# Austin Habitat for Humanity, Inc.

**(A Nonprofit Corporation)**

Report of Independent Auditor and Consolidated Financial Statements with Supplemental Information

December 31, 2019 and 2018

**AUSTIN HABITAT FOR HUMANITY, INC.**
Index to Consolidated Financial Statements
December 31, 2019 and 2018

## Report of Independent Auditor

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

We have audited the accompanying consolidated financial statements of Austin Habitat for Humanity and its subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, 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.

### Auditor's 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 financial position of Austin Habitat for Humanity, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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**Emphasis of Matter**

As discussed in Note 19 to the consolidated financial statements, the Organization's operations have been negatively impacted by the COVID-19 pandemic in 2020. The financial impact to the consolidated financial statements cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules of financial position information and consolidating schedule of activities information on pages 25 and 26, respectively, are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

**PMB HELIN DONOVAN, LLP**

PMB Helin Donovan, LLP

July 29, 2020
Austin, Texas

**AUSTIN HABITAT FOR HUMANITY, INC.**
Consolidated Statements of Financial Position
As of December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **ASSETS:** | | |
| Current assets | | |
| Cash and cash equivalents | $ 2,042,762 | $ 2,198,363 |
| Investments, at fair value | 16,204 | 15,454 |
| Accounts receivable | 615,099 | 379,407 |
| Pledges receivable, net | 234,387 | 141,554 |
| Mortgages receivable, current portion, net | 887,959 | 846,812 |
| ReStore inventory | 842,554 | 808,029 |
| Home construction in progress | 671,834 | 949,103 |
| Prepaid expenses and other current assets | 300,205 | 372,423 |
| Total current assets | 5,611,004 | 5,711,145 |
| Land held for development | 5,073,385 | 4,680,252 |
| Restricted cash | - | 17,670 |
| Pledges receivable, long-term portion, net | 243,498 | 489,951 |
| Other long-term assets | 240,790 | 192,637 |
| Mortgages receivable, long-term portion, net | 9,658,437 | 8,870,330 |
| Notes receivable - 2nd liens, net | 968,843 | 882,205 |
| Investments, at cost - NMTC | - | 1,520,548 |
| Property and equipment, net | 9,811,870 | 9,505,694 |
| TOTAL ASSETS | $ 31,607,827 | $ 31,870,432 |
| **LIABILITIES AND NET ASSETS:** | | |
| Current liabilities | | |
| Accounts payable | $ 274,295 | $ 370,556 |
| Accrued expense | 767,640 | 807,931 |
| Deferred revenue | 3,130,982 | 2,703,768 |
| Capital lease obligation, current portion | 35,304 | 34,262 |
| Notes payable - TDHCA, current portion | 108,816 | 98,316 |
| Long-term debt, current portion | 2,272 | 162,998 |
| Total current liabilities | 4,319,309 | 4,177,831 |
| Capital lease obligation, long-term portion | 186,943 | 225,171 |
| Notes payable - TDHCA, long-term portion | 1,373,638 | 1,243,580 |
| Long-term debt, net of debt issuance costs | 5,310,967 | 6,528,714 |
| Total liabilities | 11,190,857 | 12,175,296 |
| Net assets | | |
| Without donor restrictions | 18,772,496 | 18,028,116 |
| With donor restrictions | 1,644,474 | 1,667,020 |
| Total net assets | 20,416,970 | 19,695,136 |
| TOTAL LIABILITIES AND NET ASSETS | $ 31,607,827 | $ 31,870,432 |

See accompanying notes and report of independent auditor.

**AUSTIN HABITAT FOR HUMANITY, INC.**

Consolidated Statement of Activities

Year Ended December 31, 2019

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| **REVENUES:** | | | |
| Contributions and other income: | | | |
| Contributions | $ 1,139,777 | $ 771,141 | $ 1,910,918 |
| In-kind contributions | 332,955 | - | 332,955 |
| Home building sponsorship revenues | 1,719,732 | - | 1,719,732 |
| Investment income | 25,514 | - | 25,514 |
| Other income | 649,999 | - | 649,999 |
| Net assets released from restrictions | 793,687 | (793,687) | - |
| Total contributions and other | 4,661,664 | (22,546) | 4,639,118 |
| ReStore revenues: | | | |
| ReStore sales | 5,327,118 | - | 5,327,118 |
| In-kind donation of inventory | 3,250,770 | - | 3,250,770 |
| Cost of goods sold | (4,343,061) | - | (4,343,061) |
| Sales discounts and refunds | (295,930) | - | (295,930) |
| Total ReStore revenues, net | 3,938,897 | - | 3,938,897 |
| Low-cost housing revenues: | | | |
| Home sales | 2,579,019 | - | 2,579,019 |
| In-kind contributions of labor and construction materials | 821,603 | - | 821,603 |
| Mortgage discount and amortization | (347,212) | - | (347,212) |
| Other housing revenues | 2,590 | - | 2,590 |
| Cost of homes sold | (3,490,413) | - | (3,490,413) |
| Total Low-cost housing revenues | (434,413) | - | (434,413) |
| Total revenues | 8,166,148 | (22,546) | 8,143,602 |
| **EXPENSES:** | | | |
| Low-cost housing program | 2,326,496 | - | 2,326,496 |
| ReStore program | 3,312,279 | - | 3,312,279 |
| Fundraising | 746,780 | - | 746,780 |
| Management and general | 1,036,213 | - | 1,036,213 |
| Total expenses | 7,421,768 | - | 7,421,768 |
| **CHANGE IN NET ASSETS** | 744,380 | (22,546) | 721,834 |
| **NET ASSETS, BEGINNING OF YEAR** | 18,028,116 | 1,667,020 | 19,695,136 |
| **NET ASSETS, END OF YEAR** | $ 18,772,496 | $ 1,644,474 | $ 20,416,970 |

See accompanying notes and report of independent auditor.

**AUSTIN HABITAT FOR HUMANITY, INC.**
Consolidated Statement of Activities
Year Ended December 31, 2018

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| **REVENUES:** | | | |
| Contributions and other income: | | | |
| Contributions | $ 1,187,410 | $ 1,055,942 | $ 2,243,352 |
| In-kind contributions | 134,025 | - | 134,025 |
| Home building sponsorship revenues | 1,000,151 | - | 1,000,151 |
| Investment income | 43,095 | - | 43,095 |
| Other income | 956,130 | - | 956,130 |
| Net assets released from restrictions | 504,288 | (504,288) | - |
| Total contributions and other | 3,825,099 | 551,654 | 4,376,753 |
| ReStore revenues: | | | |
| ReStore sales | 4,428,805 | - | 4,428,805 |
| In-kind donation of inventory | 2,389,472 | - | 2,389,472 |
| Cost of goods sold | (3,380,503) | - | (3,380,503) |
| Sales discounts and refunds | (150,498) | - | (150,498) |
| Total ReStore revenues, net | 3,287,276 | - | 3,287,276 |
| Low-cost housing revenues: | | | |
| Home sales | 1,794,011 | - | 1,794,011 |
| In-kind contributions of labor and construction materials | 812,442 | - | 812,442 |
| Mortgage discount and amortization | (12,707) | - | (12,707) |
| Other housing revenues | 6,085 | - | 6,085 |
| Cost of homes sold | (1,969,012) | - | (1,969,012) |
| Total Low-cost housing revenues | 630,819 | - | 630,819 |
| Total revenues | 7,743,194 | 551,654 | 8,294,848 |
| **EXPENSES:** | | | |
| Low-cost housing program | 2,130,872 | - | 2,130,872 |
| ReStore program | 2,613,455 | - | 2,613,455 |
| Fundraising | 923,092 | - | 923,092 |
| Management and general | 898,753 | - | 898,753 |
| Total expenses | 6,566,172 | - | 6,566,172 |
| **CHANGE IN NET ASSETS** | 1,177,022 | 551,654 | 1,728,676 |
| **NET ASSETS, BEGINNING OF YEAR** | 16,851,094 | 1,115,366 | 17,966,460 |
| **NET ASSETS, END OF YEAR** | $ 18,028,116 | $ 1,667,020 | $ 19,695,136 |

**AUSTIN HABITAT FOR HUMANITY, INC.**
Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

| | Low-cost housing | ReStore | Fundraising | Management and general | Total |
|---|---|---|---|---|---|
| Salaries and related | $ 1,401,812 | $ 2,129,199 | $ 451,632 | $ 732,174 | $ 4,714,817 |
| Advertisements | 10,589 | 112,265 | 161,531 | 892 | 285,277 |
| Office expenses | 53,354 | 157,175 | 12,470 | 54,912 | 277,911 |
| Information technology | 23,230 | 20,723 | 10,855 | 4,358 | 59,166 |
| Occupancy | 121,399 | 309,645 | 5,247 | 7,217 | 443,508 |
| Travel | 13,170 | 36,176 | 4,010 | 17,979 | 71,335 |
| Conference, conventions, and meetings | 6,048 | 8,529 | 2,799 | 13,790 | 31,166 |
| Interest and amortization | 32,581 | 181,916 | 14,701 | 59,872 | 289,070 |
| Tithe to HFHI | 77,008 | - | - | - | 77,008 |
| Depreciation | 24,283 | 205,021 | 11,430 | 15,259 | 255,993 |
| Insurance | 56,220 | 76,060 | 2,529 | 2,266 | 137,075 |
| Warranty work | 32,902 | - | - | - | 32,902 |
| Tools and equipment | 10,460 | 1,660 | - | - | 12,120 |
| Professional services | 65,554 | 41,824 | 21,143 | 91,852 | 220,373 |
| NMTC transaction fees | 12,180 | - | - | - | 12,180 |
| Dues and subscriptions | 13,355 | 12,505 | 4,932 | 27,398 | 58,190 |
| Home repair program | 369,709 | - | 1,991 | 1,044 | 372,744 |
| Other expense | 2,642 | 19,581 | 41,510 | 7,200 | 70,933 |
| Total functional expenses | $ 2,326,496 | $ 3,312,279 | $ 746,780 | $ 1,036,213 | $ 7,421,768 |

See accompanying notes and report of independent auditor.

**AUSTIN HABITAT FOR HUMANITY, INC.**
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

| | Low-cost housing | ReStore | Fundraising | Management and general | Total |
|---|---|---|---|---|---|
| Salaries and related | $ 1,337,910 | $ 1,683,034 | $ 507,551 | $ 601,846 | $ 4,130,341 |
| Advertisements | 12,127 | 104,120 | 209,545 | 1,517 | 327,309 |
| Office expenses | 50,522 | 176,621 | 19,030 | 28,280 | 274,453 |
| Information technology | 14,798 | 17,550 | 8,974 | 8,707 | 50,029 |
| Occupancy | 104,319 | 117,565 | 5,816 | 7,516 | 235,216 |
| Travel | 11,421 | 22,547 | 4,052 | 11,014 | 49,034 |
| Conference, conventions, and meetings | 4,598 | 6,891 | 4,190 | 5,578 | 21,257 |
| Interest and amortization | 19,605 | 176,993 | 9,626 | 68,401 | 274,625 |
| Tithe to HFHI | 68,996 | - | - | - | 68,996 |
| Depreciation | - | 189,347 | 12,038 | 50,230 | 251,615 |
| Insurance | 49,262 | 67,580 | 4,378 | 4,220 | 125,440 |
| Warranty work | 3,006 | - | - | - | 3,006 |
| Tools and equipment | 17,222 | 4,032 | - | - | 21,254 |
| Professional services | 62,969 | 24,972 | 16,732 | 65,880 | 170,553 |
| NMTC transaction fees | 27,558 | - | - | - | 27,558 |
| Dues and subscriptions | 12,384 | 7,858 | 9,793 | 24,558 | 54,593 |
| Home repair program | 332,791 | - | 6,058 | 3,359 | 342,208 |
| Other expense | 1,384 | 14,345 | 105,309 | 17,647 | 138,685 |
| Total functional expenses | $ 2,130,872 | $ 2,613,455 | $ 923,092 | $ 898,753 | $ 6,566,172 |

**AUSTIN HABITAT FOR HUMANITY, INC.**
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Change in net assets | $ | 721,834 | $ | 1,728,676 |
| Adjustments to reconcile change in net assets to net cash provided by operations: | | | | |
| Noncash interest expense | | 105,714 | | 9,610 |
| Depreciation | | 255,993 | | 251,615 |
| Gain on extinguishment of debt | | (383,120) | | (322,727) |
| (Increase) decrease in operating assets: | | | | |
| Accounts receivable | | (235,692) | | (206,407) |
| Pledges receivable | | 153,620 | | (133,970) |
| Mortgages receivable | | (829,254) | | (446,478) |
| ReStore Inventory | | (34,525) | | (188,576) |
| Home construction in Progress | | 277,269 | | (464,804) |
| Prepaid expenses and other | | 72,218 | | (124,233) |
| Land held for development | | (393,133) | | (1,179,631) |
| Notes receivable, 2nd liens | | (86,638) | | (66,928) |
| Other long-term assets | | (48,153) | | 991 |
| Increase (decrease) in operating liabilities: | | | | |
| Accounts Payable | | (96,261) | | (86,182) |
| Accrued expenses | | (40,291) | | 268,578 |
| Deferred revenue | | 427,214 | | 1,676,667 |
| Notes payable - TDHCA | | 140,558 | | 79,249 |
| Net cash provided by operating activities | | 7,353 | | 795,450 |
| **Cash flows from investing activities:** | | | | |
| Sales of investments | | 1,519,798 | | 384,626 |
| Purchases of property and equipment | | (562,169) | | (192,395) |
| Net cash provided by investing activities | | 957,629 | | 192,231 |
| **Cash flows from financing activities:** | | | | |
| Draws on long-term debt | | 5,312,919 | | - |
| Payments on long-term debt | | (6,413,986) | | (168,676) |
| Payments on capital lease obligation | | (37,186) | | (30,488) |
| Net cash used in financing activities | | (1,138,253) | | (199,164) |
| Net change in cash and cash equivalents | | (173,271) | | 788,517 |
| Cash and cash equivalents at beginning of year | | 2,216,033 | | 1,427,516 |
| Cash and cash equivalents at end of year | $ | 2,042,762 | $ | 2,216,033 |
| Supplemental disclosure of cash flow information: | | | | |
| Interest paid | $ | 212,545 | $ | 228,663 |
| Income taxes paid | $ | - | $ | - |

See accompanying notes and report of independent auditor.

## NOTE 1 - ORGANIZATION

Austin Habitat for Humanity, Inc. ("AHFH") is a nonprofit, affordable housing developer dedicated to the elimination of substandard housing in and around 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 affiliate.

Austin Neighborhood Alliance for Habitat, Inc., (the "Alliance") is a wholly owned non-profit corporation formed to support AHFH. The Alliance receives federal financial assistance to acquire land and develop infrastructure for homes.

HomeBase Texas ("HomeBase") is a wholly owned non-profit corporation that provides affordable homeownership opportunities to homeowners by partnering with outside developers, builders, and agencies.

The Alliance and HomeBase 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.

***Low-Cost Housing Program***
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 resulting in either a no interest or zero profit on the mortgage. By policy of HFHI, AHFH may accept government support for land, infrastructure improvements and construction.

***ReStore Program***
AHFH also operates two ReStores in Austin and San Marcos as well as an online store, ShopAustinRestore.com. The ReStore program provides access to quality building materials, new and used, household goods, clothing, etc., to the general public to help them create a better human habitat in which to live and work. The ReStore receives donated materials, purchases items, and sells them.

## NOTE 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 ("FASB") Accounting Standards Codification ("ASC").

**Classification of Net Assets**
In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, the Organization is required to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions.

> *Net assets without donor restrictions* **-** Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be used for any purpose or designated for specific purposes by the Organization.

*Net assets with donor restrictions* **-** Net assets that are subject to donor-imposed stipulations, which limit their use by the Organization to a specific purpose and/or the passage of time.

**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. Significant estimates include the fair value of investments, allowances for uncollectable receivables, useful lives of property and equipment, functional expense allocation, and the valuation of in-kind services and materials.

**Advertising Costs**
Advertising costs are expensed when incurred. Advertising expense for the years ended December 31, 2019 and 2018 were $285,277 and $327,309, respectively.

**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.

**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 and through its investment in two New Market Tax Credit ("NMTC") programs (Note 5), AHFH established separate bank accounts for receiving and disbursing certain amounts related to the NMTC transactions. Total restricted cash was $0 and $17,670 as of December 31, 2019 and 2018, respectively. In accordance with *Statement of Cash Flows (Topic 230)*, as amended by ASU 2016-08, restricted cash is included in cash equivalents shown on the statement of cash flows.

**Investments, at fair value**
Investments in mutual funds are carried at fair market value based on quoted market prices. Any changes in market value are reported in the consolidated statements of activities as increases or decreases to investment income.

**Investments, at cost - NMTC**
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.

The Organization has capitalized, as, certain structuring and guarantee fees and closing costs for the loans to finance these investments and construction costs. These fees are being amortized to interest expense over seven to sixteen years and are reflected as costs of the investments.

**Accounts Receivable**
Accounts receivable is recorded at the amount the Organization expects to collect on outstanding balances. The Organization has not recorded an allowance for uncollectible accounts receivables at December 31, 2019 or 2018 as management believes all balances to be collectible.

**Pledges Receivable**
Pledges receivable is recorded at the amount the Organization expects to receive from donors. Promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Although the Organization has not experienced material uncollectible amounts in the past, an allowance for uncollectible pledges receivable has been established. The allowance at December 31, 2019 and 2018, was $78,337 and $70,167, respectively. The Organization did not apply a net present value discount on the pledges receivable balance as of December 31, 2019 and 2018 as management considered the amount to be insignificant.

**Notes Receivable, 2nd Liens**
Notes receivable is a deferred repayable second lien with the first payment due after 30 years, amortizing over five years thereafter. The second lien is attached to a home sale to qualified applicants under the HomeBase Texas program. The first lien is provided for by a traditional third-party lender. The second lien is due and payable between 20-30 years to allow for the first lien to have been paid off and provides a subsidy that allows the home sale to meet the affordability requirements of the HomeBase Texas program. These notes are discounted based upon prevailing market interest rates for low-income housing at the inception of the mortgages. The Organization has not recorded an allowance for uncollectible notes receivable at December 31, 2019 or 2018 as management believes all balances to be collectible.

**Home Sales and Mortgages Receivable**
Home sales represent the sale to qualified families of houses built in Austin, Texas, or the Greater Austin Area, by the Organization. Homes are sold at affordable prices 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. On certain older loans, a “soft” (0% interest, deferred, forgivable after 30 years) second mortgage was used to secure the difference between the affordable mortgage amount and the market value. This practice ended in 2016 with the addition of a deed restriction that effectively locked this equity into the property, making it inaccessible to the homeowner at resale.

Mortgages receivable is 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 mortgage discount and amortization in the accompanying consolidated statements of activities when mortgage payments are collected.

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, 2019 and 2018, the Organization had no investment in foreclosed loans.

**ReStore Inventory**
ReStore inventory consists of donated building materials, household items and clothing as well as purchased building materials available for sale. Donated inventory is recorded as in-kind contributions 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.

**Home Construction in Progress**
Home 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. Once sold and conveyed, the home costs are expensed to cost of homes sold in the accompanying consolidated statements of activities.

**Land Held for Development**
Land held for development includes the costs of purchasing and developing land. These costs are capitalized to this account until the lot is build ready. Once construction of a home on a lot is completed, the cost of the associated lot is expensed in cost of homes sold on the accompanying consolidated statement of activities.

**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. Property and equipment under capital lease is amortized over the shorter of the lease term or the expected useful life of the asset.

Long-lived assets subject to amortization are reviewed for impairment whenever events or circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable. Management believes there has been no impairment of such assets as of December 31, 2019 and 2018.

**Debt Issuance Costs**
Debt issuance costs associated with long-term debt are recorded as a reduction of the related debt balance and amortized to interest expense over the term of the related arrangement.

**Notes Payable - TDHCA**

The Texas Department of Housing and Community Affairs Department ("TDHCA") administers the Owner-Builder Loan Program, also known as the Texas Bootstrap Loan Program ("Bootstrap Program"). The Bootstrap Program is a self-help housing construction program that provides the owners and builders of very low-income families an opportunity to purchase or refinance real property on which to build new housing or repair their existing homes through "sweat equity." Owner builder's household income may not exceed 60% of Area Median Family Income. The Bootstrap Program notes payable are discounted based upon prevailing market interest rates at the inception of the mortgage. The financing discounts are amortized and reflected as mortgage discount and amortization in the accompanying consolidated statements of activities as the mortgage payments are made.

**ReStore Sales Revenue**

The Organization operates two thrift retail stores and has an on line presence with its ShopAustinReStore.com website and various online shopping websites such as eBay, Etsy, etc. The stores provide access to quality building materials, new and used household goods, clothing, furnishings, and other construction materials and is open to the general public. The stores receive donated materials and purchase items for resale. Sales are recognized on a daily basis as they occur.

**Contribution Revenue**

All contributions, including home building sponsorship revenues and non-cash 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 net assets with donor restrictions 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 net assets are reclassified to net assets without donor restrictions. This is reported in the accompanying consolidated statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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.

The Organization also receives funding in the form of forgivable loans from the City of Austin through the Austin Housing Finance Corporation for the purpose of constructing, rehabilitating, and preserving affordable housing. The Organization recognizes revenue at the time the loan is forgiven which is when a home is sold to an income qualified buyer.

**Home Building Sponsorship Revenues**

The Organization sells sponsorship opportunities to local businesses and organizations to underwrite the costs of constructing a house. In addition to recognition as an Austin Habitat for Humanity partner, typically the sponsorship includes the option for the entity to volunteer on the build site. Sponsorship revenues are recognized in the year that the house is constructed.

**In-Kind Contributions of Labor**
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 and professional services donated to construct homes is recognized as contribution revenue and capitalized as home construction in progress. When homes are transferred to recipient families, home construction in progress is recorded as a component of cost of homes sold within the accompanying consolidated statements of activities.

**Functional 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 expenses are allocated between functional categories based on management's estimates. Expenses relating to more than one function are allocated to low-cost housing program, ReStore program, fundraising, and management and general based on employee time and effort estimates. Allocations to low-cost housing and ReStore programs are for activities that result in services being distributed to beneficiaries, donors, or others that fulfill the mission of the Organization. Allocations to management and general expenses include accounting, general management and oversight, audit, budgeting, human resources, legal and admin support of the board of directors. Allocations for fundraising are primarily for fundraising activities for operations. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide overall support and direction of the Foundation.

**Federal Income Taxes -** AHFH, the Alliance, and HomeBase are all non-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except with respect to any unrelated business income. AHFH, the Alliance and HomeBase did not incur any tax liabilities for unrelated business income during the years ended December 31, 2019 or 2018. The Board assesses uncertainties in income taxes in its consolidated financial statements and uses a threshold of more-likely-than-not for recognition and derecognition of tax positions taken. Management determined no uncertain tax positions have been taken. There is no provision or liability for federal income taxes in the accompanying consolidated financial statements related to the Organization. AHFH, the Alliance, and HomeBase file Form 990 tax returns in the U.S. federal jurisdiction and are subject to routine examinations of its returns. However, there are no examinations currently in progress. The Board's management believes it is no longer subject to income tax examinations for years prior to 2016.

**Recent Accounting Pronouncements**
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09, *Revenue Recognition* (Topic 606). This ASU provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The core principle of this ASU is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2018. The Organization adopted this ASU on January 1, 2019 using the full retrospective method and the implementation of this ASU did not have a significant impact on the Organizations consolidated financial statements or disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires a lessee to recognize on its balance sheet a right-of-use asset and a lease liability under most operating leases. For private companies, the ASU is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. The Organization is currently evaluating the effects that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230)*, Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents would be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Further, when cash, cash equivalents, restricted cash, and restricted cash equivalents are presented in more than one-line item on the balance sheet, an entity must reconcile these amounts to the total shown on the statement of cash flows, either in narrative or tabular format. For private companies, the ASU is effective for years beginning after December 15, 2018. The Organization adopted this ASU as of January 1, 2018. As a result of adopting this amendment, the Organization modified the beginning and ending period total cash and cash equivalent amounts shown on the statement of cash flows to include restricted cash. Further, the Organization updated the restricted cash accounting policy in Note 2.

In August 2016, the FASB issued ASU 2016-14, *Presentation of financial statements of Not-for-Profit Entities*, as an update to ASC 958, *Not-for-Profit Entities.* This update makes several improvements to reporting requirements that address complexities in the use of the three classes of net assets and enhance required disclosures related to donor restrictions of net assets. The updated guidance is effective for annual periods beginning after December 15, 2017. The Organization adopted this ASU as of January 1, 2018.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958). This ASU is intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. ASU 2018-18 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Organization elected to early adopt this ASU in 2019. The adoption of this standard did not have a significant impact on the Organizations consolidated financial statements or disclosures.

**Management's Review -** The Organization evaluates events that occur subsequent to the statement of financial position date of periodic reports, but before financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the Organization's consolidated financial statements are available for issuance. For the consolidated financial statements as of and for the year ending December 31, 2019, this date was July 29, 2020.

## NOTE 3 - LIQUIDITY

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 2,042,762 |
| Investments, at fair value | | 16,204 |
| Accounts receivable, net | | 615,099 |
| | $ | 2,674,065 |

Receivable balances are expected to be collected within one year. The Organization has a goal to maintain financial assets, which consist of cash, money markets, mutual funds, and accounts receivable, on hand to meet five months of normal operating expenses, which are, on average, approximately $2.5 million. Total net assets without donor restrictions as of December 31, 2019 were approximately $18.8 million. The Organization also maintains an available line of credit of $2 million with Frost Bank. This is sufficient capital to fund the anticipated growth of the Organization over the next twelve months as well as any unanticipated contingencies or losses.

During the novel coronavirus pandemic in 2020, the Organization's construction projects, housing counseling, affordable home sales, and retail thrift stores were deemed "essential". After having implemented safety precautions for employees and customers, the Organization conducted the business of fulfilling its mission with minor disruption. The Organization continued to maintain a strong cash position through a sale of a small percentage of the mortgage receivable portfolio and through the execution of a low interest line of credit with a local community foundation. Further, AHFH secured $768,200 from the PPP Forgivable Loan Program. The Organization expects the entire PPP loan amount to be forgiven.

## NOTE 4 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, investments and its 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.

Investments do not represent a significant concentration of credit risk due to the diversification of the Organization's portfolio among instruments and issues. However, investment securities, including money market funds, are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statement of financial position.

The Organization does not maintain collateral for its receivables except for mortgages and notes receivable and does not believe significant risk exists at December 31, 2019 or 2018. Credit risk for mortgages and notes receivable is concentrated because substantially all of the balances are due from individuals located in the same geographic region. Management considered the collateral pledged from mortgages and notes receivable to be adequate at December 31, 2019 and 2018.

## NOTE 5 - INVESTMENTS

***Investments at fair value***
Marketable investments are stated at fair value using quoted prices in active markets and consisted of mutual funds at December 31, 2019 and 2018. The inputs used to determine the fair value of mutual funds were considered Level 1.

***Investments at cost***
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. Program 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 11). 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, 2018 at 0.75%. Commencing November 15, 2018, semi-annual principal payments are due through maturity date of July 13, 2026. 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 2018, HFHI-SA Investment Fund VI, LLC ("Fund I"), the effective owner of HFHI-SA NMTC VI, LLC (holder of the promissory note due from AHFH), exercised a put option. Under the terms of the put option agreement, HFHI-SA Leverage IX, LLC purchased the ownership interest of Fund I. Exercise of the option effectively allowed AHFH to extinguish its outstanding debt owed to Fund I. The result of the extinguishment of the debt offset by the sale of AHFH's investment in Fund I was a gain of $322,727 in 2018 and is included in other income in the consolidated statement of activities and changes in net assets.

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 11). 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 10, 2019 at 0.76%. Commencing November 10, 2019, semi-annual principal payments are due through maturity date of July 26, 2027. The loan is secured by substantially all the assets acquired by AHFH from the project loan proceeds. As part of the NMTC program, 99.99% of the interest payments will be refunded to the Organization on a semi-annual basis.

In August 2019, CCM CD 27 Investment Fund, LLC ("Fund II"), the effective owner of CCM Community Development XXVII, LLC (holder of the promissory note due from AHFH), exercised a put option. Under the terms of the put option agreement, CCML Leverage II, LLC purchased the ownership interest of Fund II. Exercise of the option effectively allowed AHFH to extinguish its outstanding debt owed to Fund II. The result of the extinguishment of the debt offset by the sale of AHFH's investment in Fund II was a gain of $383,120 in 2019 and is included in other income in the consolidated statement of activities and changes in net assets.

The investments in these joint ventures are reported at cost using the cost method. For the years ended December 31, 2019 and 2018, AHFH received $7,155 and $14,310 in distributions, respectively. These distributions are reported as investment income in the consolidated statements of activities. During the years ended December 31, 2019 and 2018, the total interest expense associated with the amortization of the related debt issuance costs were $23,668 and $36,351, respectively. At December 31, 2019 and 2018, the balance in these joint ventures was $0 and $1,520,548, respectively.

## NOTE 6 - RELATED PARTY TRANSACTIONS AND AFFILIATIONS

Contributions from members of the Board of Directors for the years ended December 31, 2019 and 2018 were $166,558 and $218,626, respectively. Pledges receivable from Board of Directors and employees of AHFH for the years ended December 31, 2019 and 2018 were $425,222 and $606,368, respectively. Expenses paid by the Organization for services provided by board of director related businesses for the years ended December 31, 2019 and 2018 were $480,028 and $1,503,028, respectively.

The Organization operates within a covenant agreement with HFHI. The Organization tithes to support HFHI's international homebuilding work. Tithes to HFHI totaled $77,008 and $68,996 for the years ended December 31, 2019 and 2018, 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 $2,272 and $6,748 at December 31, 2019 and 2018, respectively, and are included in notes payable in the consolidated statements of financial position.

## NOTE 7 - MORTGAGES AND NOTES RECEIVABLE

Mortgages receivable consisted of the following at December 31:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Gross mortgages receivable | $ | 16,579,207 | $ | 15,290,444 |
| Financing discount based on imputed interest at rates ranging from 4% to 8% | | (6,032,811) | | (5,573,302) |
| Mortgages receivable, net of unamortized discount | | 10,546,396 | | 9,717,142 |
| Current portion of mortgages receivable | | (887,959) | | (846,812) |
| | $ | 9,658,437 | $ | 8,870,330 |

Mortgages receivable were valued using the income approach and inputs were considered Level 2 under the fair value hierarchy. Gross undiscounted future mortgage payments scheduled to be collected at December 31, 2019 are as follows:

| | | |
|---|---|---|
| 2020 | $ | 887,959 |
| 2021 | | 877,371 |
| 2022 | | 866,119 |
| 2023 | | 849,110 |
| 2024 | | 837,663 |
| Thereafter | | 12,260,985 |
| Total | $ | 16,579,207 |

Notes receivable on 2nd liens consisted of the following at December 31:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Gross notes receivable for 2nd lien | $ | 3,110,446 | $ | 3,115,257 |
| Financing discount based on imputed interest at rates ranging from 4% to 8% | | (2,141,603) | | (2,233,052) |
| Notes receivable on 2nd liens, net of unamortized discount | $ | 968,843 | $ | 882,205 |

## NOTE 8 - RESTORE INVENTORY

ReStore inventory consisted of the following at December 31:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Donated Goods | $ | 248,911 | $ | 248,911 |
| Purchased Materials | | 593,643 | | 559,118 |
| | $ | 842,554 | $ | 808,029 |

## NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 3,678,393 | $ 3,090,000 |
| Building and improvements | 6,778,684 | 6,843,975 |
| Equipment | 510,547 | 499,042 |
| Trucks | 295,491 | 267,929 |
| Total | 11,263,115 | 10,700,946 |
| Accumulated depreciation | (1,451,245) | (1,195,252) |
| Property and equipment, net | $ 9,811,870 | $ 9,505,694 |

Property and equipment financed under capital lease obligations totaled $222,247 and $259,433, net of accumulated amortization of $137,450 and $100,264, as of December 31, 2019 and 2018, respectively. Total depreciation and amortization expense associated with property and equipment was $255,993 and $251,615 for the years ended December 31, 2019 and 2018, respectively.

## NOTE 10 - PLEDGES RECEIVABLE

The Organization received pledges to cover the costs of a capital campaign. Pledges are stated at their realizable value, net of an allowance for uncollectible pledges. The Organization did not record a discount on long term pledges given the nominal impact on the consolidated financial statements.

Net pledges receivable consists of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Capital campaign pledges | $ 556,222 | $ 701,672 |
| Less: allowance for doubtful collections | (78,337) | (70,167) |
| Pledges receivable, net | $ 477,885 | $ 631,505 |

Pledges receivable maturity dates at December 31, 2019 and 2018 were:

| | 2019 | 2018 |
|---|---|---|
| Less than one year | $ 234,387 | $ 141,554 |
| One to five years | 321,835 | 560,118 |
| Total | $ 556,222 | $ 701,672 |

## NOTE 11 - LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| Notes payable to HFHI under SHOP grants | $ 2,272 | $ 6,748 |
| Promissory note to CCM (Note 5) | - | 1,880,000 |
| Promissory note to banking institution | 5,457,871 | 4,859,773 |
| Total debt | 5,460,143 | 6,746,521 |
| Unamortized debt issuance costs | (146,904) | (54,809) |
| Total debt, net of unamortized debt issuance costs | 5,313,239 | 6,691,712 |
| Current portion of debt, net | (2,272) | (162,998) |
| Long-term debt, net | $ 5,310,967 | $ 6,528,714 |

The notes payable to Habitat for Humanity International ("HFHI") is a non-interest bearing and unsecured loan under the Self-Help Home Ownership Program ("SHOP") for land acquisition and infrastructure improvements for houses.

The promissory note to CCM Community Development XXVII, LLC ("CCM"), is a semi-annual interest note with payments until November 10, 2019 at 0.76% followed by semi-annual principal payments due through the maturity date of July 26, 2027. This note is secured by substantially all of the assets acquired by AHFH from the NMTC project loan proceeds. During 2019, this note was extinguished along with the Organization's investment in the NMTC (Note 5).

On May 1, 2014, the Organization entered into a loan agreement for $5,500,000 with Wells Fargo Bank for the purpose of financing the acquisition of the land and building which was used to start the Austin ReStore. The promissory note was a fixed interest rate note (3.82% at December 31, 2019 and 2018) with escalating monthly payments due through the maturity date of June 1, 2039. This note was secured by the Austin ReStore's land and building. On December 30, 2019, the Organization refinanced this loan with Frost Bank. The new loan has a fixed interest rate of 3.03% and matures on December 30, 2029. Interest only shall be due and payable monthly on the last day of the month beginning on January 30, 2020 until December 30, 2021 at which time monthly installments of both principal and interest will be due and payable until the maturity date. This note is secured by the Austin ReStore's land and building in addition to the construction of a new warehouse in south Austin. The principal amount of this note is $7,500,000 and the Organization was advanced $5,457,871 as of December 31, 2019.

Future maturities of long-term debt at December 31, 2019 are as follows:

| | |
|---|---|
| 2020 | $ 2,272 |
| 2021 | - |
| 2022 | 254,050 |
| 2023 | 261,855 |
| 2024 | 269,900 |
| Thereafter | 4,672,066 |
| Total | $ 5,460,143 |

The credit facility (Note 12), notes payable and other long-term debt agreements 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. As of December 31, 2019, and through the date of this report, the Organization was in compliance with such covenants.

In 2018, the Organization also had a promissory note to HFHI-SA NMTC VI, LLC (“HSHI-SA"). This note was a semi-annual interest note with payments due until November 15, 2018 at 0.75% followed by semi-annual principal payments due through the maturity date of July 13, 2026. This note was secured by substantially all of the assets acquired by AHFH from the NMTC project loan proceeds. During 2018, this note was extinguished along with the Organization’s investment in the NMTC (Note 5).

## NOTE 12 - CREDIT FACILITY AND LETTERS OF CREDIT

The Organization maintains a twelve-month revolving credit facility with a bank, renewable annually, that charges interest at a variable rate. During the year ended December 31, 2017, the Organization amended the facility to extend the maturity date to April 2019. As amended, the maximum principal amount available under the line of credit is $2,000,000. The credit facility was further amended on March 18, 2019 to extend the maturity date to April 15, 2021. On December 30, 2019 this credit facility was extinguished concurrently with the refinancing of the Organization’s promissory note (Note 11).

On December 30, 2019, the Organization entered into a new credit facility with Frost Bank. The new credit facility has a maximum principal amount available of $2,000,000 with a maturity date of December 30, 2020. The annual interest rate for the new credit facility is a variable rate based on LIBOR plus 1.5% (3.32% at December 31, 2019). No amounts have been drawn against this facility at December 31, 2019.

During the normal course of business, the Organization entered into letters of credit with financial institutions totaling $462,730 at December 31, 2019 and 2018, pursuant to subdivision construction agreements with the City of Austin. The letters of credit expired in April 15, 2019 and the amount of $462,730 was renewed through April 15, 2020. The letters 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.

## NOTE 13 - NOTES PAYABLE - TDHCA

Notes payable to TDHCA consisted of the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| Gross notes payable - TDHCA | $ 2,332,236 | $ 2,121,018 |
| Financing discount based on imputed interest at rates ranging from 4% to 8% | (849,782) | (779,122) |
| Mortgages receivable, net of unamortized discount | 1,482,454 | 1,341,896 |
| Current portion of mortgages receivable | (108,816) | (98,316) |
| | $ 1,373,638 | $ 1,243,580 |

Notes payable to TDHCA were valued using the income approach and inputs were considered Level 2 under the fair value hierarchy. Gross undiscounted future mortgage payments scheduled to be collected from mortgagees and remitted to TDHCA at December 31, 2019 are as follows:

| | | |
|---|---|---|
| 2020 | $ | 108,816 |
| 2021 | | 108,816 |
| 2022 | | 108,816 |
| 2023 | | 108,816 |
| 2024 | | 108,816 |
| Thereafter | | 1,788,156 |
| Total | $ | 2,332,236 |

## NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Capital campaign | $ | 1,182,844 | $ | 1,236,479 |
| Special events | | 400,202 | | 323,701 |
| UT Campus Chapter | | 9,790 | | 3,706 |
| OWANA | | 51,638 | | 103,134 |
| | $ | 1,644,474 | $ | 1,667,020 |

Net assets released from restrictions consisted of the following at December 31:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Capital campaign | $ | (410,661) | $ | (460,719) |
| Special events | | (323,701) | | (30,350) |
| UT Campus Chapter | | (6,276) | | (13,219) |
| OWANA | | (53,049) | | - |
| Net assets released from restrictions | $ | (793,687) | $ | (504,288) |

## NOTE 15 - 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, 2019 and 2018 were $136,607 and $115,196, respectively.

## NOTE 16 - LEASE COMMITMENTS

The Organization leases retail space, a construction warehouse, telephone equipment, and a copier under various non-cancellable operating leases. Rent expense under these leases totaled $275,712 and $130,928, respectively, for the years ended December 31, 2019 and 2018, which are reflected as occupancy and office expenses in the accompanying statements of functional expenses. In October 2018, AHFH entered into a new operating lease for the San Marcos ReStore location which opened to the public on December 13, 2018.

Future minimum payments under operating leases consisted of the following as of December 31, 2019:

| | | |
|---|---|---|
| 2020 | $ | 240,303 |
| 2021 | | 198,120 |
| 2022 | | 203,880 |
| 2023 | | 203,880 |
| 2024 | | 205,110 |
| Thereafter | | 783,000 |
| Total | $ | 1,834,293 |

The Organization also has a non-cancelable capital lease agreement for solar panels. Future minimum payments under the capital lease consisted of the following as of December 31, 2019:

| | | |
|---|---|---|
| 2020 | $ | 41,575 |
| 2021 | | 41,575 |
| 2022 | | 41,575 |
| 2023 | | 41,575 |
| 2024 | | 41,575 |
| Thereafter | | 38,111 |
| Total minimum lease payments | | 245,986 |
| Less: amount representing interest (3% annually) | | (23,739) |
| Total capital lease obligations | | 222,247 |
| Less: current portion of capital lease obligations | | (35,304) |
| Long term portion of capital lease obligation | $ | 186,943 |

## NOTE 17 - CONTINGENCIES

The Organization receives government grants for specific purposes that are subject to review and audit by government agencies. The Organization is also funded by grants and contracts that are subject to review and audit by the grantor agencies. These contracts have certain compliance requirements and, should audits by the government or grantor agencies disclose any areas of substantial noncompliance, the Organization may be required to refund any disallowed costs.

## NOTE 18 - 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, 2019, and 2018, the Organization has incurred cumulative net operating losses of approximately $2,586,600 and $2,478,000, respectively, for federal income tax purposes. These net operating losses may be used to offset future taxable unrelated business income. If not utilized, approximately $2,182,000 of these losses will expire in the years 2027 through 2036. The remaining $404,600 will be carried forward indefinitely. A full valuation allowance has been recorded as utilization is uncertain. The net change in the total valuation allowance for the years ended December 31, 2019 and 2018 was approximately $108,600 and $115,000, respectively.

## NOTE 19 - SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result of the declared outbreak, an economic downturn has had a significant negative impact on local and global economies. While the Organization expects this matter to negatively impact operations, the related financial impact did not affect the Organization's performance in 2019 and its impact on 2020 financial performance cannot be reasonably estimated at this time.

The Organization's construction program and thrift stores were considered essential during the pandemic. AHFH was eligible for, and received, a PPP Forgivable Loan in the amount of $768,200 and has remained in compliance with SBA regulations for the program. In addition, the Organization sold $1,024,000 of its mortgage receivable portfolio and executed a low interest line of credit with a community foundation to complete construction of its Philomena row homes in the Mueller subdivision. As a response to the pandemic, the Mortgage Disaster Policy was implemented whereas mortgage holders could apply for, and receive, a 60-day deferment of mortgage payments. The Organization had only 6% of homeowners apply for, and receive, the deferment.

# AUSTIN HABITAT FOR HUMANITY, INC.

Supplemental Consolidating Schedule of Financial Position Information

As of December 31, 2019

| | Austin Habitat for Humanity | Austin Neighborhood Alliance for Habitat, Inc. | HomeBase Texas | Eliminations | Total |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $ 1,993,023 | $ - | $ 49,739 | $ - | $ 2,042,762 |
| Investments, at fair value | 16,204 | - | - | - | 16,204 |
| Accounts receivable | 433,681 | - | 181,418 | - | 615,099 |
| Pledges receivable, net | 234,387 | - | - | - | 234,387 |
| Mortgages receivable, current portion, net | 887,959 | - | - | - | 887,959 |
| Intercompany receivable | - | 5,131,316 | 136,362 | (5,267,678) | - |
| ReStore inventory | 842,554 | - | - | - | 842,554 |
| Home construction in progress | 671,834 | - | - | - | 671,834 |
| Prepaid expenses and other current assets | 300,205 | - | - | - | 300,205 |
| Total current assets | 5,379,847 | 5,131,316 | 367,519 | (5,267,678) | 5,611,004 |
| Land held for development | 5,073,385 | - | - | - | 5,073,385 |
| Restricted cash | - | - | - | - | - |
| Pledges receivable, long-term portion, net | 243,498 | - | - | - | 243,498 |
| Other long-term assets | - | - | 240,790 | - | 240,790 |
| Mortgages receivable, long-term portion, net | 9,658,437 | - | - | - | 9,658,437 |
| Notes receivable - 2nd liens, net | - | - | 968,843 | - | 968,843 |
| Property and equipment, net | 9,811,870 | - | - | - | 9,811,870 |
| TOTAL ASSETS | $ 30,167,037 | $ 5,131,316 | $ 1,577,152 | $ (5,267,678) | $ 31,607,827 |
| **LIABILITIES AND NET ASSETS:** | | | | | |
| Current liabilities | | | | | |
| Accounts payable | $ 247,942 | $ - | $ 26,353 | $ - | $ 274,295 |
| Accrued expense | 475,213 | - | 292,427 | - | 767,640 |
| Intercompany payable | 5,267,678 | - | - | (5,267,678) | - |
| Deferred revenue | 3,130,982 | - | - | - | 3,130,982 |
| Capital lease obligation, current portion | 35,304 | - | - | - | 35,304 |
| Notes payable - TDHCA, current portion | 108,816 | - | - | - | 108,816 |
| Long-term debt, current portion | 2,272 | - | - | - | 2,272 |
| Total current liabilities | 9,268,207 | - | 318,780 | (5,267,678) | 4,319,309 |
| Capital lease obligation, long-term portion | 186,943 | - | - | - | 186,943 |
| Notes payable - TDHCA, long-term portion | 1,373,638 | - | - | - | 1,373,638 |
| Long-term debt, net of debt issuance costs | 5,310,967 | - | - | - | 5,310,967 |
| Total liabilities | 16,139,755 | - | 318,780 | (5,267,678) | 11,190,857 |
| Net assets | | | | | |
| Without donor restrictions | 12,382,808 | 5,131,316 | 1,258,372 | - | 18,772,496 |
| With donor restrictions | 1,644,474 | - | - | - | 1,644,474 |
| Total net assets | 14,027,282 | 5,131,316 | 1,258,372 | - | 20,416,970 |
| TOTAL LIABILITIES AND NET ASSETS | $ 30,167,037 | $ 5,131,316 | $ 1,577,152 | $ (5,267,678) | $ 31,607,827 |

See accompanying notes and report of independent auditor.

# AUSTIN HABITAT FOR HUMANITY, INC.

Supplemental Consolidating Schedule of Activities Information

Year Ended December 31, 2019

| | Austin Habitat for Humanity | Austin Neighborhood Alliance for Habitat, Inc. | HomeBase Texas | Eliminations | Total |
|---|---|---|---|---|---|
| **REVENUES:** | | | | | |
| Contributions and other income: | | | | | |
| Contributions | $ 1,895,918 | $ - | $ 15,000 | $ - | $ 1,910,918 |
| In-kind contributions | 332,955 | - | - | - | 332,955 |
| Home building sponsorship revenues | 1,719,732 | - | - | - | 1,719,732 |
| Investment income | 22,027 | - | 3,487 | - | 25,514 |
| Other income | 842,618 | - | 77,969 | (270,588) | 649,999 |
| Total contributions and other income | 4,813,250 | - | 96,456 | (270,588) | 4,639,118 |
| ReStore revenues: | | | | | |
| ReStore sales | 5,327,118 | - | - | - | 5,327,118 |
| In-kind donation of inventory | 3,250,770 | - | - | - | 3,250,770 |
| Cost of goods sold | (4,343,061) | - | - | - | (4,343,061) |
| Sales discounts and refunds | (295,930) | - | - | - | (295,930) |
| Total ReStore revenues, net | 3,938,897 | - | - | - | 3,938,897 |
| Low-cost housing revenues: | | | | | |
| Home sales | 2,579,019 | - | - | - | 2,579,019 |
| In-kind contributions of labor and construction materials | 821,603 | - | - | - | 821,603 |
| Mortgage discount and amortization | (433,850) | - | 86,638 | - | (347,212) |
| Other housing revenues | - | - | 2,590 | - | 2,590 |
| Cost of homes sold | (3,490,413) | - | - | - | (3,490,413) |
| Total Low-cost housing revenues | (523,641) | - | 89,228 | - | (434,413) |
| Total revenues | 8,228,506 | - | 185,684 | (270,588) | 8,143,602 |
| **EXPENSES:** | | | | | |
| Low-cost housing program | 2,326,496 | - | - | - | 2,326,496 |
| ReStore program | 3,312,279 | - | - | - | 3,312,279 |
| Fundraising | 746,780 | - | - | - | 746,780 |
| Management and general | 1,036,213 | - | 270,588 | (270,588) | 1,036,213 |
| Total expenses | 7,421,768 | - | 270,588 | (270,588) | 7,421,768 |
| **CHANGE IN NET ASSETS** | 806,738 | - | (84,904) | - | 721,834 |
| **NET ASSETS, BEGINNING OF YEAR** | 13,220,544 | 5,131,316 | 1,343,276 | - | 19,695,136 |
| **NET ASSETS, END OF YEAR** | $ 14,027,282 | $ 5,131,316 | $ 1,258,372 | $ - | $ 20,416,970 |

See accompanying notes and report of independent auditor.