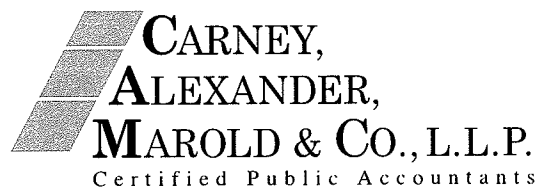

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016



IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Table of Contents

	Page
Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 16

Independent Auditors' Report

Board of Directors
Iowa Heartland Habitat for Humanity

We have audited the accompanying statements of financial position of Iowa Heartland Habitat for Humanity (a nonprofit organization) as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iowa Heartland Habitat for Humanity as of June 30, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Corney, Alexander, Marshall & Co., L.L.P.

November 27, 2017

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Financial Position
As of June 30, 2017 and 2016

- ASSETS -

	2017	2016
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 319,004	\$ 359,626
Cash and cash equivalents - restricted	78,071	111,652
Grants and contributions receivable	157,002	102,037
Work in process	748,920	910,889
Inventory	76,349	73,943
Current portion of real estate contracts receivable	240,847	232,606
Prepaid expenses	20,215	18,958
	<u>1,640,408</u>	<u>1,809,711</u>
Non-Current Assets:		
Non-interest bearing real estate contracts receivable	5,667,939	5,381,278
Less discount on non-interest bearing contracts	(1,705,581)	(1,424,930)
	<u>3,962,358</u>	<u>3,956,348</u>
Less current portion above	(240,847)	(232,606)
	<u>3,721,511</u>	<u>3,723,742</u>
Reserve deposits on IFA loans	1,743	3,630
Beneficial interest in assets held by Community Foundation	135,060	125,110
Investment in ICD Habitat Leverage, LLC	1,766,128	1,730,024
Intangible assets, net of amortization	96,635	141,237
	<u>5,721,077</u>	<u>5,723,743</u>
Fixed Assets:		
Furnishings and equipment	132,083	103,351
Construction equipment	109,545	135,045
Vehicles	44,931	17,450
Office building	232,332	133,302
Leasehold improvements	61,265	61,265
Less accumulated depreciation	(163,007)	(115,659)
	<u>417,149</u>	<u>334,754</u>
Total Assets		
	<u>\$ 7,778,634</u>	<u>\$ 7,868,208</u>

The accompanying notes are an integral part of this statement.

- LIABILITIES AND NET ASSETS -

	2017	2016
Current Liabilities:		
Accounts payable	\$ 48,043	\$ 59,562
Accrued expenses	28,446	14,501
Payroll withholdings	15,516	14,080
Escrow and HOA deposit liability	9,252	8,008
Current portion of long-term notes and mortgages	<u>72,124</u>	<u>17,613</u>
Total Current Liabilities	<u>173,381</u>	<u>113,764</u>
Long-term Liabilities:		
Deferred revenue	217,755	282,274
Notes and mortgages payable less current portion	<u>2,323,195</u>	<u>2,294,627</u>
Total Long-term Liabilities	<u>2,540,950</u>	<u>2,576,901</u>
Net Assets:		
Unrestricted net assets	4,902,558	5,022,133
Restricted net assets	<u>161,745</u>	<u>155,410</u>
Total Net Assets	<u>5,064,303</u>	<u>5,177,543</u>
Total Liabilities and Net Assets	<u><u>\$ 7,778,634</u></u>	<u><u>\$ 7,868,208</u></u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Activities
For the Years Ended June 30, 2017 and 2016

	2017		Total
	Unrestricted	Temporarily Restricted	
Support:			
Grants and gifts:			
Churches	\$ 68,135	\$ -	\$ 68,135
Individuals	62,098	1,300	63,398
Bequests	32,639	-	32,639
Corporations	52,116	5,500	57,616
Grants	486,411	35,000	521,411
In kind contributions	689,887	-	689,887
Total Grants and Gifts	1,391,286	41,800	1,433,086
ReStore sales	571,517	-	571,517
Fundraising	48,123	-	48,123
Sales of homes	1,053,233	-	1,053,233
Real estate contract discount amortization	118,170	-	118,170
Investment income	57,020	-	57,020
Realized/unrealized gain/(loss) on investments	12,690	-	12,690
Other income	29,687	-	29,687
	3,281,726	41,800	3,323,526
Net assets released from restrictions	35,465	(35,465)	-
	3,317,191	6,335	3,323,526
Expenses:			
Program services:			
Construction costs and family selection and nurture	2,219,721	-	2,219,721
ReStore	916,446	-	916,446
Supporting services:			
Management and general	312,293	-	312,293
Fundraising and public relations	170,670	-	170,670
	3,619,130	-	3,619,130
Change in Net Assets from Operations	(301,939)	6,335	(295,604)
Fair value of assets received in acquisition of Buchanan County Habitat for Humanity	182,364	-	182,364
Change in Net Assets	(119,575)	6,335	(113,240)
Net Assets at Beginning of Year	5,022,133	155,410	5,177,543
Net Assets at End of Year	\$ 4,902,558	\$ 161,745	\$ 5,064,303

The accompanying notes are an integral part of this statement.

2016		
Unrestricted	Temporarily Restricted	Total
\$ 22,472	\$ 1,500	\$ 23,972
51,773	1,500	53,273
39,162	-	39,162
14,316	5,000	19,316
312,138	14,230	326,368
572,024	-	572,024
1,011,885	22,230	1,034,115
484,194	-	484,194
70,412	-	70,412
449,587	-	449,587
484,624	-	484,624
56,825	-	56,825
(912)	-	(912)
13,363	-	13,363
2,569,978	22,230	2,592,208
5,397	(5,397)	-
2,575,375	16,833	2,592,208
1,241,820	-	1,241,820
685,127	-	685,127
-	-	-
180,082	-	180,082
90,425	-	90,425
2,197,454	-	2,197,454
377,921	16,833	394,754
-	-	-
377,921	16,833	394,754
4,644,212	138,577	4,782,789
\$ 5,022,133	\$ 155,410	\$ 5,177,543

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Functional Expenses
For the Years Ended June 30, 2017 and 2016

	2 0 1 7				
	Program Services		Supporting Services		
	Construction & Family Selection	ReStore	Management and General	Fundraising	Total
Building materials and supplies	\$ 1,508,147	\$ -	\$ -	\$ -	\$ 1,508,147
Real estate contract discount	315,355	-	-	-	315,355
Cost of goods sold - ReStore	-	547,428	-	-	547,428
Salary	300,989	165,464	51,397	73,040	590,890
Payroll taxes	25,506	14,609	4,393	6,244	50,752
Retirement	9,045	5,412	1,662	2,401	18,520
Benefits	32,426	25,249	5,975	8,375	72,025
Insurance	19,320	8,381	6,925	-	34,626
Depreciation	27,388	16,461	7,251	-	51,100
Amortization	7,600	-	-	-	7,600
Utilities	-	7,010	5,989	-	12,999
Printing	-	256	5,170	4,914	10,340
Postage	-	49	2,427	2,377	4,853
Office supplies	1,431	4,807	915	-	7,153
Staff expense	-	5,556	39,897	-	45,453
Volunteer expense	6,995	2,634	-	-	9,629
Family selection expense	1,571	-	-	-	1,571
Computer and software	-	1,557	98,060	-	99,617
Small equipment	10,102	351	-	-	10,453
Vehicle costs	10,553	4,711	-	-	15,264
Tithe to Habitat International	27,900	-	-	-	27,900
Construction expense	19,988	-	-	-	19,988
Legal and accounting	4,345	-	17,382	-	21,727
Bank charges	-	6,083	35,302	-	41,385
Event expense	-	262	-	53,072	53,334
Grant expense	19,930	-	-	-	19,930
Advertising	-	21,742	-	20,247	41,989
Rent expense	403	70,584	-	-	70,987
Interest expense	2,378	-	21,126	-	23,504
Repairs & maintenance	-	5,050	8,422	-	13,472
Real estate holding expense	8,628	-	-	-	8,628
Miscellaneous	19,883	2,790	-	-	22,673
Less overhead charged to construction	(160,162)	-	-	-	(160,162)
	\$ 2,219,721	\$ 916,446	\$ 312,293	\$ 170,670	\$ 3,619,130

The accompanying notes are an integral part of this statement.

2016

Program Services		Supporting Services			Total
Construction & Family Selection	ReStore	Management and General	Fundraising		
\$ 604,852	\$ -	\$ -	\$ -	\$ 604,852	
149,069	-	-	-	149,069	
-	418,797	-	-	418,797	
290,063	94,693	40,199	32,260	457,215	
24,722	8,449	3,441	2,764	39,376	
8,795	3,122	1,303	1,020	14,240	
33,337	16,000	4,825	4,075	58,237	
30,207	966	7,793	-	38,966	
21,613	12,038	2,627	-	36,278	
7,600	-	-	-	7,600	
-	5,693	6,063	-	11,756	
-	-	3,086	3,086	6,172	
-	54	1,322	1,375	2,751	
699	14,700	2,796	-	18,195	
-	2,735	20,592	-	23,327	
11,042	1,872	-	-	12,914	
1,412	-	-	-	1,412	
-	-	5,290	-	5,290	
11,299	2,552	-	-	13,851	
9,368	6,903	-	-	16,271	
27,666	-	-	-	27,666	
6,306	-	-	-	6,306	
4,583	-	18,331	-	22,914	
-	3,415	34,953	-	38,368	
-	1,055	-	38,909	39,964	
6,000	-	-	-	6,000	
-	20,405	-	6,936	27,341	
-	52,957	-	-	52,957	
-	-	21,949	-	21,949	
-	11,045	5,512	-	16,557	
7,929	-	-	-	7,929	
79,657	7,676	-	-	87,333	
(94,399)	-	-	-	(94,399)	
<u>\$ 1,241,820</u>	<u>\$ 685,127</u>	<u>\$ 180,082</u>	<u>\$ 90,425</u>	<u>\$ 2,197,454</u>	

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ (295,604)	\$ 394,754
Adjustments to reconcile change in net assets to net cash used by operations:		
Origination of non-interest bearing mortgages	(916,846)	(440,765)
Real estate contract discount	315,355	149,069
Current year amortization of discount on contracts	(118,170)	(484,624)
Depreciation of buildings and equipment	51,100	36,278
Amortization of intangible assets	7,600	7,600
Deferred revenue	(27,517)	-
Earnings from ICD Habitat Leverage, LLC	(52,273)	(52,535)
Realized/unrealized (gain)/loss on investments	(12,690)	912
Change in grants and contributions receivable	(54,965)	(3,913)
Change in work in process	161,969	(228,053)
Change in inventory	(2,406)	(2,957)
Change in prepaid expenses	(1,257)	(8,933)
Change in accounts payable	(11,519)	19,807
Change in accrued expenses	13,945	11,602
Change in payroll withholdings	1,436	6,183
Change in escrow deposit liability	1,244	(83)
Net Cash Used by Operating Activities	<u>(940,598)</u>	<u>(595,658)</u>
Cash Flows From Investing Activities:		
Payments received on real estate contracts	819,405	708,280
Purchases of land, buildings, and equipment	(131,515)	(203,057)
Distribution from investment in ICD Habitat Leverage, LLC	16,169	16,169
Decrease in assets held at Community Foundation	2,740	2,233
Cash received in Buchanan County Habitat for Humanity acquisition	74,630	-
Net Cash Provided by Investing Activities	<u>781,429</u>	<u>523,625</u>
Cash Flows From Financing Activities:		
New borrowings	130,000	-
Payments reducing long-term notes	(45,034)	(86,873)
Net Cash (Used)/Provided by Financing Activities	<u>84,966</u>	<u>(86,873)</u>
Change in Cash and Cash Equivalents	(74,203)	(158,906)
Beginning Cash and Cash Equivalents	<u>471,278</u>	<u>630,184</u>
Ending Cash and Cash Equivalents	<u>\$ 397,075</u>	<u>\$ 471,278</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 21,126	\$ 19,571
Non-cash investing activities:		
Acquisition of Buchanan County Habitat for Humanity:		
Real estate contracts receivable, net of discount	\$ 189,221	\$ -
Trailer	1,980	-

The accompanying notes are an integral part of this statement.

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies:

Nature of Activities

Iowa Heartland Habitat for Humanity (Habitat) is a charitable organization incorporated in the State of Iowa, and is an affiliate of Habitat for Humanity International (Habitat International) located in Americus, Georgia. Habitat's purpose is to provide to low income individuals an opportunity for ownership of simple, decent housing in a safe neighborhood in Black Hawk, Bremer, Buchanan, and Butler Counties. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

Basis of Presentation

The financial statements, which include the assets, liabilities, net assets and financial activities of Habitat, have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for not for profit organizations. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

Habitat has elected to adopt the Accounting Standards Codification (ASC) requirement for Financial Statements of Not for Profit Organizations. Under this requirement, Habitat is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Habitat has also adopted the FASB ASC requirement for Accounting for Contributions Received and Contributions Made. This requirement states contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Temporarily restricted contributions are required to be reported as temporarily restricted support and then reclassified to unrestricted net assets upon expiration of donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Home Construction

Habitat builds homes and carries the cost of purchased materials as work in process inventory until completion of the home project. The estimated fair market value of contributed land and material is also carried as work in process and recognized as contributed support and revenue when received. Upon completion of the home project, work in process is then charged to program expense. Construction labor is provided by Habitat volunteers, by future home buyers and by paid construction staff. No value is recognized in the accounts for labor contributed by Habitat volunteers.

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies: (continued)

ReStore Operations

In fall of 2015, Habitat opened a ReStore. The ReStore is a retail business that accepts donations of new and used building materials, furniture, appliances and housewares and resells them to the general public through a retail store front warehouse. The ReStore provides the community with a low-cost outlet for home improvement materials making home renovations and improvements more affordable.

Real Estate Contracts Receivable

Upon completion of homes, Habitat enters into contracts of sale with home buyers. Contracts provide for the payment of costs of construction (including contributed land and material, if any) over periods of 15 to 30 years. These contracts bear no interest, and contain clauses restricting speculation and the earning of windfall profits by home buyers.

Sales of homes are recorded at the gross amount of payments to be received over the lives of the contracts. Non-interest bearing contracts are discounted at 3.75 - 8%. Discounts are amortized using the effective interest method over the lives of the contracts. Monthly payments are remitted to Farmers State Bank, who then makes deposits twice monthly to Habitat for collections on accounts. These contracts receivable are recorded on the statement of financial position as non-current assets except for the principal portion due within one year. In addition, home buyers make escrow payments to Farmers State Bank for insurance and property taxes. Homeowners in the Heartland Hills area are also required to pay Habitat homeowners association dues. Amounts are classified as HOA deposits.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Habitat considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The FASB standard for Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for assets, either directly or indirectly. Level 3 uses significant unobservable inputs. Level 3 has the lowest priority. Habitat uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When applicable, Habitat measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs would only be used when Level 1 inputs are not available.

Buildings, Equipment, and Depreciation

Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis, as follows:

Buildings	10 - 39 years
Furnishings and equipment	5 - 7 years
Vehicles	5 years
Construction equipment	5 years

Depreciation expense for the years ended June 30, 2017 and 2016 was \$51,100 and \$36,278, respectively.

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies: (continued)

Intangible Assets

Habitat amortizes intangible assets with finite lives on a straight-line basis over their estimated useful lives. Intangible assets include costs associated with an investment in a joint venture, described in Note 6, that are being amortized using the straight-line method over 7 - 15 years. Original costs for intangibles are \$312,208 with \$215,573 in accumulated amortization for 2017. Amortization expense, net of income was \$7,600 as of June 30, 2017 and 2016, respectively.

Contributed Goods and Services

No amounts have been reflected in the financial statements for donated non-professional services in as much as no objective basis is available to measure the value of such services or the increase in the value of assets available to Habitat from contributed services. However, a substantial number of volunteers have donated significant amounts of their time to the organization's program and other services. Contributed goods are valued at fair market value at the date of the contribution. These goods are then included in the value of the respective homes when sold.

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Habitat reports the support as unrestricted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Advertising

Advertising costs for promotion purposes are expensed when incurred. Advertising costs charged against operations was \$41,989 and \$27,341 for June 30, 2017 and 2016, respectively.

Income Taxes

Habitat is a nonprofit organization exempt from paying income taxes under Internal Revenue Code Section 501(c)(3), and is not classified as a private foundation.

Habitat has adopted the accounting standards regarding uncertain tax positions which requires evaluation of the impact of uncertain tax positions taken or expected to be taken on a tax return. In some instances, the organization may be required to recognize a liability related to those tax positions. In evaluating Habitat's tax provisions and accruals, interpretations and tax planning strategies are considered. At June 30, 2017 and 2016, Habitat had no uncertain tax positions requiring recognition in the financial statements. Habitat's income tax filings prior to 2014 are no longer subject to audit by the federal and state taxing authorities. Interest and penalties incurred, if any, when filing income tax returns are recognized in the Statements of Functional Expenses.

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies: (continued)

Related Entities

Habitat contributed \$27,900 and \$27,666 to Habitat International for the years ended June 30, 2017 and 2016, respectively. Such amounts are classified as program services expense because such funds are expended by Habitat International for low-income housing under terms of the contribution.

Inventory

Inventory consists of building materials used in the construction of homes and donated items to be sold in the ReStore. Purchased inventory is valued at cost. Donated inventory is valued at its estimated fair value based on its expected selling price.

Allowance for Doubtful Accounts

Real estate contracts receivable consists of amounts due from homeowners for home purchases. No allowance for doubtful accounts has been established because management feels the receivables are fully secured by a mortgage on the property.

Functional Allocation of Expenses:

The costs of providing program services, supporting management and general expenses, and fundraising have been summarized in the statement of functional expenses. Certain costs have been allocated among program and supporting services in relation to the manner and purpose for which they were incurred. Joint costs for fundraising expenses have been allocated for cost of goods sold, salary, payroll taxes, employee benefits, miscellaneous expense, and committee expense.

Subsequent Events

Management has evaluated subsequent events through November 27, 2017, the date on which the financial statements were available to be issued.

Note 2: Restricted Cash

At June 30, 2017, restricted cash represented funds held in non-interest bearing accounts. The funds in the accounts are used for the purposes of activity related to the joint venture, see Note 6.

Note 3: Real Estate Contracts Receivable:

Real estate contracts arising from sales of homes to low-income families provide for monthly payments of principal (aggregate \$240,847 expected to be received during the year ended June 30, 2017) plus amounts for discounted interest and homeowners association dues (if applicable). At June 30, 2017, there were sixteen homeowners that were behind on their payments with a total principal balance of \$713,169. At June 30, 2016, there were twenty homeowners in arrears with a total principal balance of \$982,941.

Real estate contracts receivable are non-interest bearing and for financial statement purposes, they are discounted at a 3.75 - 8% rate of interest. The discount is then realized over the respective lives of the loans. The fair value of the asset is measured on a recurring basis using significant unobservable inputs (Level 3 inputs).

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 3: Real Estate Contracts Receivable: (continued)

Real estate contracts arising since 1999 have included a second promissory note that recaptures the difference between the amount of the total price of the house expected to be repaid by the homebuyer through the first/primary mortgage and the house's value based on the market appraisal. The term of the second promissory note is determined on a case by case basis based on the unique factors of each home purchase. The rationale of the second mortgage is to protect donors' and volunteers' charitable gift of funds and labor, protect the homeowner from predatory or sub-prime lenders, to help preserve the availability of affordable housing in the community, allow Habitat to recapture the full value of the home, and to allow Habitat to share in the equity of the home. Since the probability of the home buyer selling the home in the future cannot be determined, no accrual of the notes has been reflected in the financial statements.

In the current year, additional funding was received on some home sales. Down payment assistance and additional subsidy programs were used to reduce the amount of the primary mortgage to the new homeowner. These programs required additional deed restrictions or mortgages to be placed on the home and these take priority over the second mortgage issued by Habitat.

Habitat retains the first right of refusal to repurchase the Habitat home if a home buyer wishes to sell their home during the term of the second promissory note.

	2017		2016	
	Cost	Fair Value (level 3 inputs)	Cost	Fair Value (level 3 inputs)
Balance at beginning of year	\$ 3,956,348	\$ 3,956,348	\$ 3,886,486	\$ 3,886,486
New contracts receivable	916,846	916,846	442,587	442,587
Homes acquired in acquisition	105,754	105,754	-	-
Discount on new contracts	(315,355)	(315,355)	(149,069)	(149,069)
Collections	(559,142)	(559,142)	(453,795)	(453,795)
Contracts receivable sold	(260,263)	(260,263)	(254,485)	(254,485)
Imputed interest	118,170	118,170	484,624	484,624
Balance at end of year	<u>\$ 3,962,358</u>	<u>\$ 3,962,358</u>	<u>\$ 3,956,348</u>	<u>\$ 3,956,348</u>

Habitat is party to an arrangement with MidWestOne Bank in which it sold, with recourse, four non-interest bearing mortgage notes receivable for \$255,190 as of June 30, 2017 and three for \$254,485 as of June 30, 2016. Habitat services these mortgages by collecting the monthly payments through Farmers State Bank, and remitting the principal portion of these payments to MidWestOne Bank. If a mortgage were to be delinquent by more than ninety days, Habitat shall use its best efforts to replace the nonperforming loan with a substitute loan. As of June 30, 2017 and 2016, the balance of the unrecorded recourse obligation is \$663,388 and \$445,428, respectively.

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 4: Work In Process:

Following is a summary of home building activity for the years ended June 30:

	2017		2016	
	Homes	Costs	Homes	Costs
Homes under construction, beginning of year	36	\$ 910,889	25	\$ 682,836
Additional costs incurred on beginning inventory		1,272,804		404,058
New homes started during year	2	99,820	17	428,391
Homes transferred to homeowners	(11)	(1,534,593)	(6)	(604,396)
Total work in process	27	<u>\$ 748,920</u>	36	<u>\$ 910,889</u>

The balance of homes under construction consists of ending construction inventory - homes and ending work in process at June 30 as follows:

	2017		2015	
	Homes	Costs	Homes	Costs
Homes under construction, end of year	7	\$ 399,175	9	\$ 516,652
Home sites, no construction by year end	20	349,745	27	394,237
		<u>\$ 748,920</u>		<u>\$ 910,889</u>

Note 5: Beneficial Interest Held by Community Foundation

As of June 30, 2017, Habitat has a beneficial interest in assets held by the Community Foundation of Waterloo/Cedar Falls and Northeast Iowa (the Foundation). The money was transferred by Habitat to the Foundation to establish an endowment fund. Variance power was granted to the Foundation allowing its Board of Directors to redirect the fund to the support of another charitable agency, in the event Habitat terminates or ceases to exist as a legal entity. Habitat is entitled to receive the earnings on its beneficial interest.

Fair value of asset measured on a recurring basis using significant unobservable inputs (Level 3 inputs)

	2017	2016
Balance at beginning of year	\$ 125,110	\$ 128,255
Contributions	1,300	1,500
Interest income	2,393	2,560
Investment fees	(1,448)	(1,432)
Realized/Unrealized gain/(loss)	12,690	(912)
Distribution received	(4,985)	(4,861)
Balance at end of year	<u>\$ 135,060</u>	<u>\$ 125,110</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 6: New Market Tax Credit and Associated Joint Venture

During fiscal year ending June 30, 2013, Habitat participated in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in "qualified low-income community investment". Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

Habitat invested, along with four other Habitat affiliates, in a joint venture ICD Habitat Leverage, LLC with 18.8142% ownership to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal tax liability. As a result, Habitat has invested \$1,616,857 for an 18.8142% ownership in ICD Habitat Leverage, LLC and was able to secure a 15 year loan in the amount of \$2,212,554 (see Note 8). The loan is payable to a community development entity (an affiliate of the joint venture). Loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrues interest only for years 1 through 7 at a reduced rate of 0.7309%. Beginning in year 8 through 15 the principal balance of the loan is reduced by an eight-year amortization at the same rate of 0.7309%.

In September 2019, ICD Habitat Investment Fund, LLC, the effective upstream owner of the ICD XIV, LLC who is the holder of the promissory note due from the affiliate, is expected to exercise its put option. Under the terms of the put option agreement, ICD Habitat Leverage, LLC is expected to purchase the Investment Fund's ownership interest. At this point, the affiliates will own their notes to the sub-CDE and can thereby extinguish those debts.

Investment in ICD Habitat Leverage Fund, LLC at cost as of June 30, 2017 and 2016, respectively, is as follows:

	2017	2016
Balance at beginning of year	\$ 1,730,024	\$ 1,693,919
Investment income	52,273	52,274
Distributions	(16,169)	(16,169)
Balance at end of year	<u>\$ 1,766,128</u>	<u>\$ 1,730,024</u>

Note 7: Operating Leases

A lease agreement was signed for retail space in Waterloo, Iowa for their ReStore which began operations in fall of 2015. This lease is a five year lease with monthly rent of \$1,421 for the first year with incremental increases for the remaining years. Monthly rent is \$2,131 and \$1,421 as of June 30, 2017 and 2016, respectively. The lease also requires payments for a proportionate share of common area maintenance. Habitat entered into other operating leases on a month to month basis for storage units with monthly rent of \$60 to \$175 each.

Following is a schedule of future minimum lease payments under the leases at June 30, 2017:

Year Ending June 30, 2018	\$ 30,549
June 30, 2019	37,416
June 30, 2020	43,100
June 30, 2021	-
June 30, 2022	-

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 8: Long-Term Debt:

Following is a summary of long-term debt at June 30:

Notes payable:	2017	2016
Note payable to John Deere Financial for skid loader, repaid in monthly installments of \$845.83, 0% interest, due July 7, 2018	\$ 10,996	\$ 16,296
Note payable to City of Waterloo, repaid in monthly installments of \$5,000, 0% interest, secured by promissory note for 1003 Lafayette, Waterloo of \$130,000, due June 1, 2019	115,000	-
Notes payable to Iowa Finance Authority (Loan #04-04), repayable in monthly installments of \$150, 0% interest, secured by promissory notes for 449 Florence, Waterloo, with balance of \$5,064, due October 1, 2021	2,500	12,624
Notes payable to Habitat for Humanity Iowa, repayable in monthly installments of \$250, 4% interest, secured by promissory notes for 1213 Lantz Ave, Cedar Falls with balances of \$21,553, due February 1, 2024	22,643	38,691
Notes payable to Habitat for Humanity Iowa, repayable in monthly installments of \$331, 2% interest, secured by promissory notes for 5419 Norse Dr, Cedar Falls with balances of \$34,509, due December 1, 2033	55,801	58,628
Note payable to ICD XIV, LLC, interest only payments of \$8,085.78 made twice yearly at 0.7309% interest, secured by substantially all the assets acquired by Habitat from the project loan proceeds. The note matures August 22, 2027. The debt has a put option feature that is exercisable at the end of the compliance period. See Note 6.	2,212,554	2,212,554
	2,419,494	2,338,793
Less unamortized debt issuance cost	(24,175)	(26,553)
Less current maturities	(72,124)	(17,613)
Long-term notes and mortgages payable	<u>\$ 2,323,195</u>	<u>\$ 2,294,627</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 8: Long-Term Debt: (continued)

Estimated maturities of long-term notes payable for the next five years are as follows:

<u>Year Ended June 30,</u>	
2018	\$ 72,124
2019	66,712
2020	5,316
2021	5,471
2022	5,631

Habitat obtained a \$100,000 line of credit at Farmers State Bank dated November 8, 2016 secured by a general business security agreement, expiring on November 8, 2017. At June 30, 2017 no amounts were borrowed against the line of credit.

Accounting Policy Change - In the current year, Habitat retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Long-term debt as of June 30, 2016 was previously reported in the statement of financial position as \$2,321,180 with the associated \$26,553, unamortized debt issuance costs included in non-current assets. Amortization of the debt issuance costs is reported as interest expense in the statement of activities.

Note 9: Restricted Net Assets

Net assets were released from restrictions by incurring expenses satisfying the purpose or time restrictions specified by third parties as follows:

	2017	2016
Purpose Restriction Accomplished:		
Home construction costs	\$ 35,465	\$ 5,397
	<u>\$ 35,465</u>	<u>\$ 5,397</u>

Temporarily restricted net assets consist of the following as of June 30, 2017 and 2016:

Beneficial interest in assets held at Community Foundation	\$ 115,900	\$ 114,600
Home construction costs	45,845	40,810
	<u>\$ 161,745</u>	<u>\$ 155,410</u>

Note 10: Pension Plan:

Habitat contributes 3% toward a 401k plan for all eligible employees. Total pension expense for the period ended June 30, 2017 and 2016 was \$18,520 and \$14,240, respectively.

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

Note 11: Business Combination

During the current year, Habitat acquired Buchanan County Habitat for Humanity, a nonprofit organization, on December 31, 2016. In the business combination, Habitat acquired three notes receivables and a trailer which were recognized at the fair value of the assets at the time of acquisition along with \$74,630 of cash. Buchanan County Habitat for Humanity dissolved at the time of business combination

Note 12: ReStore Program

Habitat established its ReStore in fall of 2015. The ReStore is a retail store set up to receive donated goods and sell to the general public at discounted prices. Donated goods include such items as building materials and household items that would not generally be sold at other retail outlets. The sales from the store are used to help support Habitat's programs. Retail store revenues are recognized when the related goods are sold. The store received approximately \$571,517 and \$484,194 in donated materials and goods during the year ending June 30, 2017 and 2016, respectively. ReStore generated \$571,517 and \$484,194 for year ending June 30, 2017 and 2016, respectively of revenue with costs of \$547,428 and \$418,797, respectively.