission reports expirations of donor restrictions as the donated or acquired long-lived assets are placed in service.

Gifts in Kind - Donations are recorded as in-kind contributions at the estimated fair value of the gift. Food is recorded at the time of receipt, based on pre-established standards. Donations of clothing are not recorded until distributed to clients or other relief organizations. At the time of distribution, both the contribution value and related program expense are computed using standards set by management and which approximate the fair value for second-hand clothing.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services - Donated services are reported as in-kind contributions at fair value if the service would typically need to be purchased by the Mission if they had not been provided by contribution, required specialized skills and were provided by individuals with those skills. For the years ended December 31, 2016 and 2015, the Mission has recorded $641,717 and $691,796 of donated professional services, respectively. In addition, many individuals also volunteer their time and perform a variety of tasks that assist the Mission with specific client assistance programs, general maintenance and other projects. The Mission received more than 54,630 (unaudited) volunteer hours during 2016 and more than 59,724 (unaudited) volunteer hours in 2015, which are not reflected as revenues or expenses in the financial statements.

Functional Expenses - Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocating the Mission's multiple functional expenditures.

Income Taxes - The Mission is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Mission is subject to taxes on unrelated business income. No unrelated business income tax was paid in 2016 and 2015.

The Mission believes that all significant tax positions utilized by the Mission will more likely than not be sustained upon examination. As of December 31, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2013 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statement of activities.

Split Interest Agreements - In 2014, the Mission received fractional interests in several life insurance policies. These policies are irrevocable remainder interests and, as such, are recognized as investments on the statements of financial position, and valued at their fair value at the time of the gift, which was $178,716. In 2015, the company that facilitated sales of the fractional interests filed for bankruptcy protection and the plan of reorganization was approved on December 9, 2016. Based upon information contained in the plan of reorganization, the Mission estimated a reduction in the carrying value of the investments totaling $63,342 which was recorded in 2016.

NOTE B RECEIVABLES

Receivables consist of the following at December 31:

	2016	2015
Government grants	$ 83,010	$ 120,010
Donations in transit	1,263,451	1,454,778
	$ 1,346,461	$ 1,574,788

NOTE C PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31:

	2016	2015
Receivables due in less than one year	$ 5,066,105	$ 7,636,155
Receivables due in one to five years	3,586,569	3,496,541
Thereafter	-	67,858
Less pledges restricted to Cornerstone Community, net	(6,825,598)	(9,044,601)
Less allowance for uncollectible pledges	(99,403)	(132,776)
Less discount on long-term pledge receivables at 1%	-	(11,605)
Total pledges receivable, net	$ 1,727,673	$ 2,011,572

NOTE D ASSETS HELD FOR SALE

At December 31, 2016, the Mission has two distinct assets which are currently held for sale:

On November 28, 2016, the Mission entered into an agreement to sell the land and buildings housing the Women and Family Emergency Shelter (W&F Shelter). The sale is scheduled to close in 2017 with a selling price of $4,150,000. Net proceeds from the sale will be used to develop the Cornerstone Community campus. These assets were evaluated for impairment at December 31, 2016 resulting in an impairment loss of $440,102.

The Mission is actively marketing a 6.94 acre tract of land which was donated to the Mission in 2009. The land was evaluated for impairment at December 31, 2015 resulting in an impairment loss of $48,616.

During 2016, two properties which had been included in assets held for sale as of December 31, 2015 were sold with no material gain or loss.

At December 31, 2016 and 2015, the carrying value of assets held for sale is noted in the following table:

	2016	2015
Land	$ 462,978	$ 1,940,374
Buildings and improvements	4,384,689	9,619,330
	4,847,667	11,559,704
Less accumulated impairment losses	(488,718)	(1,916,070)
	$ 4,358,949	$ 9,643,634

These assets are separately reported in the statement of financial position and are not included in the land, buildings and equipment totals in Note F.

NOTE E ASSETS RESTRICTED TO CORNERSTONE COMMUNITY

In December 2012, the Mission acquired a 48-acre site to be developed into a future campus for single women and families. In February 2014, the Mission went public with its capital campaign for the Cornerstone Community transformational campus, a place where Houston's single women and single-parent families can begin their journey toward lifelong independence. In addition, residents will have access to an array of services provided by participating collaborative partners as well as long-term family housing options once they graduate and find gainful employment.

In August 2015, the Mission's Board of Trustees approved a plan to consolidate the Mission's existing programs to single women and single-parent families at the Cornerstone Community campus. Construction commenced in March 2016 (see Note N).

Donor-restricted funds associated with the Cornerstone Community capital campaign are segregated and reported based on the imposed restrictions. The investments consist primarily of corporate bonds and government securities (see Note L).

	2016	2015
Cash	$ 9,932,070	$ 3,483,870
Pledges, net of discount	6,825,598	9,044,601
Investments	-	11,116,684
	$ 16,757,668	$ 23,645,155

NOTE F LAND, BUILDINGS AND EQUIPMENT

At December 31, the cost and accumulated depreciation of land, buildings and equipment were as follows:

	2016	2015
Land	$ 8,568,760	$ 8,723,523
Buildings and improvements	9,162,829	17,120,582
Equipment and furniture	2,229,973	2,229,973
Vehicles	551,701	551,701
Construction in progress	23,628,530	4,064,161
	44,141,793	32,689,940
Less accumulated depreciation	(5,448,103)	(8,371,061)
	$ 38,693,690	$ 24,318,879

NOTE G RETIREMENT PLANS

The Mission has established a defined contribution retirement plan commonly referred to as a 401(k) plan. Employees may choose to defer a portion of their compensation and the investments are selected by the employees. The Mission, at its discretion, may choose to make contributions to the plan. The Mission's contribution is vested on a graduated scale over six years. At the end of six years of service, the employee is fully vested. For the years ended December 31, 2016 and 2015, the Mission's contributions to the plan were approximately $387,000 and $354,000, respectively.

NOTE H NOTE PAYABLE

On August 23, 2012, the Mission arranged a portfolio loan account (PLA) which is collateralized by the investments held with the financial institution. The total amount available on this account is $5,089,000 and any withdrawals must be preapproved by the Finance and Endowment Committee. Under the terms of the Construction Loan Agreement (see Note N), outstanding borrowings under the PLA are limited to $250,000. Interest on such withdrawals is charged at the corresponding PLA index plus 2.5% (3.01% at December 31, 2016 and 2.68% at December 31, 2015). Borrowings outstanding on the PLA at both December 31, 2016 and 2015 were $-0- and $950,000, respectively and are payable upon demand.

NOTE I RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	2016	2015
United Way receivable	$ 970,765	$ 908,957
Client programs	1,932,264	1,603,765
Land, buildings, and equipment	44,135,590	37,458,325
Special events (time restricted)	346,366	635,151
	$ 47,384,985	$ 40,606,198

NOTE J RELEASE OF RESTRICTIONS ON NET ASSETS

In 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2016	2015
United Way receivable	$ 949,354	$ 1,009,951
Client programs	1,102,837	1,439,574
Land, buildings, and equipment	491,142	130,001
Special events (time restricted)	214,002	1,162,683
Cornerstone expenses	10,724	717,853
	$ 2,768,059	$ 4,460,062

NOTE K ENDOWMENT FUNDS

The Mission's Board of Trustees has established an endowment fund to provide funding for long-term needs, where the funds contributed by donors are not spent immediately, but are invested to provide a stream of earnings which can then be used or reinvested for later needs. Donations to the endowment are considered unrestricted, unless restrictions are specified by the donor. The Mission has also established a Finance and Endowment Committee to administer the ongoing activities of the endowment and to ensure that proper records and controls are maintained to comply with donors' specific conditions.

The Mission's Board of Trustees has established a policy that at least 4% of the net asset value of this fund, computed at the beginning of the year, shall be transferred to operations annually. Expending any amount in excess of 10% of the net value of the endowment or expending any portion of the initial contributions (both donor contributions and Mission transfers) to the endowment requires Finance and Endowment Committee recommendation and the vote of 75% of the entire Board of Trustees. The endowment funds are invested in accordance with an investment policy. The primary objectives, as stated in the policy, are preservation of capital and to achieve returns in excess of the rate of inflation to preserve purchasing power of the funds, while controlling risk.

The Mission also has a permanently restricted endowment fund. The Mission has interpreted The Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result, the Mission classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment. The net appreciation or depreciation to the endowment fund investment accounts is classified as board designated net assets.

NOTE K ENDOWMENT FUNDS (CONTINUED)

The composition of and changes in endowment net assets as of December 31 are as follows:

	Permanently Restricted	Board Designated	Total
Endowment net assets, December 31, 2014	$ 1,050,000	$ 9,101,640	$ 10,151,640
Investment return:			
Investment income	-	245,971	245,971
Net realized and unrealized loss	-	(589,681)	(589,681)
Management fees	-	(70,400)	(70,400)
Total investment return	-	(414,110)	(414,110)
Annual net asset transfer to operating fund	-	(402,181)	(402,181)
Endowment net assets, December 31, 2015	1,050,000	8,285,349	9,335,349
Investment return:			
Investment income	-	248,412	248,412
Net realized and unrealized loss	-	424,488	424,488
Management fees	-	(63,737)	(63,737)
Total investment return	-	609,163	609,163
Annual net asset transfer to operating fund	-	(370,433)	(370,433)
Endowment net assets, December 31, 2016	$ 1,050,000	$ 8,524,079	$ 9,574,079

From time to time, the fair value of assets associated with the permanent endowment fund may fall below the level that the donor or UPMIFA requires the Mission to retain as a fund of perpetual duration as a result of temporary unfavorable market fluctuations. As of December 31, 2016 and 2015, the endowment fund had marketable securities and cash equivalents of $9,505,345 and $9,260,824, respectively.

NOTE L FAIR VALUE DISCLOSURE

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument'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.

These inputs are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical financial instruments in active markets that the Mission has the ability to access.

NOTE L FAIR VALUE DISCLOSURE (CONTINUED)

Level 2 – Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following is a description of the valuation techniques used for assets measured at fair value.

Equity securities, mutual funds, government securities, REITs and the fund of funds are actively traded securities. Valuation inputs normally include quoted bid price in active markets for identical assets. REITs include investment vehicles that are real estate funds. They have no contractual investment period and are used to further diversify the investment portfolio.

The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single-name credit default swap spreads and recovery rates as significant inputs.

Alternative investments at 2016 and 2015 consist of a fund of funds which include investment vehicles such as equity securities and mutual funds listed on the NASDAQ stock exchange. The fair value of the alternative investment is determined by the fund's manager based on the fair value of the underlying assets.

The fair value of split interest agreements is estimated by management of the Mission based on actuarial assumptions and discount rates applied to projected future cash flows. The Mission has irrevocable rights to these investments and does not hold the assets; therefore, the Mission's interest in the assets and specified future distributions is recorded as a beneficial interest in split interest agreements. As of December 31, 2016 and 2015, the discount rate was 3.35%.

There have been no changes in the techniques used during 2016 and 2015. There were no significant transfers in and/or out of the fair value categories during 2016 and 2015. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Mission believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE L FAIR VALUE DISCLOSURE (CONTINUED)

The fair values of financial instruments are categorized as follows as of December 31:

	2016			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stock	$ 4,616,216	$ -	$ -	$ 4,616,216
Preferred stock	6,787	-	-	6,787
Mutual funds:				
Fixed income	2,235,377	-	-	2,235,377
Equity	1,081,886	-	-	1,081,886
REITs	276,487	-	-	276,487
Split interest agreements	-	-	90,380	90,380
Alternative investments:				
Fund of funds	-	861,784	-	861,784
	$ 8,216,753	$ 861,784	$ 90,380	$ 9,168,917

	2015			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stock	$ 4,525,758	$ -	$ -	$ 4,525,758
Preferred stock	14,255	-	-	14,255
Fixed income:				
Corporate bonds	-	5,404,829	-	5,404,829
Government securities	5,588,706	-	-	5,588,706
Mutual funds:				
Fixed income	1,895,372	-	-	1,895,372
Equity	1,014,576	-	-	1,014,576
REITs	372,337	-	-	372,337
Split interest agreements	-	-	178,716	178,716
Alternative investments:				
Fund of funds	-	895,017	-	895,017
	$ 13,411,004	$ 6,299,846	$ 178,716	$ 19,889,566

NOTE L FAIR VALUE DISCLOSURE (CONTINUED)

The table below sets forth a summary of the changes in the fair value of the Level 3 investments for the year ended December 31, 2016. There were no changes in value in Level 3 investments for the year ended December 31, 2015.

Balance, beginning of year	$ 178,716
Receipts	(24,994)
Unrealized loss	(63,342)
Balance, end of year	$ 90,380

NOTE M RELATED PARTIES

Trees of Hope is a charitable 501(c)(3) corporation that donates the net proceeds from its fundraising activities to the Mission. Trees of Hope is controlled by a Board of Directors separate from that of the Mission; therefore consolidated financial statements are not required. Instead, the Mission records its beneficial interest in the net assets of Trees of Hope. Contributions recorded during 2016 and 2015 include cash received from Trees of Hope amounting to $500,000 and $625,000, respectively.

NOTE N COMMITMENTS AND CONTINGENCIES

The Mission leases office, warehouse and activity center space, office equipment and a parking lot under operating leases with future commitments as follows:

2017	$ 459,615
2018	439,947
2019	384,119
2020	192,327
2021	120,000
Thereafter	60,000
	$ 1,656,008

Rent expense amounted to $851,567 and $838,955 for 2016 and 2015, respectively.

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. The Mission intends to fulfill the conditions of all grants, recognizing that the failure to fulfill the conditions could result in the return of the funds to the grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the Mission. In management's opinion, disallowed claims, if any, would not have a material adverse effect on the Mission's financial position or results of operations.

NOTE N COMMITMENTS AND CONTINGENCIES (CONTINUED)

In April, 2008, the Mission executed a Deed of Trust covering the Transitional Living Center (TLC) in favor of the Federal Home Loan Bank of Dallas (FHLBD) in exchange for funding in the amount of $350,000. The funds were used to partially rehabilitate the TLC and, under the Agreement, the Mission must continue to use the facility to meet the needs of the homeless for a fifteen-year term. Repayment would be required if the Mission were to change the use or sell the property. The Mission also has certain annual reporting requirements under the Agreement. On April 27, 2016, the Mission sold the TLC and was required by the FHLBD to retain $350,000 of the sale proceeds in escrow. Under the terms of the Escrow Agreement, the FHLBD will release the Deed of Trust covering the TLC on or before July 31, 2017.

In August, 2011, the Mission executed a Deed of Trust covering the Men's Development Center in favor of the FHLBD in exchange for funding of a grant in the amount of $500,000. The funds were used to partially rehabilitate the shelter and under the Agreement, the Mission must continue to use the facility to meet the needs of the homeless for a fifteen-year term. Repayment would be required if the Mission were to change the use or sell the property. The Mission also has certain annual reporting requirements under the Agreement.

In April, 2008, the Mission executed a Deed of Trust covering the W&F Shelter in favor of FHLBD in exchange for funding of a grant in the amount of $350,000. The funds were used to partially rehabilitate the shelter and under the agreement, the Mission must continue to use the facility to meet the needs of the homeless for a fifteen-year term. Repayment would be required if the Mission were to change the use or sell the property. The Mission also has certain annual reporting requirements under the Agreement. As discussed in Note D, the Mission has entered into an agreement to sell the W&F Shelter. Management believes FHLBD will not require repayment of the grant, and will allow the deed restriction to be transferred to Cornerstone Community for the remainder of the fifteen-year term.

In September 2006, the City of Houston (City), under the Community Development Block Grant program, granted $400,000 to help fund the renovation of the W&F Shelter. This agreement was amended in April 2008 to provide an additional $100,000 in funding to complete the renovations. In 2007, the Mission received $258,661 and an additional $241,339 was received in 2008, totaling $500,000. This agreement expired by its terms on September 28, 2016 with no liability to the Mission.

In March 2012, the City, under the Community Development Block Grant program, granted $300,000 to help fund the upgrade of the HVAC system at the W&F Shelter. Under the terms of the agreement, the Mission could incur a liability if it sells, transfers or assigns its interest in the facility prior to July 16, 2018. As discussed in Note D, the Mission has entered into an agreement to sell the W&F Shelter. Refer to Note O for subsequent activity.

NOTE N COMMITMENTS AND CONTINGENCIES (CONTINUED)

On February 18, 2016, the Mission, as landlord entered, into an agreement whereby the Mission would construct a building at Cornerstone Community, and lease the building to a tenant for use as a community center. The Mission will be responsible for the costs related to the improvements, and will receive from the tenant a construction cost donation of $500,000 payable upon the achievement of certain milestones. Once the construction is complete, the tenant will occupy and operate the facility for an initial term of sixty months with annual lease payments of $60,000. Refer to Note O for subsequent event activity.

On February 24, 2016, the Mission entered into an agreement with a general contractor to perform site development work at Cornerstone Community. The contract is in an amount not to exceed $9,383,587. Construction activities commenced on March 14, 2016 and were completed July 15, 2016. On June 23, 2016, the Mission entered into an additional agreement with this same general contractor to construct seven buildings on the Cornerstone Community campus. The contract is in an amount not to exceed $33,001,957, with a scheduled completion date in the third quarter of 2017.

On April 12, 2016, the Mission entered into a Construction Loan Agreement to finance construction of improvements at Cornerstone Community. The loan agreement consists of two loans: (i) a $10,000,000 advancing term loan (Fixed Loan), and (ii) a $15,000,000 advancing term loan (Floating Loan), as discussed further below. The Mission may request advances through September 30, 2017, and advances are made pro rata between the Fixed Loan and Floating Loan. The loans are secured by a first lien deed of trust on the Cornerstone Community property and improvements, and collection of Cornerstone Community proceeds including bank accounts, pledges and income assignment of rights under construction. The Mission is under restrictive covenants limiting additional borrowings.

The two loans will reduce in combined availability based on the following schedule:

December 31, 2017	$ 22,500,000
December 31, 2018	$ 20,000,000
December 31, 2019	$ 17,500,000
December 31, 2020	$ 15,000,000

Monthly interest payments only are required for the duration of the loans, based on the following:

Fixed Loan – The interest rate on outstanding borrowings is fixed at 3.25% for the duration of the loan.

Floating Loan – The interest rate on outstanding borrowings will be floating at 30-day LIBOR + 175 basis points (indicative rate of 2.52% at the financial statement date).

There is a 0.25% unused commitment fee due quarterly once the total borrowings reach $10,000,000. All capital campaign proceeds will be used to fund construction draws or reduce the principal balance of the loans. The loans mature on April 12, 2021.

As of December 31, 2016, the Mission had yet to borrow on the loans.

NOTE O SUBSEQUENT EVENTS

The Mission has evaluated subsequent events through June 22, 2017, the date the financial statements were available to be issued. Significant subsequent events are as follows:

On January 3, 2017, the Mission entered into a change order to the Cornerstone Community construction contract to construct a building for use as a community center. The amount of the change order is $2,153,671. A portion of this cost will be paid by the future tenant of the community center as discussed in Note N.

On January 27, 2017, the Mission and the City agreed to amend the $300,000 Community Development Block Grant that was originally executed in March 2012. Under the terms of the amendment, the City agreed to allow the Mission to transfer the final year of agreement to Cornerstone Community, and not to incur any liability under the grant when the Mission sells the W&F Shelter.

On January 27, 2017, the Mission entered into a performance based loan in the amount of $800,000 with the City for use in construction of certain buildings at Cornerstone Community. Under the terms of the agreement, the loan balance is automatically reduced by $160,000 each year (at no liability to the Mission) until it expires in five years. The Mission would be required to pay off the unpaid principal balance if it sells, transfers or assigns its interest in the facility within the five-year period. As of June 22, 2017, the Mission had received $720,000 in proceeds from the loan. The Mission expects to receive the remaining $80,000 before the end of 2017.

No other subsequent events occurred or require adjustment or additional disclosure to the financial statements.