
IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017



**CARNEY,
ALEXANDER,
MAROLD & CO., L.L.P.**
Certified Public Accountants

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

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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, 2018 and 2017, 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, 2018 and 2017, 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.

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

December 20, 2018

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Financial Position
As of June 30, 2018 and 2017

- ASSETS -

	2018	2017
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 512,382	\$ 273,159
Cash and cash equivalents - restricted	83,148	123,916
Grants receivable	154,604	157,002
Pledges receivable	7,200	-
Work in process	639,373	748,920
Inventory	81,743	76,349
Current portion of real estate contracts receivable	254,736	240,847
Prepaid expenses	21,733	20,215
	<u>1,754,919</u>	<u>1,640,408</u>
Non-Current Assets:		
Non-interest bearing real estate contracts receivable	5,997,120	5,667,939
Less discount on non-interest bearing contracts	(1,888,385)	(1,705,581)
	<u>4,108,735</u>	<u>3,962,358</u>
Less current portion above	(254,736)	(240,847)
	<u>3,853,999</u>	<u>3,721,511</u>
Reserve deposits on IFA loans	1,743	1,743
Beneficial interest in assets held by Community Foundation	350,189	135,060
Investment in ICD Habitat Leverage, LLC	1,802,233	1,766,128
Intangible assets, net of amortization	52,035	96,635
Pledges receivable, over one year	25,893	-
	<u>6,086,092</u>	<u>5,721,077</u>
Total Non-Current Assets	<u>6,086,092</u>	<u>5,721,077</u>
Fixed Assets:		
Furnishings and equipment	135,579	132,083
Construction equipment	112,873	109,545
Vehicles	44,931	44,931
Office building	241,132	232,332
Leasehold improvements	61,265	61,265
Less accumulated depreciation	(219,797)	(163,007)
	<u>375,983</u>	<u>417,149</u>
Net Fixed Assets	<u>375,983</u>	<u>417,149</u>
Total Assets	<u><u>\$ 8,216,994</u></u>	<u><u>\$ 7,778,634</u></u>

The accompanying notes are an integral part of this statement.

- LIABILITIES AND NET ASSETS -

	2018	2017
Current Liabilities:		
Accounts payable	\$ 43,372	\$ 48,043
Accrued expenses	29,701	28,446
Payroll withholdings	-	15,516
Escrow and HOA deposit liability	5,336	9,252
Current portion of long-term notes and mortgages	96,390	72,124
	<u>174,799</u>	<u>173,381</u>
Long-term Liabilities:		
Deferred revenue	166,995	217,755
Notes and mortgages payable less current portion	2,647,342	2,323,195
	<u>2,814,337</u>	<u>2,540,950</u>
Net Assets:		
Unrestricted net assets	5,068,248	4,902,558
Restricted net assets	159,610	161,745
	<u>5,227,858</u>	<u>5,064,303</u>
Total Liabilities and Net Assets	<u>\$ 8,216,994</u>	<u>\$ 7,778,634</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Activities
For the Years Ended June 30, 2018 and 2017

	2018		Total
	Unrestricted	Temporarily Restricted	
Support:			
Grants and gifts:			
Churches	\$ 31,194	\$ -	\$ 31,194
Individuals	106,011	-	106,011
Bequests	250,417	-	250,417
Corporations	84,768	5,400	90,168
Grants	442,891	35,200	478,091
In kind contributions	798,971	-	798,971
Total Grants and Gifts	1,714,252	40,600	1,754,852
ReStore sales	609,843	-	609,843
Fundraising	101,128	-	101,128
Sales of homes	953,160	-	953,160
Critical repairs	14,500	-	14,500
Real estate contract discount amortization	212,282	-	212,282
Investment income	61,452	-	61,452
Realized/unrealized gain/(loss) on investments	17,925	-	17,925
Other income	52,105	-	52,105
	<u>3,736,647</u>	<u>40,600</u>	<u>3,777,247</u>
Net assets released from restrictions	42,735	(42,735)	-
	<u>3,779,382</u>	<u>(2,135)</u>	<u>3,777,247</u>
Expenses:			
Program services:			
Construction costs and family selection and nurture	2,039,756	-	2,039,756
ReStore	1,025,175	-	1,025,175
Critical repairs	88,640	-	88,640
Supporting services:			
Management and general	312,951	-	312,951
Fundraising and public relations	147,170	-	147,170
	<u>3,613,692</u>	<u>-</u>	<u>3,613,692</u>
Change in Net Assets from Operations	165,690	(2,135)	163,555
Fair value of assets received in acquisition of Buchanan County Habitat for Humanity	-	-	-
Change in Net Assets	165,690	(2,135)	163,555
Net Assets at Beginning of Year	<u>4,902,558</u>	<u>161,745</u>	<u>5,064,303</u>
Net Assets at End of Year	<u>\$ 5,068,248</u>	<u>\$ 159,610</u>	<u>\$ 5,227,858</u>

The accompanying notes are an integral part of this statement.

2017		
Unrestricted	Temporarily Restricted	Total
\$ 68,135	\$ -	\$ 68,135
62,098	1,300	63,398
32,639	-	32,639
52,116	5,500	57,616
486,411	35,000	521,411
689,887	-	689,887
1,391,286	41,800	1,433,086
571,517	-	571,517
48,123	-	48,123
1,053,233	-	1,053,233
-	-	-
118,170	-	118,170
57,020	-	57,020
12,690	-	12,690
29,687	-	29,687
3,281,726	41,800	3,323,526
35,465	(35,465)	-
3,317,191	6,335	3,323,526
2,219,721	-	2,219,721
916,446	-	916,446
-	-	-
312,293	-	312,293
170,670	-	170,670
3,619,130	-	3,619,130
(301,939)	6,335	(295,604)
182,364	-	182,364
(119,575)	6,335	(113,240)
5,022,133	155,410	5,177,543
<u>\$ 4,902,558</u>	<u>\$ 161,745</u>	<u>\$ 5,064,303</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Functional Expenses
For the Year Ended June 30, 2018

	Program Services			Total Program Services
	Construction & Family Selection	ReStore	Critical Repairs	
Building materials and supplies	\$ 1,208,976	\$ -	\$ 50,660	\$ 1,259,636
Real estate contract discount	395,086	-	-	395,086
Cost of goods sold - ReStore	-	608,790	-	608,790
Salary	341,211	194,220	33,426	568,857
Payroll taxes	28,874	16,723	2,945	48,542
Retirement	10,525	6,462	1,139	18,126
Benefits	35,902	25,653	5,075	66,630
Insurance	20,694	10,171	-	30,865
Depreciation	29,149	16,880	-	46,029
Amortization	7,600	-	-	7,600
Utilities	-	6,766	431	7,197
Printing	-	1,869	100	1,969
Postage	-	99	-	99
Office supplies	2,396	6,440	-	8,836
Staff expense	-	2,304	1,792	4,096
Volunteer expense	6,962	2,597	-	9,559
Family selection expense	4,660	-	-	4,660
Computer and software	-	991	-	991
Small equipment	5,383	2,661	16	8,060
Vehicle costs	10,670	6,220	-	16,890
Tithe to Habitat International	37,877	-	2,323	40,200
Construction expense	7,243	-	29	7,272
Legal and accounting	712	4,365	-	5,077
Bank charges	-	8,717	-	8,717
Event expense	-	481	-	481
Grant expense	16,243	-	-	16,243
Advertising	-	13,535	160	13,695
Rent expense	162	79,216	-	79,378
Interest expense	2,384	-	-	2,384
Repairs & maintenance	-	9,237	-	9,237
Real estate holding expense	9,307	-	-	9,307
Miscellaneous	2,969	778	-	3,747
Less overhead charged to construction	(145,229)	-	(9,456)	(154,685)
	<u>\$ 2,039,756</u>	<u>\$ 1,025,175</u>	<u>\$ 88,640</u>	<u>\$ 3,153,571</u>

The accompanying notes are an integral part of this statement.

Supporting Services		Total	
Management and General	Fundraising	Supporting Services	Total
\$ -	\$ -	\$ -	\$ 1,259,636
-	-	-	395,086
-	-	-	608,790
60,970	81,992	142,962	711,819
5,235	6,949	12,184	60,726
2,023	2,695	4,718	22,844
6,900	8,850	15,750	82,380
7,716	-	7,716	38,581
10,762	-	10,762	56,791
-	-	-	7,600
7,461	-	7,461	14,658
2,365	4,333	6,698	8,667
1,676	1,577	3,253	3,352
3,142	-	3,142	11,978
24,590	-	24,590	28,686
-	-	-	9,559
-	-	-	4,660
91,513	-	91,513	92,504
-	-	-	8,060
-	-	-	16,890
-	-	-	40,200
-	-	-	7,272
20,306	-	20,306	25,383
37,237	-	37,237	45,954
-	25,998	25,998	26,479
-	-	-	16,243
-	14,776	14,776	28,471
-	-	-	79,378
18,482	-	18,482	20,866
12,573	-	12,573	21,810
-	-	-	9,307
-	-	-	3,747
-	-	-	(154,685)
<u>\$ 312,951</u>	<u>\$ 147,170</u>	<u>\$ 460,121</u>	<u>\$ 3,613,692</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Functional Expenses
For the Year Ended June 30, 2017

	Program Services		Total Program Services
	Construction & Family Selection	ReStore	
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	466,453
Payroll taxes	25,506	14,609	40,115
Retirement	9,045	5,412	14,457
Benefits	32,426	25,249	57,675
Insurance	19,320	8,381	27,701
Depreciation	27,388	16,461	43,849
Amortization	7,600	-	7,600
Utilities	-	7,010	7,010
Printing	-	256	256
Postage	-	49	49
Office supplies	1,431	4,807	6,238
Staff expense	-	5,556	5,556
Volunteer expense	6,995	2,634	9,629
Family selection expense	1,571	-	1,571
Computer and software	-	1,557	1,557
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	-	4,345
Bank charges	-	6,083	6,083
Event expense	-	262	262
Grant expense	19,930	-	19,930
Advertising	-	21,742	21,742
Rent expense	403	70,584	70,987
Interest expense	2,378	-	2,378
Repairs & maintenance	-	5,050	5,050
Real estate holding expense	8,628	-	8,628
Miscellaneous	19,883	2,790	22,673
Less overhead charged to construction	(160,162)	-	(160,162)
	<u>\$ 2,219,721</u>	<u>\$ 916,446</u>	<u>\$ 3,136,167</u>

The accompanying notes are an integral part of this statement.

Supporting Services		Total Supporting Services	Total
Management and General	Fundraising		
\$ -	\$ -	\$ -	\$ 1,508,147
-	-	-	315,355
-	-	-	547,428
51,397	73,040	124,437	590,890
4,393	6,244	10,637	50,752
1,662	2,401	4,063	18,520
5,975	8,375	14,350	72,025
6,925	-	6,925	34,626
7,251	-	7,251	51,100
-	-	-	7,600
5,989	-	5,989	12,999
5,170	4,914	10,084	10,340
2,427	2,377	4,804	4,853
915	-	915	7,153
39,897	-	39,897	45,453
-	-	-	9,629
-	-	-	1,571
98,060	-	98,060	99,617
-	-	-	10,453
-	-	-	15,264
-	-	-	27,900
-	-	-	19,988
17,382	-	17,382	21,727
35,302	-	35,302	41,385
-	53,072	53,072	53,334
-	-	-	19,930
-	20,247	20,247	41,989
-	-	-	70,987
21,126	-	21,126	23,504
8,422	-	8,422	13,472
-	-	-	8,628
-	-	-	22,673
-	-	-	(160,162)
<u>\$ 312,293</u>	<u>\$ 170,670</u>	<u>\$ 482,963</u>	<u>\$ 3,619,130</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 163,555	\$ (295,604)
Adjustments to reconcile change in net assets to net cash used by operations:		
Origination of non-interest bearing mortgages	(853,060)	(916,846)
Real estate contract discount	395,086	315,355
Current year amortization of discount on contracts	(212,282)	(118,170)
Depreciation of buildings and equipment	56,791	51,100
Amortization of intangible assets	7,600	7,600
Deferred revenue	(13,761)	(27,517)
Earnings from ICD Habitat Leverage, LLC	(52,273)	(52,273)
Realized/unrealized (gain)/loss on investments	(17,925)	(12,690)
Change in grants and contributions receivable	(30,695)	(54,965)
Change in work in process	109,547	161,969
Change in inventory	(5,394)	(2,406)
Change in prepaid expenses	(1,518)	(1,257)
Change in accounts payable	(4,671)	(11,519)
Change in accrued expenses	1,255	13,945
Change in payroll withholdings	(15,516)	1,436
Change in escrow deposit liability	(3,916)	1,244
Net Cash Used by Operating Activities	<u>(477,177)</u>	<u>(940,598)</u>
Cash Flows From Investing Activities:		
Payments received on real estate contracts	523,879	819,405
Purchases of land, buildings, and equipment	(15,625)	(131,515)
Distribution from investment in ICD Habitat Leverage, LLC	16,169	16,169
(Increase)/Decrease in assets held at Community Foundation	(197,204)	2,740
Cash received in Buchanan County Habitat for Humanity acquisition	-	74,630
Net Cash Provided by Investing Activities	<u>327,219</u>	<u>781,429</u>
Cash Flows From Financing Activities:		
New borrowings	428,110	130,000
Payments reducing long-term notes	(79,697)	(45,034)
Net Cash Provided by Financing Activities	<u>348,413</u>	<u>84,966</u>
Change in Cash and Cash Equivalents	198,455	(74,203)
Beginning Cash and Cash Equivalents	<u>397,075</u>	<u>471,278</u>
Ending Cash and Cash Equivalents	<u>\$ 595,530</u>	<u>\$ 397,075</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 18,482	\$ 21,126
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.

Reclassification

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.

ReStore Operations

Habitat operates ReStore, 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.

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Notes to Financial Statements

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

Critical Repairs Operation

Habitat partners with low to moderate income homeowners to perform critical repairs on their homes. Habitat carries the cost of purchased materials as work in process inventory until completion of the home project. Upon completion of the home repairs, work in process is then charged to program expense. Construction labor is provided by Habitat volunteers and by paid construction staff. No value is recognized in the accounts for labor contributed by Habitat volunteers.

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, 2018 and 2017 was \$56,791 and \$51,100, 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 7, that are being amortized using the straight-line method over 7 - 15 years. Original costs for intangibles are \$312,208 with \$260,173 in accumulated amortization for 2018. Amortization expense, net of income was \$7,600 as of June 30, 2018 and 2017, 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 \$28,471 and \$41,989 for June 30, 2018 and 2017, 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, 2018 and 2017, Habitat had no uncertain tax positions requiring recognition in the financial statements. Habitat's income tax filings prior to 2015 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 \$40,200 and \$27,900 to Habitat International for the years ended June 30, 2018 and 2017, 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 December 20, 2018, the date on which the financial statements were available to be issued.

Note 2: Restricted Cash

Restricted cash represented funds held in non-interest bearing accounts. The funds in the accounts are used for the purposes of home construction and activity related to the joint venture as described in Note 7.

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 \$254,736 expected to be received during the year ended June 30, 2019) plus amounts for discounted interest and homeowners association dues (if applicable). At June 30, 2018, there were fourteen homeowners that were behind on their payments with a total principal balance of \$533,282. At June 30, 2017, there were sixteen homeowners that were behind on their payments with a total principal balance of \$713,169.

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).

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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.

	2018		2017	
	Cost	Fair Value (level 3 inputs)	Cost	Fair Value (level 3 inputs)
Balance at beginning of year	\$3,962,358	\$3,962,358	\$3,956,348	\$ 3,956,348
New contracts receivable	853,060	853,060	916,846	916,846
Homes acquired in acquisition	-	-	105,754	105,754
Discount on new contracts	(395,086)	(395,086)	(315,355)	(315,355)
Collections	(523,879)	(523,879)	(559,142)	(559,142)
Contracts receivable sold	-	-	(260,263)	(260,263)
Imputed interest	212,282	212,282	118,170	118,170
Balance at end of year	<u>\$4,108,735</u>	<u>\$4,108,735</u>	<u>\$3,962,358</u>	<u>\$ 3,962,358</u>

Habitat was party to an arrangement with MidWestOne Bank in which it sold, with recourse, three non-interest bearing mortgage notes receivable for \$255,190 as of June 30, 2017. No mortgage notes receivable were sold as of June 30, 2018. 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, 2018 and 2017, the balance of the unrecorded recourse obligation is \$618,705 and \$663,388, respectively.

Note 4: Pledges Receivable

Habitat started The Builders Circle, a multi-year leadership giving society for individuals who invest a minimum of \$1,000 or more per year. The Builders Circle was created to recognize the important role donors play in continuing the mission of providing homes, communities and hope for families into the future. The promises to give as of June 30, 2018 are unrestricted, unconditional and due over the next five years. Promises to give to be received after June 30, 2019 are discounted at 2.73%. The unamortized discount on promises to give is \$707 as of June 30, 2018.

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Notes to Financial Statements

Note 4: Pledges Receivable: (continued)

Unconditional promises to give are expected to be realized in the following periods:

	2018	2017
In one year or less	\$ 7,200	\$ -
Between one year and five years	<u>26,600</u>	<u>-</u>
	33,800	-
Less: discounts to present value	<u>(707)</u>	<u>-</u>
	<u>\$ 33,093</u>	<u>\$ -</u>
Reported under current assets	\$ 7,200	\$ -
Reported under other assets	<u>25,893</u>	<u>-</u>
Total assets	<u>\$ 33,093</u>	<u>\$ -</u>

Note 5: Work In Process:

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

	2018		2017	
	Homes	Costs	Homes	Costs
Homes under construction, beginning of year	27	\$ 748,920	36	\$ 910,889
Additional costs incurred on beginning inventory		1,004,028		1,272,804
New homes started during year	11	153,077	2	99,820
Homes transferred to homeowners	<u>(8)</u>	<u>(1,266,652)</u>	<u>(11)</u>	<u>(1,534,593)</u>
Total work in process	30	<u>\$ 639,373</u>	27	<u>\$ 748,920</u>

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

	2018		2017	
	Homes	Costs	Homes	Costs
Homes under construction, end of year	6	\$ 309,583	7	\$ 399,175
Home sites, no construction by year end	24	<u>329,790</u>	20	<u>349,745</u>
		<u>\$ 639,373</u>		<u>\$ 748,920</u>

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Notes to Financial Statements

Note 6: Beneficial Interest Held by Community Foundation

As of June 30, 2018, 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):

	2018	2017
Balance at beginning of year	\$ 135,060	\$ 125,110
Contributions	200,200	1,300
Interest income	5,426	2,393
Investment fees	(3,422)	(1,448)
Realized/Unrealized gain/(loss)	17,925	12,690
Distribution received	<u>(5,000)</u>	<u>(4,985)</u>
Balance at end of year	<u>\$ 350,189</u>	<u>\$ 135,060</u>

Note 7: New Market Tax Credit and Associated Joint Venture

During fiscal year ending June 30, 2013, Habitat began participation 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, 2018 and 2017, respectively, is as follows:

	2018	2017
Balance at beginning of year	\$ 1,766,128	\$ 1,730,024
Investment income	52,273	52,273
Distributions	(16,168)	(16,169)
Balance at end of year	<u>\$ 1,802,233</u>	<u>\$ 1,766,128</u>

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Notes to Financial Statements

Note 8: Long-Term Debt:

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

Notes payable:	2018	2017
Note payable to John Deere Financial for skid loader, repaid in monthly installments of \$845.83, 0% interest, due July 7, 2018	\$ 846	\$ 10,996
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	55,000.00	115,000.00
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 \$2,672, due October 1, 2021	700	2,500
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 \$19,995, due February 1, 2024	20,444	22,643
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 \$32,297, due December 1, 2033	52,983	55,801
Notes payable to US Cellular, repayable in monthly installments of \$86.40, 0% interest, secured by 4 Ipads, due August 31, 2020	2,246	-
Note payable to Habitat for Humanity International, repayable in monthly payments of \$4,522.20, 5% interest, secured by promissory notes on 10 properties, due June 25, 2028	425,000	-
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 7.	2,212,554	2,212,554
	2,769,773	2,419,494
Less unamortized debt issuance cost	(26,041)	(24,175)
Less current maturities	(96,390)	(72,124)
Long-term notes and mortgages payable	<u>\$2,647,342</u>	<u>\$ 2,323,195</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
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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>	
2019	\$ 96,390
2020	41,708
2021	42,800
2022	44,680
2023	46,834

Habitat obtained a \$100,000 line of credit at Farmers State Bank dated November 22, 2017 secured by a general business security agreement with no expiration date. At June 30, 2018 no amounts were borrowed against the line of credit.

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:

	2018	2017
Purpose Restriction Accomplished:		
Home construction costs	\$ 42,735	\$ 35,465
	<u>\$ 42,735</u>	<u>\$ 35,465</u>

Temporarily restricted net assets consist of the following as of June 30, 2018 and 2017:

Beneficial interest in assets held at Community Foundation	\$ 116,100	\$ 115,900
Home construction costs	43,510	45,845
	<u>\$ 159,610</u>	<u>\$ 161,745</u>

Note 10: Operating Leases

A lease agreement was signed for retail space in Waterloo, Iowa for their ReStore which began operations in the 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 \$2,842 and \$2,131 as of June 30, 2018 and 2017, 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 each.

Following is a schedule of future minimum lease payments under the leases at June 30, 2018:

Year Ending June 30, 2019	\$ 37,890
June 30, 2020	28,418
June 30, 2021	15,156
June 30, 2022	-
June 30, 2023	-

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Note 11: Pension Plan:

Habitat contributes 3% toward a 401k plan for all eligible employees. Total pension expense for the period ended June 30, 2018 and 2017 was \$22,844 and \$18,520, respectively.

Note 12: Business Combination

During the prior 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 13: 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 \$609,843 and \$571,517 in donated materials and goods during the year ending June 30, 2018 and 2017, respectively. ReStore generated sales of \$609,843 and \$571,517 for years ending June 30, 2018 and 2017, respectively with costs of \$608,790 and \$547,428, respectively.