

**AUSTIN HABITAT FOR  
HUMANITY, INC.**

**Consolidated Financial Statements  
and Supplemental Information  
as of and for the Years Ended  
December 31, 2012 and 2011 and  
Independent Auditors' Report**

# AUSTIN HABITAT FOR HUMANITY, INC.

## TABLE OF CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
SUPPLEMENTAL INFORMATION:	
Supplemental Schedule of Functional Expenses	18
Consolidating Schedule of Financial Position	19
Consolidating Schedule of Activities	20



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Austin Habitat for Humanity, Inc.:

### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of Austin Habitat for Humanity, Inc. and its affiliates, Austin Neighborhood Alliance for Habitat, Inc. and HomeBase Texas (collectively, the "Organization") which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the 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.

### **Auditors' Responsibility**

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*

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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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.

### **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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying consolidating schedules of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Maxwell Locke + Ritter LLP*

May 31, 2013

# AUSTIN HABITAT FOR HUMANITY, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,572,495	\$ 1,079,243
Restricted cash	177,730	50,059
Accounts receivable	192,203	151,726
Grants receivable	14,271	32,770
Mortgages receivable, current portion, net	273,816	244,165
ReStore inventory	290,481	270,390
Construction in progress	824,248	1,715,901
Prepaid expenses and other	164,318	206,629
Total current assets	3,509,562	3,750,883
LAND HELD FOR DEVELOPMENT	3,815,201	3,770,142
MORTGAGES RECEIVABLE, long-term portion, net	6,124,874	5,509,137
INVESTMENTS IN JOINT VENTURES	2,429,247	998,238
PROPERTY AND EQUIPMENT, net	440,883	503,783
INTANGIBLES, net	151,511	83,775
<b>TOTAL ASSETS</b>	<b><u>\$ 16,471,278</u></b>	<b><u>\$ 14,615,958</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 26,579	\$ 191,915
Accrued expenses	394,377	92,116
Forgivable loans payable	3,223,508	4,299,441
Notes payable, current portion	31,775	78,456
Total current liabilities	3,676,239	4,661,928
NOTES PAYABLE, long-term portion	3,477,530	1,617,691
Total liabilities	7,153,769	6,279,619
<b>NET ASSETS:</b>		
Unrestricted	9,232,700	8,269,674
Temporarily restricted	84,809	66,665
Total net assets	9,317,509	8,336,339
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 16,471,278</u></b>	<b><u>\$ 14,615,958</u></b>

See notes to consolidated financial statements.

# AUSTIN HABITAT FOR HUMANITY, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES:</b>			
Contributions and other:			
Contributions and grants	\$ 4,216,277	95,195	4,311,472
Gain on sale of property and equipment	174,673	-	174,673
In-kind professional services and other	17,060	-	17,060
Partnership income	13,732	-	13,732
Investment income	883	-	883
Other revenue	234,913	-	234,913
Net assets released from restrictions	77,051	(77,051)	-
Total contributions and other	4,734,589	18,144	4,752,733
ReStore revenues:			
In-kind contributions of inventory	831,504	-	831,504
ReStore sales of donated inventory	831,504	-	831,504
Donated inventory expense	(831,504)	-	(831,504)
ReStore sales of purchased inventory	468,620	-	468,620
ReStore cost of goods sold	(249,042)	-	(249,042)
Total ReStore revenues, net	1,051,082	-	1,051,082
Low-cost housing revenues:			
Home sales	1,723,924	-	1,723,924
In-kind contributions of labor and construction materials	841,860	-	841,860
Total low-cost housing revenues	2,565,784	-	2,565,784
Total revenues and net assets released from restrictions	8,351,455	18,144	8,369,599
<b>EXPENSES:</b>			
Low-cost housing program	6,158,867	-	6,158,867
ReStore program	476,607	-	476,607
Fundraising	289,428	-	289,428
Management and general	463,527	-	463,527
Total expenses	7,388,429	-	7,388,429
<b>CHANGE IN NET ASSETS</b>	963,026	18,144	981,170
<b>NET ASSETS, beginning of year</b>	8,269,674	66,665	8,336,339
<b>NET ASSETS, end of year</b>	\$ 9,232,700	84,809	9,317,509

See notes to consolidated financial statements.

# AUSTIN HABITAT FOR HUMANITY, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES:</b>			
Contributions and other:			
Contributions and grants	\$ 3,513,624	41,329	3,554,953
Gain on sale of property and equipment	90,650	-	90,650
In-kind professional services and other	43,133	-	43,133
Investment loss	(1,331)	-	(1,331)
Other revenue	102,411	-	102,411
Net assets released from restrictions	8,537	(8,537)	-
Total contributions and other	<u>3,757,024</u>	<u>32,792</u>	<u>3,789,816</u>
ReStore revenues:			
In-kind contributions of inventory	809,055	-	809,055
ReStore sales of donated inventory	809,055	-	809,055
Donated inventory expense	(809,055)	-	(809,055)
ReStore sales of purchased inventory	397,780	-	397,780
ReStore cost of goods sold	(210,347)	-	(210,347)
Total ReStore revenues, net	<u>996,488</u>	<u>-</u>	<u>996,488</u>
Low-cost housing revenues:			
Home sales	1,185,000	-	1,185,000
In-kind contributions of labor and construction materials	478,900	-	478,900
Total low-cost housing revenues	<u>1,663,900</u>	<u>-</u>	<u>1,663,900</u>
Total revenues and net assets released from restrictions	<u>6,417,412</u>	<u>32,792</u>	<u>6,450,204</u>
<b>EXPENSES:</b>			
Low-cost housing program	4,074,057	-	4,074,057
ReStore program	471,830	-	471,830
Fundraising	336,447	-	336,447
Management and general	473,889	-	473,889
Total expenses	<u>5,356,223</u>	<u>-</u>	<u>5,356,223</u>
<b>CHANGE IN NET ASSETS</b>	1,061,189	32,792	1,093,981
<b>NET ASSETS, beginning of year</b>	<u>7,208,485</u>	<u>33,873</u>	<u>7,242,358</u>
<b>NET ASSETS, end of year</b>	<u>\$ 8,269,674</u>	<u>66,665</u>	<u>8,336,339</u>

See notes to consolidated financial statements.

# AUSTIN HABITAT FOR HUMANITY, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 981,170	\$ 1,093,981
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash transfer of operating assets and liabilities of Austin PeopleTrust	-	147,493
Mortgages receivable discount	648,434	529,021
Amortization - mortgages receivable discount	(435,641)	(380,307)
Depreciation expense	46,871	58,567
Amortization expense - intangibles	12,913	-
Unrealized losses on investments	-	76
Gain on sale of property and equipment	(174,673)	(90,650)
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(40,477)	(136,570)
Grants receivable	18,499	21,905
Mortgages receivable	(858,181)	(456,166)
ReStore inventory	(20,091)	(26,542)
Construction in progress	891,653	(694,058)
Prepaid expenses and other	42,311	(46,818)
Land held for development	(45,059)	(298,257)
Accounts payable	(165,336)	55,889
Accrued expenses	302,261	(9,362)
Forgivable loans payable	(1,075,933)	813,780
Net cash provided by operating activities	<u>128,721</u>	<u>581,982</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Restricted cash	(127,671)	(50,059)
Net sales of investments	-	209,917
Investment in joint venture	(1,431,009)	(998,238)
Net purchases of property and equipment	(125,491)	(192,076)
Proceeds from the sale of property and equipment	316,193	214,662
Purchases of intangible assets	(80,649)	(83,775)
Net cash used in investing activities	<u>(1,448,627)</u>	<u>(899,569)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net activity on line of credit	-	(240,095)
Proceeds on notes payable	2,154,679	1,320,965
Payments on notes payable	(341,521)	(54,258)
Net cash provided by financing activities	<u>1,813,158</u>	<u>1,026,612</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	493,252	709,025
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,079,243</u>	<u>370,218</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 1,572,495</u>	<u>\$ 1,079,243</u>
<b>Supplemental disclosure of cash flow information -</b>		
Interest paid on notes payable	<u>\$ 26,964</u>	<u>\$ 14,634</u>

See notes to consolidated financial statements.



# AUSTIN HABITAT FOR HUMANITY, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2012 AND 2011

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Austin Habitat for Humanity, Inc. (“AHFH”) is a nonprofit, affordable housing developer dedicated to the elimination of substandard housing in Austin, Texas. It is affiliated with Habitat for Humanity International, Inc. (“HFHI”) based in Americus, Georgia. AHFH was incorporated in 1985 under the laws of the State of Texas. While adhering to the policies and procedures prescribed by HFHI, AHFH exists as a separate corporation with its own Board of Directors. Local policies, strategies, operations, and fundraising are the responsibility of each U.S. Habitat affiliate.

Austin Neighborhood Alliance for Habitat, Inc., (the “Alliance”) is a non-profit corporation formed to support AHFH. The Alliance is certified by the Austin Housing Finance Corporation as a Community Housing Development Organization (“CHDO”). The Alliance receives federal financial assistance to acquire land and develop infrastructure for homes.

Austin PeopleTrust (“PT”) is a non-profit corporation that provides affordable homeownership opportunities to homeowners that meet a higher family income threshold than those served by AHFH. The boards of AHFH and PT resolved that AHFH would become the supported organization of PT effective November 1, 2011. PT changed its name to HomeBase Texas (“HomeBase”) in 2012.

The Alliance’s and HomeBase’s financial statements are consolidated into the financial statements of AHFH because AHFH has control over and an economic interest in the Alliance and HomeBase. AHFH and its affiliates, the Alliance and HomeBase are collectively referred to as the Organization.

To be considered for home ownership, families must be low-income families who demonstrate a need for better housing, an ability to make mortgage payments, and a willingness to work in partnership with AHFH. The partnership consists, in part, of each family completing 300 hours of “sweat equity” and meeting monthly mortgage payments. AHFH acquires the land, finds and qualifies the families, raises the funding, finds and supervises construction volunteers, builds the houses, and funds the mortgages. Houses are sold at no profit and with no interest on the mortgage. By policy of HFHI, AHFH may accept government support for land, infrastructure improvements and construction.

AHFH also operates a ReStore in Austin. The ReStore program provides access to quality building materials, new and used, to economically disadvantaged people to help them create a better human habitat in which to live and work. The ReStore receives donated materials, purchases liquidation materials and sells them.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board Accounting Standards Codification.

**Classification of Net Assets** - The consolidated financial statements report information regarding the Organization’s consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted net assets - These types of net assets are not subject to donor-imposed stipulations. 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.

Temporarily restricted net assets - These types of net assets are subject to donor imposed stipulations, which limit their use by the Organization to a specific purpose and/or the passage of time.

Permanently restricted net assets - These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by the Organization. The Organization has not received any permanently restricted net assets.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Fair Value Measurements** - The Organization measures and discloses fair value measurements in accordance with the authoritative literature. 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. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 - Inputs based on quoted market prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 - Unobservable inputs that reflect the Organization’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

**Cash and Cash Equivalents** - The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Restricted Cash** - As a condition of the loan agreements with HFHI-SA NMTC VI, LLC and CCM Community Development XXVII, LLC, the holders of the promissory notes AHFH secured through its investment in two New Market Tax Credit (“NMTC”) programs (see Note 7), AHFH established separate bank accounts for a segregated portion of the business, which are under the control of the lenders and in which the lenders have a lien and a security interest. The accounts are for the benefit of the lenders and are maintained and administered for the lenders for the purpose of receiving and disbursing certain amounts related to the NMTC transactions.

**Accounts Receivable** - Accounts receivable are recorded at the amount the Organization expects to collect on outstanding balances. The Organization has not recorded an allowance for uncollectible receivables at December 31, 2012 or 2011 because management estimates all balances to be collectible.

**Grants Receivable** - Grants receivable are recorded at the amount the Organization expects to receive from grantors. No allowance for uncollectible grants receivable has been recorded as, historically, the Organization has not experienced material uncollectible amounts.

**Home Sales and Mortgages Receivable** - Home sales represent the sale to qualified families of houses built in Austin, Texas by the Organization. Homes are sold at cost when possible and the sales are financed by the Organization utilizing non-interest bearing 15 to 35 year mortgages due in monthly installments from the families. The mortgages are secured by the underlying real estate and are carried at the unpaid principal balances. The Organization obtains a deed of trust for any difference between the agreed-upon purchase price and the current fair value of the property. This difference, referred to as “the equity”, is payable to the Organization should the homeowner sell the property before the mortgage is paid off or if the home is foreclosed and sold in the open market.

The mortgages receivable are discounted based upon prevailing market interest rates for low-income housing at the inception of the mortgages. The financing discounts are amortized and reflected as revenue when mortgage payments are collected, which is included net of discount on mortgages expense within the low-cost housing program. The present value discount on mortgages for homes sold is shown as discount on mortgages expense within the low-cost housing program.

The Organization monitors the mortgages on a monthly basis and considers all mortgages to be collectible, thus no allowance for loan losses has been recorded. The Organization maintains a partner relationship with the mortgagees (“partner families”). However, the Organization will consider foreclosure proceedings on any delinquent accounts if the partner family ceases to have the ability to pay and make payments on the mortgage or no longer has a willingness to partner with the Organization. At December 31, 2012, and 2011, the Organization had recorded investment in foreclosed loans of \$51,065 and \$119,931, respectively.

**ReStore Inventory** - ReStore inventory consists of donated building materials and purchased building materials available for sale. Donated inventory is recorded as in-kind contributions of inventory at fair value when received based on estimated sales value. Purchased inventory is stated at the lower of cost or market determined by the first-in, first-out method. As donated inventory is sold, the Organization records donated inventory expense.

**Construction in Progress** - Construction in progress represents home construction and land costs incurred on incomplete homes in progress and completed homes not yet conveyed to the recipient family. Construction in progress is expensed to cost of homes sold expense within the low-cost housing program when the home is transferred to the recipient family.

**Investments in Joint Ventures** - In November 2011, AHFH invested, along with eleven other Habitat affiliates, in a joint venture named HFHI-SA Leverage IX, LLC with 4.82% ownership to take advantage of NMTC financing. In July 2012, AHFH participated in a second NMTC transaction along with eleven other Habitat affiliates. As a result of this transaction, AHFH acquired a 9.09% ownership in a joint venture named CCML Leverage II, LLC. Since AHFH has no ability to influence the operating or financial policies of HFHI-SA Leverage IX, LLC and CCML Leverage II, LLC, the cost method is used to account for these investments. Under that method, AHFH records income only to the extent of distributions received. For the year ended December 31, 2012, AHFH received \$13,732 in distributions. These distributions are reported in the consolidated statements of activities as partnership income. No distributions were received for the year ended December 31, 2011.

**Property and Equipment** - Property and equipment consists of land, buildings, and equipment. Property and equipment additions are recorded at cost if purchased or estimated fair value if donated less accumulated depreciation. The Organization capitalizes all additions over \$1,000 and expenses maintenance and repairs that do not improve or extend the useful lives of the respective assets. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Estimated useful lives are three to five years for computer equipment; five years for building improvements, software and vehicles; three to seven years for tools and construction equipment; and twenty to forty years for completed houses and buildings.

**Intangibles** - The Organization incurred structuring fees for the investments in the joint ventures and guarantee fees and closing costs for the loans to finance these investments and construction costs in 2011 and 2012. The structuring and guarantee fees are being amortized over seven years and the loan closing costs are being amortized over sixteen years.

**Forgivable Loans Payable** - The Organization receives financial assistance for land acquisition and development costs for homes from the City of Austin, administered through the CHDO Program of the Austin Housing Finance Corporation (“AHFC”) and from other grantors. Under the terms of agreements entered into with AHFC and other grantors, funds are provided to the Organization in the form of forgivable loans. The agreements provide for the forgivable loan to be secured by deeds of trust on the land acquired under the agreement. The loan under each agreement is forgiven upon the successful conveyance to eligible buyers of all the homes included in the agreement, subject to certain conditions. Amounts received are reflected as forgivable loans payable until all conditions necessary to secure the forgiveness of the debt are met, at which time the forgivable loans are recognized as grant revenue. Forgivable loans payable represent amounts received under agreements with AHFC and other grantors for which all conditions necessary to secure the forgiveness of the debt had not yet been met.

**Contribution Revenue** - All contributions are recorded at their fair value and are considered to be available for operations of the Organization unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as temporarily restricted net assets, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the consolidated statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Government Grant Revenue** - The Organization receives funding from governmental financial assistance programs that supplement its traditional funding sources. The awards provide for reimbursement of qualifying costs incurred, as defined in the underlying award agreements. The Organization recognizes revenue from these awards as services are rendered and expenses are incurred.

**In-Kind Service Contributions** - A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. Donated services are recognized as contributions if the services (1) create or enhance non-financial assets, or (2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Under those criteria volunteer time to construct homes is recognized as contribution revenue and capitalized as construction in progress. When homes are transferred to recipient families, construction in progress is recorded as component of cost of homes sold within the low-cost housing program. Professional services are also reflected under those criteria and are recognized as in-kind professional services revenue and professional services expense in the period received.

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

**Federal Income Taxes** - AHFH, the Alliance and HomeBase are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, except for any unrelated business activities.

**Reclassifications** - Certain amounts from prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net assets.

### 3. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Organization places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. Management does not believe a significant concentration of risk exists. The Organization does not maintain collateral for its receivables and does not believe significant risk exists at December 31, 2012 or 2011.

#### 4. RELATED PARTY TRANSACTIONS AND AFFILIATIONS

Board contributions for the years ended December 31, 2012 and 2011 were \$20,115 and \$54,824, respectively.

The Organization operates within a covenant agreement with HFHI. The Organization tithes to support HFHI's international homebuilding work. Tithes to HFHI totaled \$56,000 and \$40,000 for the years ended December 31, 2012 and 2011, respectively.

The United States Department of Housing and Urban Development ("HUD") has awarded grants to HFHI under the Self-Help Home Ownership Program ("SHOP") for land acquisition and infrastructure improvements for houses. Grant funds are passed through by HFHI directly to participating U.S. affiliates in the form of a 75% grant and 25% loan. Notes payable to HFHI under SHOP arrangements totaled \$46,913 and \$79,541 at December 31, 2012 and 2011, respectively, and are included in notes payable in the consolidated statements of financial position.

#### 5. MORTGAGES RECEIVABLE

Mortgages receivable consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Mortgages receivable	\$ 10,523,471	\$ 9,683,202
Financing discount based on imputed interest at rates ranging from 4% to 8%	<u>(4,124,781)</u>	<u>(3,929,900)</u>
	<u>\$ 6,398,690</u>	<u>\$ 5,753,302</u>

Mortgages receivable were valued using the income approach and inputs were considered Level 2 under the fair value hierarchy. Future mortgage payments scheduled to be collected at December 31, 2012 are as follows:

2013	\$ 634,480
2014	625,912
2015	620,129
2016	605,998
2017	592,524
Thereafter	<u>7,444,428</u>
Total	<u>\$ 10,523,471</u>

#### 6. RESTORE INVENTORY

ReStore inventory consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Donated goods	\$ 155,000	\$ 155,000
Purchased materials	<u>135,481</u>	<u>115,390</u>
	<u>\$ 290,481</u>	<u>\$ 270,390</u>

## 7. INVESTMENTS IN JOINT VENTURES

AHFH participated in NMTC programs in November 2011 and in July 2012. The programs, administered by the U.S. Department of the Treasury, provide funds from outside investors to eligible organizations for investment in qualified low-income community investments. Outside investors receive new markets tax credits to be applied against their federal tax liability. Programs compliance requirements included creation of promissory notes and investments in qualified community development entities (“CDE or sub-CDE”). Tax credit recapture is required if compliance requirements are not met over a seven-year period after each transaction settlement date.

In November 2011, AHFH invested \$1,000,044 in HFHI-SA Leverage IX, LLC and secured a 16-year loan in the amount of \$1,320,965 payable to the sub-CDE named HFHI-SA NMTC VI, LLC (see Note 10). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan requires semi-annual interest only payments until November 15, 2019 at 0.75%. Commencing November 15, 2019, semi-annual principal payments are due through maturity date of November 13, 2027. The loan is secured by substantially all the assets acquired by AHFH from the project loan proceeds. As part of the NMTC program, 99.98% of the interest payments will be refunded to the Organization on a semi-annual basis.

In November 2019, HFHI-SA Investment Fund VI, LLC (the “Fund”), the effective owner of HFHI-SA NMTC VI, LLC (holder of the promissory note due from AHFH), is expected to exercise a put option. Under the terms of the put option agreement, HFHI-SA Leverage IX, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow AHFH to extinguish its outstanding debt owed to the Fund.

In July 2012, AHFH invested \$1,431,009 in CCML Leverage II, LLC and secured a 16-year loan in the amount of \$1,880,000 payable to the sub-CDE named CCM Community Development XXVII, LLC (see Note 10). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan requires semi-annual interest only payments until August 10, 2019 at 0.76%. Commencing August 10, 2019, semi-annual principal payments are due through maturity date of July 26, 2028. The loan is secured by substantially all the assets acquired by AHFH from the project loan proceeds. As part of the NMTC program, 99.99% of the interest payments will be refunded to the Organization on a semi-annual basis.

In August 2019, CCM CD 27 Investment Fund, LLC (the “Fund”), the effective owner of CCM Community Development XXVII, LLC (holder of the promissory note due from AHFH), is expected to exercise a put option. Under the terms of the put option agreement, CCML Leverage II, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow AHFH to extinguish its outstanding debt owed to the Fund.

The investments in the joint ventures are recorded at fair value using the cost approach. These investments are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as follows:

Balance, beginning of year	\$ 998,238
Investment in joint venture in current year	1,431,009
Balance, end of year	<u>\$ 2,429,247</u>

## 8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 176,225	\$ 176,225
Building and improvements	450,733	541,042
Equipment	395,921	395,921
Trucks	<u>220,578</u>	<u>208,734</u>
Total	1,243,457	1,321,922
Accumulated depreciation	<u>(802,574)</u>	<u>(818,139)</u>
Property and equipment, net	<u>\$ 440,883</u>	<u>\$ 503,783</u>

## 9. INTANGIBLES

Intangibles consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Loan closing costs	\$ 72,042	\$ 33,974
Structuring fees	49,801	49,801
Guarantee fees	<u>44,137</u>	<u>-</u>
Total	165,980	83,775
Accumulated amortization	<u>(14,469)</u>	<u>-</u>
Intangibles, net	<u>\$ 151,511</u>	<u>\$ 83,775</u>



## 10. DEBT

Notes payable consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Non-interest bearing, unsecured notes payable to HFHI under SHOP grants, due in monthly installments through 2015.	\$ 46,913	\$ 79,541
Unamortized discount based on imputed interest rates averaging 4.0%.	<u>(1,952)</u>	<u>(1,952)</u>
	44,961	77,589
Mortgage note payable to a bank, due in monthly installments of \$3,819 plus interest at a variable rate (3.0% at December 31, 2011), secured by ReStore's land and buildings. This note was refinanced on July 26, 2012.	<u>-</u>	<u>297,593</u>
Mortgage note payable to a bank, due in monthly installments of \$916 plus interest at a variable rate (3.0% at December 31, 2012) through 2017, secured by ReStore's land and buildings.	<u>263,379</u>	<u>-</u>
Promissory note to HFHI-SA NMTC VI, LLC, semi-annual interest only payments until November 15, 2019 at 0.75% followed by semi-annual principal payments due through maturity date of November 13, 2027, secured by substantially all the assets acquired by AHFH from the NMTC project loan proceeds.	<u>1,320,965</u>	<u>1,320,965</u>
Promissory note to CCM Community Development XXVII, LLC, semi-annual interest only payments until August 10, 2019 at 0.76% followed by semi-annual principal payments due through maturity date of July 26, 2028, secured by substantially all the assets acquired by AHFH from the NMTC project loan proceeds.	<u>1,880,000</u>	<u>-</u>
	3,509,305	1,696,147
Current portion	<u>(31,775)</u>	<u>(78,456)</u>
Long-term portion	<u>\$ 3,477,530</u>	<u>\$ 1,617,691</u>

The Organization has an available \$525,000 revolving line of credit with a bank expiring November 1, 2013. The line provides for a variable rate of interest (3.25% at December 31, 2012), and is secured by deposits with financial institutions, marketable securities, accounts receivable, inventory, and equipment, and is cross-collateralized with the mortgage note payable. There was no outstanding balance at December 31, 2012 and 2011.

The line of credit, notes payable and promissory note contain certain financial covenants, including requirements for liquidity, earnings, and fixed charge coverage. The agreements also contain additional conditions limiting indebtedness, capital expenditures, and various other covenants as defined in the agreements. Failure to comply with the covenants could result in the debt being called by the lenders.

For the years ended December 31, 2012 and 2011, interest incurred on debt and charged to expense was \$26,964 and \$14,634, respectively. Future maturities of debt at December 31, 2012 are as follows:

2013	\$ 31,775
2014	23,593
2015	12,020
2016	10,992
2017	229,960
Thereafter	<u>3,200,965</u>
Total	<u><u>\$ 3,509,305</u></u>

## 11. LETTERS OF CREDIT

The Organization had entered into letters of credit with financial institutions totaling \$168,875 each year at December 31, 2012 and 2011, respectively, pursuant to subdivision construction agreements with the City of Austin. The letters of credit expire in 2013 and specify that drafts may be drawn by the City of Austin Watershed Protection and Development Review Department. There have been no amounts drawn under these letters of credit.

## 12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2012</u>	<u>2011</u>
Caldwell Chapter	\$ 45,953	\$ 35,318
UT Campus Chapter	25,658	16,612
Bastrop Chapter	13,198	536
Blanco Chapter	-	13,199
Technology improvements	-	1,000
	<u>\$ 84,809</u>	<u>\$ 66,665</u>

## 13. RETIREMENT PLAN

The Organization sponsors a 401(k) plan that covers substantially all employees. The Organization's contributions to the plan for the years ended December 31, 2012 and 2011 were \$58,255 and \$69,137, respectively.

#### **14. LEASE COMMITMENTS**

The Organization leases office space, a construction warehouse, telephone equipment, and a copier under operating leases. Lease expense under these leases totaled \$124,134 and \$119,038, respectively, for the years ended December 31, 2012 and 2011. Future minimum lease payments under the leases at December 31, 2012 are as follows:

2013	\$	64,962
2014		11,375
2015		11,375
2016		11,375
2017		3,744
	\$	<u>102,831</u>

#### **15. CONTINGENCIES**

The Organization receives government grants for specific purposes that are subject to review and audit by government agencies. Such audits could result in a request for reimbursement for expenditures disallowed under terms and conditions of the appropriate agency. In the opinion of the Organization's management, such disallowances, if any, would not be significant.

#### **16. FEDERAL INCOME TAXES**

The Organization is subject to federal income taxes on unrelated business income, which consists of ReStore sales of purchased materials. As of December 31, 2012 and 2011, the Organization has incurred cumulative net operating losses of approximately \$1,200,000 and \$1,150,000, respectively, for federal income tax purposes from the Organization's activity. The net operating losses may be used to offset future taxable unrelated business income. If not utilized, these net operating losses would expire in the years 2022 through 2032. The net change in the total valuation allowance for the year ended December 31, 2012 and 2011 was \$17,000 and \$26,520, respectively. A full valuation allowance has been recorded as utilization is uncertain.

#### **17. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through May 31, 2013 (the date the consolidated financial statements were available to be issued), and no events have occurred from the consolidated statement of financial position date through that date that would impact the consolidated financial statements.

## **SUPPLEMENTAL INFORMATION**

# AUSTIN HABITAT FOR HUMANITY, INC.

## SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2012

	2012				2011	
	Low-Cost Housing	ReStore	Fundraising	Management and General	Total	Total
Salaries	\$ 776,336	272,550	170,772	283,227	1,502,885	1,326,402
Fringe benefits	88,383	34,462	16,064	25,205	164,114	156,920
Workers compensation	20,533	13,101	331	466	34,431	24,738
Payroll taxes	59,366	23,985	14,131	22,879	120,361	110,882
AmeriCorps stipends	85,346	-	-	-	85,346	74,897
Staff development	4,053	109	1,257	1,498	6,917	6,708
Travel and business meals	19,584	5,016	3,095	4,833	32,528	34,369
Supplies	9,244	6,280	1,984	4,032	21,540	23,528
Utilities	9,167	21,567	41	220	30,995	33,834
Warehouse and office rent	73,519	-	13,785	24,190	111,494	107,733
Telephone	24,476	10,566	3,661	4,624	43,327	53,376
Postage and freight	1,804	27	483	929	3,243	4,637
Security	481	1,763	-	-	2,244	3,729
Taxes	4,459	-	-	-	4,459	-
Insurance	38,263	17,785	4,448	6,323	66,819	77,414
Maintenance and repairs	47,472	25,320	731	1,937	75,460	62,151
Computer expense	15,649	5,372	3,171	5,166	29,358	23,666
Equipment and tools	35,084	1,395	1,651	2,248	40,378	37,497
Newsletter expense	1,435	682	277	97	2,491	10,704
Printing	36	551	78	27	692	4
Special events	23,410	10,032	26,326	9,328	69,096	78,215
Advertisements	5,476	720	5,986	2,108	14,290	24,178
Materials Home Repair program	389,000	-	-	-	389,000	238,177
Dues and subscriptions	8,803	7,211	5,301	6,650	27,965	28,001
Professional fees	58,673	10,620	5,378	16,260	90,931	98,297
Depreciation and amortization	28,585	2,052	6,248	25,827	62,712	58,567
Interest expense	9,347	2,334	3,131	13,794	28,606	14,634
Bank fees	6,160	3,107	1,098	1,659	12,024	17,366
NMTC transaction fees	16,646	-	-	-	16,646	4,517
Tithe to HFHI	56,000	-	-	-	56,000	40,000
Discount on mortgages, net	212,793	-	-	-	212,793	148,714
Cost of homes sold	3,923,627	-	-	-	3,923,627	2,335,371
Other expense	105,657	-	-	-	105,657	96,997
Total functional expenses	<u>\$ 6,158,867</u>	<u>476,607</u>	<u>289,428</u>	<u>463,527</u>	<u>7,388,429</u>	<u>5,356,223</u>

# AUSTIN HABITAT FOR HUMANITY, INC.

## CONSOLIDATING SCHEDULE OF FINANCIAL POSITION DECEMBER 31, 2012

	Austin Habitat for Humanity, Inc.	Austin Neighborhood Alliance for Habitat, Inc.	HomeBase Texas	Eliminations	Total
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 1,173,586	147	398,762	-	1,572,495
Restricted cash	177,730	-	-	-	177,730
Accounts receivable	18,778	-	173,425	-	192,203
Grants receivable	5,186	-	9,085	-	14,271
Mortgages receivable, current portion, net	273,816	-	-	-	273,816
Intercompany receivable	1,292	4,891,974	-	(4,893,266)	-
ReStore inventory	290,481	-	-	-	290,481
Construction in progress	824,248	-	-	-	824,248
Prepaid expenses and other	161,958	-	2,360	-	164,318
Total current assets	<u>2,927,075</u>	<u>4,892,121</u>	<u>583,632</u>	<u>(4,893,266)</u>	<u>3,509,562</u>
LAND HELD FOR DEVELOPMENT	2,829,020	-	986,181	-	3,815,201
MORTGAGES RECEIVABLE, long-term portion, net	6,124,874	-	-	-	6,124,874
INVESTMENTS IN JOINT VENTURES	2,429,247	-	-	-	2,429,247
PROPERTY AND EQUIPMENT, net	440,883	-	-	-	440,883
INTANGIBLES, net	151,511	-	-	-	151,511
<b>TOTAL ASSETS</b>	<u>\$ 14,902,610</u>	<u>4,892,121</u>	<u>1,569,813</u>	<u>(4,893,266)</u>	<u>16,471,278</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 22,464	-	4,115	-	26,579
Accrued expenses	98,901	-	295,476	-	394,377
Intercompany payable	4,891,974	-	1,292	(4,893,266)	-
Forgivable loans payable	972,835	1,261,270	989,403	-	3,223,508
Notes payable, current portion	31,775	-	-	-	31,775
Total current liabilities	<u>6,017,949</u>	<u>1,261,270</u>	<u>1,290,286</u>	<u>(4,893,266)</u>	<u>3,676,239</u>
NOTES PAYABLE, long-term portion	3,477,530	-	-	-	3,477,530
Total liabilities	<u>9,495,479</u>	<u>1,261,270</u>	<u>1,290,286</u>	<u>(4,893,266)</u>	<u>7,153,769</u>
<b>NET ASSETS:</b>					
Unrestricted	5,322,322	3,630,851	279,527	-	9,232,700
Temporarily restricted	84,809	-	-	-	84,809
Total net assets	<u>5,407,131</u>	<u>3,630,851</u>	<u>279,527</u>	<u>-</u>	<u>9,317,509</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 14,902,610</u>	<u>4,892,121</u>	<u>1,569,813</u>	<u>(4,893,266)</u>	<u>16,471,278</u>

# AUSTIN HABITAT FOR HUMANITY, INC.

## CONSOLIDATING SCHEDULE OF ACTIVITIES YEAR ENDED DECEMBER 31, 2012

	Austin Habitat for Humanity, Inc.	Austin Neighborhood Alliance for Habitat, Inc.	HomeBase Texas	Total
<b>REVENUES:</b>				
Contributions and other:				
Contributions and grants	\$ 3,150,302	1,063,301	97,869	4,311,472
Gain on sale of property and equipment	174,673	-	-	174,673
In-kind professional services and other	17,060	-	-	17,060
Partnership income	13,732	-	-	13,732
Investment income	883	-	-	883
Other revenue	22,311	-	212,602	234,913
Total contributions and other	<u>3,378,961</u>	<u>1,063,301</u>	<u>310,471</u>	<u>4,752,733</u>
ReStore revenues:				
In-kind contributions of inventory	831,504	-	-	831,504
ReStore sales of donated inventory	831,504	-	-	831,504
Donated inventory expense	(831,504)	-	-	(831,504)
ReStore sales of purchased inventory	468,620	-	-	468,620
ReStore cost of goods sold	(249,042)	-	-	(249,042)
Total ReStore revenues, net	<u>1,051,082</u>	<u>-</u>	<u>-</u>	<u>1,051,082</u>
Low-cost housing revenues:				
Home sales	1,723,924	-	-	1,723,924
In-kind contributions of labor and construction materials	841,860	-	-	841,860
Total low-cost housing revenues	<u>2,565,784</u>	<u>-</u>	<u>-</u>	<u>2,565,784</u>
Total revenues	<u>6,995,827</u>	<u>1,063,301</u>	<u>310,471</u>	<u>8,369,599</u>
<b>EXPENSES:</b>				
Low-cost housing program	5,971,217	385	187,265	6,158,867
ReStore program	476,607	-	-	476,607
Fundraising	289,428	-	-	289,428
Management and general	463,527	-	-	463,527
Total expenses	<u>7,200,779</u>	<u>385</u>	<u>187,265</u>	<u>7,388,429</u>
<b>CHANGE IN NET ASSETS</b>	(204,952)	1,062,916	123,206	981,170
<b>NET ASSETS, beginning of year</b>	5,612,083	2,567,935	156,321	8,336,339
<b>NET ASSETS, end of year</b>	<u>\$ 5,407,131</u>	<u>3,630,851</u>	<u>279,527</u>	<u>9,317,509</u>