AUSTIN HABITAT FOR HUMANITY, INC.

Consolidated Financial Statements and Supplemental Information as of and for the Years Ended December 31, 2013 and 2012 and Independent Auditors' Report

MAXWELL & LOCKE & RITTER

AUSTIN HABITAT FOR HUMANITY, INC.

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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 (nonprofit organizations) (collectively, the "Organization") which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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, 2013 and 2012, 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 29, 2014
Austin, Texas

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,001,899	$ 1,572,495
Restricted cash	151,242	177,730
Marketable investments	1,139,235	-
Accounts receivable	452,853	192,203
Grants receivable	705,188	14,271
Mortgages receivable, current portion, net	292,909	273,816
ReStore inventory	394,454	290,481
Construction in progress	1,172,285	824,248
Prepaid expenses and other	251,422	164,318
Total current assets	5,561,487	3,509,562
LAND HELD FOR DEVELOPMENT	2,547,010	3,815,201
MORTGAGES RECEIVABLE, long-term portion, net	7,127,392	6,593,343
INVESTMENTS IN JOINT VENTURES	2,429,247	2,429,247
PROPERTY AND EQUIPMENT, net	365,276	440,883
INTANGIBLES, net	133,588	151,511
TOTAL ASSETS	$ 18,164,000	$ 16,939,747
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 356,469	$ 26,579
Accrued expenses	440,886	394,377
Loans payable - mortgages	729,549	468,469
Forgivable loans payable	2,311,890	3,223,508
Notes payable, current portion, net of discount	51,188	31,775
Total current liabilities	3,889,982	4,144,708
NOTES PAYABLE, long-term portion, net of discount	4,051,545	3,477,530
Total liabilities	7,941,527	7,622,238
NET ASSETS:		
Unrestricted	10,103,741	9,232,700
Temporarily restricted	118,732	84,809
Total net assets	10,222,473	9,317,509
TOTAL LIABILITIES AND NET ASSETS	$ 18,164,000	$ 16,939,747

See notes to consolidated financial statements.

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
Contributions and other:			
Contributions and grants	$ 3,896,217	121,538	4,017,755
Gain on sale of property and equipment	71,632	-	71,632
Partnership income	24,266	-	24,266
In-kind professional services and other	3,585	-	3,585
Investment income	549	-	549
Other revenue	313,754	-	313,754
Net assets released from restrictions	87,615	(87,615)	-
Total contributions and other	4,397,618	33,923	4,431,541
ReStore revenues:			
In-kind contributions of inventory	876,853	-	876,853
ReStore sales of donated inventory	876,853	-	876,853
Donated inventory expense	(876,853)	-	(876,853)
ReStore sales of purchased inventory	579,429	-	579,429
ReStore cost of goods sold	(318,550)	-	(318,550)
Total ReStore revenues, net	1,137,732	-	1,137,732
Low-cost housing revenues:			
Home sales	1,505,000	-	1,505,000
In-kind contributions of labor and construction materials	899,021	-	899,021
Total low-cost housing revenues	2,404,021	-	2,404,021
Total revenues and net assets released from restrictions	7,939,371	33,923	7,973,294
EXPENSES:			
Low-cost housing program	5,713,286	-	5,713,286
ReStore program	514,703	-	514,703
Fundraising	358,145	-	358,145
Management and general	482,196	-	482,196
Total expenses	7,068,330	-	7,068,330
CHANGE IN NET ASSETS	871,041	33,923	904,964
NET ASSETS, beginning of year	9,232,700	84,809	9,317,509
NET ASSETS, end of year	$ 10,103,741	118,732	10,222,473

See notes to consolidated financial statements.

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
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
Partnership income	13,732	-	13,732
In-kind professional services and other	17,060	-	17,060
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
EXPENSES:			
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
CHANGE IN NET ASSETS	963,026	18,144	981,170
NET ASSETS, beginning of year	8,269,674	66,665	8,336,339
NET ASSETS, end of year	$ 9,232,700	84,809	9,317,509

See notes to consolidated financial statements.

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 904,964	$ 981,170
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Mortgages receivable discount	478,318	500,200
Amortization - mortgages receivable discount	(398,996)	(435,641)
Debt discount	(17,448)	-
Noncash interest expense	2,737	-
Depreciation expense	56,971	46,871
Amortization expense - intangibles	17,923	12,913
Unrealized gain on investments	(549)	-
Gain on sale of property and equipment	(71,632)	(174,673)
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(260,650)	(40,477)
Grants receivable	(690,917)	18,499
Mortgages receivable	(632,464)	(858,181)
ReStore inventory	(103,973)	(20,091)
Construction in progress	(348,037)	891,653
Prepaid expenses and other	(87,104)	42,311
Land held for development	1,268,191	(45,059)
Accounts payable	329,890	(165,336)
Accrued expenses	46,509	302,261
Forgivable loans payable	(911,618)	(1,075,933)
Net cash (used in) provided by operating activities	(417,885)	(19,513)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	26,488	(127,671)
Purchases of investments	(1,138,686)	-
Investments in joint ventures	-	(1,431,009)
Purchases of property and equipment	(39,668)	(273,482)
Dispositions of of property and equipment	58,304	147,991
Proceeds from the sale of property and equipment	71,632	316,193
Purchases of intangible assets	-	(80,649)
Net cash used in investing activities	(1,021,930)	(1,448,627)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on notes payable	916,500	2,154,679
Payments on notes payable	(308,361)	(341,521)
Proceeds on loans payable - mortgages	261,080	148,234
Net cash provided by financing activities	869,219	1,961,392
NET CHANGE IN CASH AND CASH EQUIVALENTS	(570,596)	493,252
CASH AND CASH EQUIVALENTS, beginning of year	1,572,495	1,079,243
CASH AND CASH EQUIVALENTS, end of year	$ 1,001,899	$ 1,572,495
Supplemental disclosure of cash flow information -		
Interest paid on notes payable	$ 46,383	$ 26,964

See notes to consolidated financial statements.

1. ORGANIZATION

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.

HomeBase Texas ("HomeBase") 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 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:

> <u>Unrestricted net assets</u> **-** 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.
>
> <u>Temporarily restricted net assets</u> **-** 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.
>
> <u>Permanently restricted net assets</u> **-** 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 8), 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.

Marketable Investments - Investments are carried at fair market value based on quoted market prices. Any changes in market value are reported in the statements of activities as unrealized gains or losses.

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, 2013 or 2012 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, 2013, the Organization had no investment in foreclosed loans. At December 31, 2012, the Organization had recorded investment in foreclosed loans of $51,065.

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 years ended December 31, 2013 and 2012, AHFH received $24,266 and $13,732 in distributions, respectively. These distributions are reported in the consolidated statements of activities as partnership income.

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 when transactions originated. The structuring and guarantee fees are being amortized over seven years and the loan closing costs are being amortized over sixteen years.

Loans Payable - Mortgages - 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 loans payable are discounted based upon prevailing market interest rates at the inception of the mortgage. The financing discounts are amortized and reflected as expense when the mortgage payments are paid.

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. The Organization is subject to routine examinations of its returns; however, there are no examinations currently in progress. The December 31, 2010 and subsequent tax years remain subject to examination by the Internal Revenue Service.

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, marketable investments 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. 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 and does not believe significant risk exists at December 31, 2013 or 2012.

4. MARKETABLE INVESTMENTS

Marketable investments are stated at fair value using the market approach. The inputs used to determine the fair value of mutual funds were considered Level 1 and the inputs used to determine the fair value of government bonds were considered Level 2 in the fair value hierarchy. Marketable investments at December 31, 2013 consisted of the following:

Government bonds	$ 781,957
Mutual funds	357,278
Total	$ 1,139,235

The Organization had no marketable investments at December 31, 2012.

5. RELATED PARTY TRANSACTIONS AND AFFILIATIONS

Board contributions for the years ended December 31, 2013 and 2012 were $34,070 and $20,115, respectively.

The Organization operates within a covenant agreement with HFHI. The Organization tithes to support HFHI's international homebuilding work. Tithes to HFHI totaled $48,000 and $56,000 for the years ended December 31, 2013 and 2012, 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 $26,125 and $46,913 at December 31, 2013 and 2012, respectively, and are included in notes payable in the consolidated statements of financial position.

6. MORTGAGES RECEIVABLE

Mortgages receivable consisted of the following at December 31:

	2013	2012
Mortgages receivable	$ 12,143,849	$ 11,330,549
Financing discount based on imputed interest at rates ranging from 4% to 8%	(4,723,548)	(4,463,390)
	$ 7,420,301	$ 6,867,159

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, 2013 are as follows:

2014	$ 704,117
2015	699,873
2016	683,977
2017	670,450
2018	658,145
Thereafter	8,727,287
Total	$ 12,143,849

7. RESTORE INVENTORY

ReStore inventory consisted of the following at December 31:

	2013	2012
Donated goods	$ 155,000	$ 155,000
Purchased materials	239,454	135,481
	$ 394,454	$ 290,481

8. 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 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, 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 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 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 at December 31:

	2013	2012
Balance, beginning of year	$ 2,249,247	$ 998,238
Investment in joint venture in current year	-	1,431,009
Balance, end of year	$ 2,429,247	$ 2,429,247

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2013	2012
Equipment	$ 403,854	$ 395,921
Building and improvements	399,668	450,733
Trucks	245,074	220,578
Land	176,225	176,225
Total	1,224,821	1,243,457
Accumulated depreciation	(859,545)	(802,574)
Property and equipment, net	$ 365,276	$ 440,883

10. INTANGIBLES

Intangibles consisted of the following at December 31:

	2013	2012
Loan closing costs	$ 72,042	$ 72,042
Structuring fees	49,801	49,801
Guarantee fees	44,137	44,137
Total	165,980	165,980
Accumulated amortization	(32,392)	(14,469)
Intangibles, net	$ 133,588	$ 151,511

11. DEBT

Notes payable consisted of the following at December 31:

	2013	2012
Non-interest bearing, unsecured notes payable to HFHI under SHOP grants, due in monthly installments through 2015.	$ 26,125	$ 46,913
Unamortized discount based on imputed interest rates averaging 4.0%.	(1,952)	(1,952)
	24,173	44,961
Mortgage note payable to a bank, due in monthly installments of $3,139 plus interest at a variable rate (3.0% at December 31, 2013 and 2012) through 2017, secured by ReStore's land and building.	892,306	263,379
Unamortized discount	(14,711)	-
	877,595	263,379
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.	1,320,965	1,320,965
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.	1,880,000	1,880,000
	4,102,733	3,509,305
Current portion	(51,188)	(31,775)
Long-term portion	$ 4,051,545	$ 3,477,530

The Organization has an available $525,000 revolving line of credit with a bank expiring November 1, 2014. The line provides for a variable rate of interest (3.25% at December 31, 2013 and 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, 2013 and 2012.

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, 2013 and 2012, interest incurred on debt and charged to expense was $46,383 and $26,964, respectively. Future maturities of debt at December 31, 2013 are as follows:

2014	$ 51,188
2015	48,313
2016	37,664
2017	764,603
2018	-
Thereafter	3,200,965
Total	$ 4,102,733

12. LETTERS OF CREDIT

The Organization had entered into letters of credit with financial institutions totaling $168,875 each year at December 31, 2013 and 2012, respectively, pursuant to subdivision construction agreements with the City of Austin. The letters of credit expire in 2014 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.

13. TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
Caldwell Chapter	$ 60,454	$ 45,953
UT Campus Chapter	31,778	25,658
Bastrop Chapter	-	13,198
Onion Creek Floods	26,500	-
	$ 118,732	$ 84,809

14. 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, 2013 and 2012 were $58,023 and $58,255, respectively.

15. LEASE COMMITMENTS

The Organization leases office space, a construction warehouse, telephone equipment, and a copier under operating leases. Lease expense under these leases totaled $125,915 and $124,134, respectively, for the years ended December 31, 2013 and 2012. Future minimum lease payments under the leases at December 31, 2013 are as follows:

2014	$ 83,556
2015	83,076
2016	59,259
2017	3,744
	$ 229,635

16. 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.

On October 31, 2013, HomeBase entered into a $1,250,000 forgivable loan agreement with Westgate Momark L.L.C. ("Momark"), a private developer, to acquire land and develop no fewer than 50 afforable new housing units to be sold to low and moderate-income buyers. The forgivable loan was funded by the AHFC. The loan proceeds were transferred to Momark who is responsible for developing the housing units; therefore, this forgivable loan is not recorded on HomeBase's financials statements. HomeBase retains joint liability with Momark for the forgivable loan, which matures on February 28, 2016 and accrues no interest. In the event Momark fails to meet the forgivable loan requirements, HomeBase is still responsible for ensuring the completion of the project.

17. 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, 2013 and 2012, the Organization has incurred cumulative net operating losses of approximately $1,245,000 and $1,200,000, 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 2033. The net change in the total valuation allowance for the years ended December 31, 2013 and 2012 was $15,300 and $17,000, respectively. A full valuation allowance has been recorded as utilization is uncertain.

18. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 29, 2014 (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, 2013

	2013					2012
	Low-Cost Housing	ReStore	Fundraising	Management and General	Total	Total
Salaries	$ 925,913	272,545	186,393	270,182	1,655,033	1,565,195
Fringe benefits	168,190	57,741	32,398	43,416	301,745	228,496
Payroll taxes	76,061	26,039	16,095	22,606	140,801	120,361
Advertisements	34,976	21,155	57,957	17,797	131,885	83,297
Office expenses	57,048	22,407	11,106	13,642	104,203	98,027
Information technology	36,864	9,565	4,030	5,845	56,304	29,358
Occupancy	96,371	33,961	14,217	25,324	169,873	160,469
Travel	43,509	28,437	1,484	1,900	75,330	77,144
Conferences, conventions, and meetings	3,481	1,399	1,843	4,120	10,843	3,797
Interest expense	13,951	4,596	5,102	19,998	43,647	26,964
Tithe to HFHI	48,000	-	-	-	48,000	56,000
Depreciation and amortization	31,051	4,854	8,003	30,985	74,893	59,784
Insurance	41,966	18,613	5,356	6,903	72,838	66,819
Warranty work	38,390	-	-	-	38,390	16,109
Tools and equipment	29,192	-	-	-	29,192	25,761
Service fees	39,472	6,390	4,212	4,768	54,842	85,160
NMTC transaction fees	26,487	-	-	-	26,487	16,646
Dues and subscriptions	9,156	6,891	9,206	10,461	35,714	28,741
Home Repair program	565,449	-	-	-	565,449	389,000
Discount on mortgages, net	79,322	-	-	-	79,322	212,793
Cost of homes sold	3,236,884	-	-	-	3,236,884	3,923,627
Other expense	111,553	110	743	4,249	116,655	114,881
Total functional expenses	$ 5,713,286	514,703	358,145	482,196	7,068,330	7,388,429

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2013

	Austin Habitat for Humanity, Inc.	Austin Neighborhood Alliance for Habitat, Inc.	HomeBase Texas	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 606,210	12,039	383,650	-	1,001,899
Restricted cash	151,242	-	-	-	151,242
Marketable investments	1,139,235	-	-	-	1,139,235
Accounts receivable	70,560	-	382,293	-	452,853
Grants receivable	495,454	-	209,734	-	705,188
Mortgages receivable, current portion, net	292,909	-	-	-	292,909
Intercompany receivable	526,703	4,879,707	-	(5,406,410)	-
ReStore inventory	394,454	-	-	-	394,454
Construction in progress	1,172,285	-	-	-	1,172,285
Prepaid expenses and other	251,422	-	-	-	251,422
Total current assets	5,100,474	4,891,746	975,677	(5,406,410)	5,561,487
LAND HELD FOR DEVELOPMENT	2,547,010	-	-	-	2,547,010
MORTGAGES RECEIVABLE, long-term portion, net	7,127,392	-	-	-	7,127,392
INVESTMENTS IN JOINT VENTURES	2,429,247	-	-	-	2,429,247
PROPERTY AND EQUIPMENT, net	365,276	-	-	-	365,276
INTANGIBLES, net	133,588	-	-	-	133,588
TOTAL ASSETS	$ 17,702,987	4,891,746	975,677	(5,406,410)	18,164,000
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	$ 201,381	-	155,088	-	356,469
Accrued expenses	138,128	-	302,758	-	440,886
Intercompany payable	5,402,855	-	3,555	(5,406,410)	-
Loans payable - mortgages	729,549				729,549
Forgivable loans payable	1,615,730	696,160	-	-	2,311,890
Notes payable, current portion, net	51,188	-	-	-	51,188
Total current liabilities	8,138,831	696,160	461,401	(5,406,410)	3,889,982
NOTES PAYABLE, long-term portion, net	4,051,545	-	-	-	4,051,545
Total liabilities	12,190,376	696,160	461,401	(5,406,410)	7,941,527
NET ASSETS:					
Unrestricted	5,393,879	4,195,586	514,276	-	10,103,741
Temporarily restricted	118,732	-	-	-	118,732
Total net assets	5,512,611	4,195,586	514,276	-	10,222,473
TOTAL LIABILITIES AND NET ASSETS	$ 17,702,987	4,891,746	975,677	(5,406,410)	18,164,000

AUSTIN HABITAT FOR HUMANITY, INC.

CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

	Austin Habitat for Humanity, Inc.	Austin Neighborhood Alliance for Habitat, Inc.	HomeBase Texas	Total
REVENUES:				
Contributions and other:				
Contributions and grants	$ 3,317,564	565,111	135,080	4,017,755
Gain on sale of property and equipment	71,632	-	-	71,632
Partnership income	24,266	-	-	24,266
In-kind professional services and other	3,585	-	-	3,585
Investment income	549	-	-	549
Other revenue	26,820	-	286,934	313,754
Total contributions and other	3,444,416	565,111	422,014	4,431,541
ReStore revenues:				
In-kind contributions of inventory	876,853	-	-	876,853
ReStore sales of donated inventory	876,853	-	-	876,853
Donated inventory expense	(876,853)	-	-	(876,853)
ReStore sales of purchased inventory	579,429	-	-	579,429
ReStore cost of goods sold	(318,550)	-	-	(318,550)
Total ReStore revenues, net	1,137,732	-	-	1,137,732
Low-cost housing revenues:				
Home sales	1,505,000	-	-	1,505,000
In-kind contributions of labor and construction materials	899,021	-	-	899,021
Total low-cost housing revenues	2,404,021	-	-	2,404,021
Total revenues	6,986,169	565,111	422,014	7,973,294
EXPENSES:				
Low-cost housing program	5,525,645	376	187,265	5,713,286
ReStore program	514,703	-	-	514,703
Fundraising	358,145	-	-	358,145
Management and general	482,196	-	-	482,196
Total expenses	6,880,689	376	187,265	7,068,330
CHANGE IN NET ASSETS	105,480	564,735	234,749	904,964
NET ASSETS, beginning of year	5,407,131	3,630,851	279,527	9,317,509
NET ASSETS, end of year	$ 5,512,611	4,195,586	514,276	10,222,473