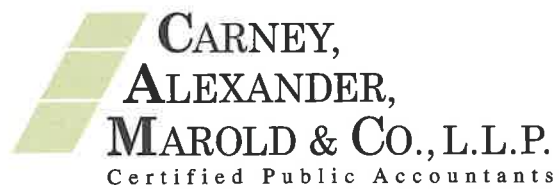


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IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

## Emphasis of Matter

As discussed in Note 1 to the financial statements, Iowa Heartland Habitat for Humanity adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities (Topic 958)*. Our opinion is not modified with respect to this matter.

*Cainey, Alexander, Marold + Co., L.L.P.*

November 27, 2019

IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

Statements of Financial Position  
As of June 30, 2019 and 2018

- ASSETS -

	2019	2018
<b>Current Assets:</b>		
Cash and cash equivalents - unrestricted	\$ 460,907	\$ 512,382
Cash and cash equivalents - restricted	208,614	83,148
Grants and accounts receivable	103,435	154,604
Pledges receivable	39,960	7,200
Work in process	632,149	639,373
Inventory	82,841	81,743
Current portion of real estate contracts receivable	246,133	254,736
Prepaid expenses	16,499	21,733
	<u>1,790,538</u>	<u>1,754,919</u>
<b>Total Current Assets</b>		
<b>Non-Current Assets:</b>		
Non-interest bearing real estate contracts receivable	6,009,445	5,997,120
Less discount on non-interest bearing contracts	(1,939,820)	(1,888,385)
	<u>4,069,625</u>	<u>4,108,735</u>
Less current portion above	(246,133)	(254,736)
	<u>3,823,492</u>	<u>3,853,999</u>
Reserve deposits on IFA loans	1,743	1,743
Beneficial interest in assets held by Community Foundation	363,129	350,189
Investment in ICD Habitat Leverage, LLC	1,838,337	1,802,233
Intangible assets, net of amortization	7,434	52,035
Pledges receivable, over one year	106,335	25,893
	<u>6,140,470</u>	<u>6,086,092</u>
<b>Total Non-Current Assets</b>		
<b>Fixed Assets:</b>		
Furnishings and equipment	144,750	135,579
Construction equipment	113,722	112,873
Vehicles	42,506	44,931
Office building	241,132	241,132
Leasehold improvements	68,547	61,265
Less accumulated depreciation	(276,337)	(219,797)
	<u>334,320</u>	<u>375,983</u>
<b>Net Fixed Assets</b>		
<b>Total Assets</b>	<u><u>\$ 8,265,328</u></u>	<u><u>\$ 8,216,994</u></u>

The accompanying notes are an integral part of this statement.

- LIABILITIES AND NET ASSETS -

	2019	2018
<b>Current Liabilities:</b>		
Accounts payable	\$ 74,752	\$ 43,372
Accrued expenses	23,582	29,701
Escrow and HOA deposit liability	1,584	5,336
Current portion of long-term notes and mortgages	<u>2,254,392</u>	<u>96,390</u>
<b>Total Current Liabilities</b>	<u>2,354,310</u>	<u>174,799</u>
 <b>Long-term Liabilities:</b>		
Deferred revenue	116,235	166,995
Notes and mortgages payable less current portion	<u>395,794</u>	<u>2,647,342</u>
<b>Total Long-term Liabilities</b>	<u>512,029</u>	<u>2,814,337</u>
 <b>Net Assets:</b>		
Without donor restrictions	5,083,244	5,068,248
With donor restrictions	<u>315,745</u>	<u>159,610</u>
<b>Total Net Assets</b>	<u>5,398,989</u>	<u>5,227,858</u>
 <b>Total Liabilities and Net Assets</b>	 <u>\$ 8,265,328</u>	 <u>\$ 8,216,994</u>

IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

Statements of Activities  
For the Years Ended June 30, 2019 and 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Support:			
Grants and gifts:			
Churches	\$ 27,732		\$ 27,732
Individuals	225,858	1,000	226,858
Bequests	-		-
Corporations	89,774	75,000	164,774
Grants	400,924	154,500	555,424
In kind contributions	757,229		757,229
Total Grants and Gifts	1,501,517	230,500	1,732,017
ReStore sales	599,214	-	599,214
Fundraising	88,742	-	88,742
Sales of homes	798,281	-	798,281
Critical repairs	4,773	-	4,773
Real estate contract discount amortization	318,665	-	318,665
Investment income	76,062	-	76,062
Realized/unrealized gain/(loss) on investments	14,905	-	14,905
Other income	19,008	-	19,008
	3,421,167	230,500	3,651,667
Net assets released from restrictions	74,365	(74,365)	-
	3,495,532	156,135	3,651,667
Expenses:			
Program services:			
Construction costs and family selection and nurture	1,886,033	-	1,886,033
ReStore	1,030,383	-	1,030,383
Critical repairs	44,285	-	44,285
Supporting services:			
Management and general	354,900	-	354,900
Fundraising and public relations	164,935	-	164,935
	3,480,536	-	3,480,536
Change in Net Assets	14,996	156,135	171,131
Net Assets at Beginning of Year	5,068,248	159,610	5,227,858
Net Assets at End of Year	\$ 5,083,244	\$ 315,745	\$ 5,398,989

The accompanying notes are an integral part of this statement.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 31,194	\$ -	\$ 31,194
106,011	-	106,011
250,417	-	250,417
84,768	5,400	90,168
442,891	35,200	478,091
798,971	-	798,971
<u>1,714,252</u>	<u>40,600</u>	<u>1,754,852</u>
609,843	-	609,843
101,128	-	101,128
953,160	-	953,160
14,500	-	14,500
212,282	-	212,282
61,452	-	61,452
17,925	-	17,925
52,105	-	52,105
<u>3,736,647</u>	<u>40,600</u>	<u>3,777,247</u>
42,735	(42,735)	-
<u>3,779,382</u>	<u>(2,135)</u>	<u>3,777,247</u>
2,039,756	-	2,039,756
1,025,175	-	1,025,175
88,640	-	88,640
312,951	-	312,951
147,170	-	147,170
<u>3,613,692</u>	<u>-</u>	<u>3,613,692</u>
165,690	(2,135)	163,555
<u>4,902,558</u>	<u>161,745</u>	<u>5,064,303</u>
<u>\$ 5,068,248</u>	<u>\$ 159,610</u>	<u>\$ 5,227,858</u>



IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

Statements of Functional Expenses  
For the Year Ended June 30, 2019

	Program Services			Total Program Services
	Construction & Family Selection	ReStore	Critical Repairs	
Building materials and supplies	\$ 997,149	\$ -	\$ 17,186	\$ 1,014,335
Real estate contract discount	370,101	-	-	370,101
Cost of goods sold - ReStore	-	609,106	-	609,106
Salary	354,109	193,665	20,178	567,952
Payroll taxes	29,160	17,182	1,740	48,082
Retirement	11,065	6,598	647	18,310
Benefits	37,438	30,941	2,573	70,952
Insurance	18,487	13,995	-	32,482
Depreciation	28,309	17,375	-	45,684
Amortization	7,600	-	-	7,600
Utilities	-	6,776	354	7,130
Printing	-	1,661	24	1,685
Postage	-	55	-	55
Office supplies	3,521	5,455	-	8,976
Staff expense	-	3,363	955	4,318
Volunteer expense	13,380	2,492	-	15,872
Family selection expense	1,552	-	-	1,552
Computer and software	-	1,634	-	1,634
Small equipment	4,872	452	157	5,481
Vehicle costs	7,914	8,131	-	16,045
Tithe to Habitat International	45,450	-	-	45,450
Construction expense	4,569	1,500	179	6,248
Legal and accounting	17,996	4,000	60	22,056
Bank charges	-	9,286	-	9,286
Event expense	-	66	-	66
Grant expense	15,822	-	-	15,822
Advertising	-	8,889	165	9,054
Rent expense	-	77,897	-	77,897
Interest expense	2,803	-	-	2,803
Repairs & maintenance	-	8,939	-	8,939
Real estate holding expense	14,154	-	-	14,154
Miscellaneous	356	925	67	1,348
Less overhead charged to construction	(99,774)	-	-	(99,774)
	<u>\$ 1,886,033</u>	<u>\$ 1,030,383</u>	<u>\$ 44,285</u>	<u>\$ 2,960,701</u>

The accompanying notes are an integral part of this statement.

Supporting Services		Total	
Management and General	Fundraising	Supporting Services	Total
\$ -	\$ -	\$ -	\$ 1,014,335
-	-	-	370,101
-	-	-	609,106
57,071	82,011	139,082	707,034
4,828	6,934	11,762	59,844
1,857	2,672	4,529	22,839
6,242	8,736	14,978	85,930
8,121	-	8,121	40,603
10,855	-	10,855	56,539
-	-	-	7,600
7,314	-	7,314	14,444
37,320	-	37,320	39,005
7,462	7,517	14,979	15,034
2,244	-	2,244	11,220
25,471	-	25,471	29,789
-	-	-	15,872
-	-	-	1,552
93,341	-	93,341	94,975
-	-	-	5,481
-	-	-	16,045
-	-	-	45,450
-	-	-	6,248
5,514	-	5,514	27,570
39,385	-	39,385	48,671
-	51,964	51,964	52,030
-	-	-	15,822
-	5,101	5,101	14,155
-	-	-	77,897
38,644	-	38,644	41,447
9,231	-	9,231	18,170
-	-	-	14,154
-	-	-	1,348
-	-	-	(99,774)
<u>\$ 354,900</u>	<u>\$ 164,935</u>	<u>\$ 519,835</u>	<u>\$ 3,480,536</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 Supporting Services	Total
Management and General	Fundraising		
\$ -	\$ -	\$ -	\$ 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 Cash Flows  
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	\$ 171,131	\$ 163,555
Adjustments to reconcile change in net assets to net cash used by operations:		
Origination of non-interest bearing mortgages	(891,161)	(853,060)
Real estate contract discount	370,101	395,086
Current year amortization of discount on contracts	(318,665)	(212,282)
Depreciation of buildings and equipment	56,539	56,791
Amortization of intangible assets	7,600	7,600
Deferred revenue	(13,761)	(13,761)
Earnings from ICD Habitat Leverage, LLC	(52,273)	(52,273)
Realized/unrealized (gain)/loss on investments	(14,905)	(17,925)
Change in grants and accounts receivable	(62,033)	(30,695)
Change in work in process	7,224	109,547
Change in inventory	(1,098)	(5,394)
Change in prepaid expenses	5,234	(1,518)
Change in accounts payable	31,380	(4,671)
Change in accrued expenses	(6,119)	1,255
Change in payroll withholdings	-	(15,516)
Change in escrow deposit liability	(3,752)	(3,916)
Net Cash Used by Operating Activities	<u>(714,558)</u>	<u>(477,177)</u>
Cash Flows From Investing Activities:		
Payments received on real estate contracts	878,835	523,879
Purchases of land, buildings, and equipment	(14,874)	(15,625)
Distribution from investment in ICD Habitat Leverage, LLC	16,169	16,169
(Increase)/Decrease in assets held at Community Foundation	1,965	(197,204)
Net Cash Provided by Investing Activities	<u>882,095</u>	<u>327,219</u>
Cash Flows From Financing Activities:		
New borrowings	-	428,110
Payments reducing long-term notes	(93,546)	(79,697)
Net Cash (Used)/Provided by Financing Activities	<u>(93,546)</u>	<u>348,413</u>
Change in Cash and Cash Equivalents	73,991	198,455
Beginning Cash and Cash Equivalents	<u>595,530</u>	<u>397,075</u>
Ending Cash and Cash Equivalents	<u>\$ 669,521</u>	<u>\$ 595,530</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 38,644	\$ 18,482

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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor or grantor restrictions.

*Net Assets With Donor Restrictions* - Net assets subject to donor or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 materials, 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, 2019 and 2018 was \$56,539 and \$56,791, 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 \$304,774 in accumulated amortization for 2019. Amortization expense, net of income was \$7,600 as of June 30, 2019 and 2018, respectively.

Contributed Goods and Services

Management has decided to not reflect any amounts in the financial statements for donated non-professional services due to the amounts are immaterial in nature. The fair value of those services were \$500 for the year ending June 30, 2019. 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 net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

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 \$14,155 and \$28,471 for June 30, 2019 and 2018, 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, 2019 and 2018, Habitat had no uncertain tax positions requiring recognition in the financial statements. Habitat's income tax filings prior to 2016 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.



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Notes to Financial Statements

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

Related Entities

Habitat contributed \$45,450 and \$40,200 to Habitat International for the years ended June 30, 2019 and 2018, 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.

Recently Adopted Accounting Pronouncement

The Organization adopted FASB ASU No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities (Topic 958), in its 2019 financial statements. This guidance reduces the net asset classification from three to two: net assets with and without donor restrictions and expands disclosures about liquidity. The ASU has been adopted retrospectively except for liquidity, which can be reported in the current period only. The adoption of this guidance did not have a material impact on the Organization's financial statements.

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 \$246,133 expected to be received during the year ended June 30, 2020) plus amounts for discounted interest and homeowners association dues (if applicable). At June 30, 2019, there were seventeen homeowners that were behind on their payments with a total principal balance of \$767,851. At June 30, 2018, there were fourteen homeowners that were behind on their payments with a total principal balance of \$533,282.

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Notes to Financial Statements

Note 3: Real Estate Contracts Receivable: (continued)

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).

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.

	2019		2018	
	Cost	Fair Value (level 3 inputs)	Cost	Fair Value (level 3 inputs)
Balance at beginning of year	\$4,108,735	\$4,108,735	\$ 3,962,358	\$ 3,962,358
New contracts receivable	891,161	891,161	853,060	853,060
Discount on new contracts	(370,101)	(370,101)	(395,086)	(395,086)
Collections	(528,658)	(528,658)	(523,879)	(523,879)
Contracts receivable sold	(350,177)	(350,177)	-	-
Imputed interest	318,665	318,665	212,282	212,282
Balance at end of year	<u>\$4,069,625</u>	<u>\$4,069,625</u>	<u>\$4,108,735</u>	<u>\$ 4,108,735</u>

Habitat was party to an arrangement with Community Bank & Trust in which it sold, with recourse, four non-interest bearing mortgage notes receivable for \$350,177 as of June 30, 2019. 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 or Community Bank & Trust. 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, 2019 and 2018, the balance of the unrecorded recourse obligation is \$818,180 and \$618,705, respectively.

IOWA HEARTLAND HABITAT FOR HUMANITY  
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Notes to Financial Statements

Note 4: Pledges Receivable

In the prior year, Habitat started The Builders Circle, a multi-year leadership giving society for individuals who invest a minimum of \$1,000 or more for a minimum of 5 years. In the current year, The Nonbuilders Circle was created for individuals who invest less than \$1,000 a year or less than 5 years. The Builders Circle and Nonbuilders Circle were 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, 2019 are unrestricted, unconditional and due over the next five years. Promises to give to be received after June 30, 2019 are discounted at 2.98%. The unamortized discount on promises to give is \$4,798 and \$707 as of June 30, 2019 and 2018, respectively.

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

	2019	2018
In one year or less	\$ 39,960	\$ 7,200
Between one year and five years	111,133	26,600
	<u>151,093</u>	<u>33,800</u>
Less: discounts to present value	(4,798)	(707)
	<u>\$ 146,295</u>	<u>\$ 33,093</u>
Reported under current assets	\$ 39,960	\$ 7,200
Reported under other assets	106,335	25,893
Total assets	<u>\$ 146,295</u>	<u>\$ 33,093</u>

Note 5: Work In Process

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

	2019		2018	
	Homes	Costs	Homes	Costs
Homes under construction, beginning of year	30	\$ 639,373	27	\$ 748,920
Additional costs incurred on beginning inventory		877,734		1,004,028
New homes started during year	6	98,683	11	153,077
New critical repairs started during year	10	39,759	9	50,660
Critical repairs completed	(6)	(21,106)	(9)	(50,660)
Homes transferred to homeowners	(8)	(1,002,294)	(8)	(1,266,652)
Total work in process	32	<u>\$ 632,149</u>	30	<u>\$ 639,373</u>

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

	2019		2018	
	Homes	Costs	Homes	Costs
Homes and critical repair under construction, end of year	9	\$ 278,672	6	\$ 309,583
Home sites, no construction by year end	23	353,477	24	329,790
		<u>\$ 632,149</u>		<u>\$ 639,373</u>

IOWA HEARTLAND HABITAT FOR HUMANITY  
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Notes to Financial Statements

Note 6: Beneficial Interest Held by Community Foundation

As of June 30, 2019, 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):

	2019	2018
Balance at beginning of year	\$ 350,189	\$ 135,060
Contributions	1,000	200,200
Interest income	6,064	5,426
Investment fees	(4,029)	(3,422)
Realized/Unrealized gain/(loss)	14,905	17,925
Distribution received	(5,000)	(5,000)
	<u>\$ 363,129</u>	<u>\$ 350,189</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 August 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, exercised its put option. Under the terms of the put option agreement, ICD Habitat Leverage, LLC purchased the Investment Fund's ownership interest. At that point, the affiliates owned their notes to the sub-CDE and thereby extinguished those debts. (see Note 14)

Investment in ICD Habitat Leverage Fund, LLC at cost as of June 30, 2019 and 2018, respectively, is as follows:

	2019	2018
Balance at beginning of year	\$1,802,233	\$ 1,766,128
Investment income	52,273	52,273
Distributions	(16,169)	(16,168)
Balance at end of year	<u>\$1,838,337</u>	<u>\$ 1,802,233</u>

IOWA HEARTLAND HABITAT FOR HUMANITY  
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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:	2019	2018
Note payable to John Deere Financial for skid loader, repaid in monthly installments of \$845.83, 0% interest, due July 7, 2018	\$ -	\$ 846
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
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 \$0, due October 1, 2021	-	700
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 \$18,325, due February 1, 2024	18,290	20,444
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 \$29,918, due December 1, 2033	49,975	52,983
Notes payable to US Cellular, repayable in monthly installments of \$86.40, 0% interest, secured by 4 I pads, due August 31, 2020	1,210	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	391,395	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
	<u>2,673,424</u>	<u>2,769,773</u>
Less unamortized debt issuance cost	(23,238)	(26,041)
Less current maturities	<u>(2,254,392)</u>	<u>(96,390)</u>
Long-term notes and mortgages payable	<u>\$ 395,794</u>	<u>\$ 2,647,342</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>	
2020	\$ 2,254,392
2021	42,799
2022	44,679
2023	46,833
2024	49,094

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, 2019 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:

	2019	2018
Purpose Restriction Accomplished:		
Home construction costs	\$ 74,365	\$ 42,735
	<u>\$ 74,365</u>	<u>\$ 42,735</u>

Net assets with donor restrictions consist of the following as of June 30, 2019 and 2018:

Beneficial interest in assets held at Community Foundation	\$ 117,100	\$ 116,100
ReStore building purchase	75,000	-
Home construction costs	123,645	43,510
	<u>\$ 315,745</u>	<u>\$ 159,610</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 was a five year lease with monthly rent of \$1,421 for the first year with incremental increases for the remaining years. Monthly rent was \$2,942 and \$2,842 as of June 30, 2019 and 2018, respectively. The lease also required 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 \$175 each.

Habitat has subsequently purchased the ReStore building, terminating the lease agreement (see note 14). Habitat is no longer occupying the storage unit spaces.

Following is a schedule of future minimum lease payments under the leases at June 30, 2019:

Year Ending June 30, 2020	\$ -
June 30, 2021	-
June 30, 2022	-
June 30, 2023	-
June 30, 2024	-

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Notes to Financial Statements

Note 11: Pension Plan

Habitat contributes 3% toward a 401k plan for all eligible employees. Total pension expense for the period ended June 30, 2019 and 2018 was \$22,839 and \$22,844, respectively.

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 donated materials and goods are valued at the time the goods are sold at the sale value. The costs of sales are recorded at sale value.

Note 13: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Total financial assets		
Cash and cash equivalents	\$ 460,907	\$ 512,382
Cash and cash equivalents - restricted	208,614	83,148
Accounts and pledges receivable	<u>143,395</u>	<u>161,804</u>
	<u>812,916</u>	<u>757,334</u>
Less donor restrictions	<u>208,614</u>	<u>83,148</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 604,302</u>	<u>\$ 674,186</u>

Note 14: Subsequent Events

Management has evaluated subsequent events through November 27, 2019, the date on which the financial statements were available to be issued.

In July, Habitat purchased the building that housed the ReStore building. The downpayment on the building was paid from the operating account with the remaining balance financed through Farmers State Bank.

In August, the investment in ICD Habitat Investment Fund, LLC exercised the put option. As a result of exercising the put option, ICD Habitat Leverage, LLC was able to purchase the Investment Fund's ownership interest which then extinguished the debts held by ICD XIV, LLC.