
IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

 **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, 2016 and 2015, 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, 2016 and 2015, 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.

Carney, Alexander, Kautel & Co., L.L.P.

January 12, 2017

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Financial Position
As of June 30, 2016 and 2015

- ASSETS -

	2016	2015
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 359,626	\$ 485,505
Cash and cash equivalents - restricted	111,652	144,679
Accounts receivable	102,037	98,124
Work in process	910,889	682,836
Inventory	73,943	70,986
Current portion of real estate contracts receivable	232,606	223,072
Prepaid expenses	18,958	10,025
	<u>1,809,711</u>	<u>1,715,227</u>
Non-Current Assets:		
Non-interest bearing real estate contracts receivable	5,381,278	5,646,971
Less discount on non-interest bearing contracts	(1,424,930)	(1,760,485)
	<u>3,956,348</u>	<u>3,886,486</u>
Less current portion above	(232,606)	(223,072)
	<u>3,723,742</u>	<u>3,663,414</u>
Reserve deposits on IFA loans	3,630	4,410
Beneficial interest in assets held by Community Foundation	125,110	128,255
Investment in ICD Habitat Leverage, LLC	1,730,024	1,693,919
Intangible assets, net of amortization	167,790	214,769
	<u>5,750,296</u>	<u>5,704,767</u>
Fixed Assets:		
Furnishings and equipment	103,351	20,691
Construction equipment	135,045	108,641
Vehicles	17,450	15,026
Office building	133,302	103,136
Leasehold improvements	61,265	-
Less accumulated depreciation	(115,659)	(79,518)
	<u>334,754</u>	<u>167,976</u>
Total Assets		
	<u>\$ 7,894,761</u>	<u>\$ 7,587,970</u>

The accompanying notes are an integral part of this statement.

- LIABILITIES AND NET ASSETS -

	2016	2015
Current Liabilities:		
Accounts payable	\$ 59,562	\$ 39,755
Accrued expenses	14,501	2,899
Payroll withholdings	14,080	7,897
HOA deposit liability	8,008	8,091
Current portion of long-term notes and mortgages	17,613	74,711
	<u>113,764</u>	<u>133,353</u>
Long-term Liabilities:		
Deferred revenue	282,274	319,275
Notes and mortgages payable	2,338,793	2,427,264
Less current portion included above	(17,613)	(74,711)
	<u>2,603,454</u>	<u>2,671,828</u>
Net Assets:		
Unrestricted net assets	5,022,133	4,644,212
Restricted net assets	155,410	138,577
	<u>5,177,543</u>	<u>4,782,789</u>
Total Liabilities and Net Assets	<u><u>\$ 7,894,761</u></u>	<u><u>\$ 7,587,970</u></u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Activities
For the Years Ended June 30, 2016 and 2015

	2016		Total
	Unrestricted	Temporarily Restricted	
Support:			
Grants and gifts:			
Churches	\$ 22,472	\$ 1,500	\$ 23,972
Individuals	51,773	1,500	53,273
Bequests	39,162	-	39,162
Corporations	14,316	5,000	19,316
Grants	312,138	14,230	326,368
In kind contributions	262,305	-	262,305
Total Grants and Gifts	702,166	22,230	724,396
ReStore sales	661,355	-	661,355
Fundraising	202,970	-	202,970
Sales of homes	449,587	-	449,587
Real estate contract discount amortization	484,624	-	484,624
Investment income	56,825	-	56,825
Loss on disposal of fixed assets	-	-	-
Realized/unrealized gain/(loss) on investments	(912)	-	(912)
Other income	13,363	-	13,363
	<u>2,569,978</u>	<u>22,230</u>	<u>2,592,208</u>
Net assets released from restrictions	5,397	(5,397)	-
	<u>2,575,375</u>	<u>16,833</u>	<u>2,592,208</u>
Expenses:			
Program services:			
Construction costs and family selection and nurture	1,393,776	-	1,393,776
Discount on non-interest bearing real estate contracts	149,069	-	149,069
Supporting services:			
Management and general	162,262	-	162,262
Fundraising and public relations	492,347	-	492,347
	<u>2,197,454</u>	<u>-</u>	<u>2,197,454</u>
Change in Net Assets	377,921	16,833	394,754
Net Assets at Beginning of Year	4,644,212	138,577	4,782,789
Net Assets at End of Year	<u>\$ 5,022,133</u>	<u>\$ 155,410</u>	<u>\$ 5,177,543</u>

The accompanying notes are an integral part of this statement.

2015		
Unrestricted	Temporarily Restricted	Total
\$ 31,558	\$ -	\$ 31,558
119,151	2,400	121,551
-	-	-
68,407	5,000	73,407
503,619	-	503,619
176,052	-	176,052
898,787	7,400	906,187
-	-	-
94,428	-	94,428
668,710	-	668,710
312,446	-	312,446
55,638	-	55,638
(223)	-	(223)
99	-	99
5,443	-	5,443
2,035,328	7,400	2,042,728
4,236	(4,236)	-
2,039,564	3,164	2,042,728
1,399,599	-	1,399,599
241,954	-	241,954
122,128	-	122,128
145,783	-	145,783
1,909,464	-	1,909,464
130,100	3,164	133,264
4,514,112	135,413	4,649,525
<u>\$ 4,644,212</u>	<u>\$ 138,577</u>	<u>\$ 4,782,789</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Functional Expenses
For the Years Ended June 30, 2016 and 2015

	2 0 1 6				Total
	Program Services		Supporting Services		
	Construction & Family Selection	Contract Discounts	Management and General	Fundraising	
Building materials and supplies	\$ 626,819	\$ -	\$ -	\$ -	\$ 626,819
Real estate contract discount	-	149,069	-	-	149,069
Cost of goods sold - ReStore	-	-	-	418,797	418,797
Salary	439,228	-	46,019	31,783	517,030
Payroll taxes	33,446	-	3,517	2,429	39,392
Health insurance	-	-	-	-	-
Retirement	11,932	-	1,407	908	14,247
Insurance	38,719	-	2,676	-	41,395
Depreciation	33,651	-	2,627	-	36,278
Amortization	9,978	-	-	-	9,978
Utilities	7,155	-	1,789	-	8,944
Printing	-	-	6,171	-	6,171
Postage	-	-	2,751	-	2,751
Office supplies	-	-	23,989	-	23,989
Staff expense	13,416	-	-	-	13,416
Committee expense	1,268	-	-	38,430	39,698
Telephone	-	-	5,679	-	5,679
Small equipment	8,092	-	-	-	8,092
Vehicle costs	15,819	-	-	-	15,819
Tithe to Habitat International	27,666	-	-	-	27,666
Post closing construction expense	4,663	-	-	-	4,663
Adjustment of prior development costs	62,807	-	-	-	62,807
Legal and accounting	8,851	-	2,213	-	11,064
Bank charges	-	-	38,341	-	38,341
Grant expense	13,500	-	-	-	13,500
Advertising	25,312	-	-	-	25,312
Rent expense	52,280	-	-	-	52,280
Interest expense	-	-	19,571	-	19,571
Repairs & maintenance	12,069	-	5,512	-	17,581
Miscellaneous	41,504	-	-	-	41,504
Less overhead charged to construction	(94,399)	-	-	-	(94,399)
	\$ 1,393,776	\$ 149,069	\$ 162,262	\$ 492,347	\$ 2,197,454

The accompanying notes are an integral part of this statement.

2015

Program Services		Supporting Services			Total
Construction & Family Selection	Contract Discounts	Management and General	Fundraising		
\$ 935,349	\$ -	\$ -	\$ -	\$ 935,349	
-	241,954	-	-	241,954	
-	-	-	94,583	94,583	
299,050	-	29,519	18,206	346,775	
22,879	-	2,258	1,393	26,530	
5,668	-	-	-	5,668	
8,238	-	867	538	9,643	
30,340	-	2,418	-	32,758	
15,411	-	1,932	-	17,343	
9,978	-	-	-	9,978	
2,762	-	690	-	3,452	
-	-	8,445	-	8,445	
-	-	2,770	-	2,770	
-	-	5,562	-	5,562	
19,463	-	-	-	19,463	
3,495	-	-	31,063	34,558	
-	-	2,695	-	2,695	
9,559	-	-	-	9,559	
14,701	-	-	-	14,701	
28,550	-	-	-	28,550	
9,129	-	-	-	9,129	
-	-	-	-	-	
19,724	-	4,931	-	24,655	
-	-	35,205	-	35,205	
12,775	-	-	-	12,775	
2,751	-	-	-	2,751	
-	-	-	-	-	
-	-	20,275	-	20,275	
6,708	-	4,561	-	11,269	
24,924	-	-	-	24,924	
(81,855)	-	-	-	(81,855)	
<u>\$ 1,399,599</u>	<u>\$ 241,954</u>	<u>\$ 122,128</u>	<u>\$ 145,783</u>	<u>\$ 1,909,464</u>	

IOWA HEARTLAND HABITAT FOR HUMANITY
WATERLOO, IOWA

Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ 394,754	\$ 133,264
Adjustments to reconcile change in net assets to net cash used by operations:		
Origination of non-interest bearing mortgages	(440,765)	(570,210)
Real estate contract discount	149,069	241,954
Current year amortization of discount on contracts	(484,624)	(312,446)
Depreciation of buildings and equipment	36,278	17,343
Amortization of intangible assets	9,978	9,978
Deferred revenue	-	(27,517)
Earnings from ICD Habitat Leverage, LLC	(52,535)	(52,535)
Loss on disposal of fixed assets	-	223
Realized/unrealized (gain)/loss on investments	912	(99)
Change in accounts receivable	(3,913)	(79,698)
Change in work in process	(228,053)	178,146
Change in inventory	(2,957)	(804)
Change in prepaid expenses	(8,933)	(2,749)
Change in accounts payable	19,807	(2,908)
Change in accrued expenses	11,602	204
Change in payroll withholdings	6,183	1,182
Change in escrow deposit liability	(83)	1,018
Net Cash Used by Operating Activities	<u>(593,280)</u>	<u>(465,654)</u>
Cash Flows From Investing Activities:		
Payments received on real estate contracts	708,280	784,704
Purchases of land, buildings, and equipment	(203,057)	(77,248)
Distribution from investment in ICD Habitat Leverage, LLC	16,169	16,169
Decrease in assets held at Community Foundation	2,233	1,026
Net Cash Provided by Investing Activities	<u>523,625</u>	<u>724,651</u>
Cash Flows From Financing Activities:		
New borrowings	-	131,350
Payments reducing long-term notes	(89,251)	(75,453)
Net Cash (Used)/Provided by Financing Activities	<u>(89,251)</u>	<u>55,897</u>
Change in Cash and Cash Equivalents	(158,906)	314,894
Beginning Cash and Cash Equivalents	<u>630,184</u>	<u>315,290</u>
Ending Cash and Cash Equivalents	<u>\$ 471,278</u>	<u>\$ 630,184</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 19,571	\$ 20,275

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 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)

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, 2016 and 2015 was \$36,278 and \$17,343, 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 \$347,876 with \$180,086 in accumulated amortization for 2016. Amortization expense, net of income was \$9,978 as of June 30, 2016 and 2015, 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 \$25,312 and \$2,751 for June 30, 2016 and 2015, 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, 2016 and 2015, Habitat had no uncertain tax positions requiring recognition in the financial statements. Habitat's income tax filings prior to 2013 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 \$27,666 and \$28,550 to Habitat International for the years ended June 30, 2016 and 2015, 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 January 12, 2017, the date on which the financial statements were available to be issued.

Note 2: Restricted Cash

At June 30, 2016, 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 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 \$232,606 expected to be received during the year ended June 30, 2017) plus amounts for homeowners association dues (if applicable). At June 30, 2016, there were twenty homeowners that were behind on their principal payments.

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.

	2016		2015	
	Cost	Fair Value (level 3 inputs)	Cost	Fair Value (level 3 inputs)
Balance at beginning of year	\$ 3,886,486	\$ 3,886,486	\$ 4,030,488	\$ 4,030,488
New contracts receivable	442,587	442,587	570,210	570,210
Discount on new contracts	(149,069)	(149,069)	(241,954)	(241,954)
Collections	(453,795)	(453,795)	(560,096)	(560,096)
Contracts receivable sold	(254,485)	(254,485)	(224,608)	(224,608)
Imputed interest	484,624	484,624	312,446	312,446
Balance at end of year	\$ 3,956,348	\$ 3,956,348	\$ 3,886,486	\$ 3,886,486

Habitat is party to an arrangement with MidWestOne Bank in which it sold, with recourse, three non-interest bearing mortgage notes receivable for \$254,485 as of June 30, 2016 and three for \$224,608 as of June 30, 2015. 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, 2016 and 2015, the balance of the unrecorded recourse obligation is \$445,428 and \$215,210, 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:

	2016		2015	
	Homes	Costs	Homes	Costs
Homes under construction, beginning of year	25	\$ 682,836	27	\$ 860,982
Additional costs incurred on beginning inventory		404,058		673,639
New homes started during year	17	428,391	6	96,242
Homes transferred to homeowners	(6)	(604,396)	(8)	(948,027)
Total work in process	36	<u>\$ 910,889</u>	25	<u>\$ 682,836</u>

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

	2016		2015	
	Homes	Costs	Homes	Costs
Homes under construction, end of year	9	\$ 516,652	4	\$ 257,344
Home sites, no construction by year end	27	394,237	21	345,719
Home sites, Heartland Hills joint costs		-		79,773
		<u>\$ 910,889</u>		<u>\$ 682,836</u>

Note 5: Beneficial Interest Held by Community Foundation

As of June 30, 2016, 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)

	2016	2015
Balance at beginning of year	\$ 128,255	\$ 129,182
Contributions	1,500	2,400
Interest income	2,560	2,679
Investment fees	(1,432)	(1,496)
Realized/Unrealized gain/(loss)	(912)	99
Distribution received	(4,861)	(4,609)
Balance at end of year	<u>\$ 125,110</u>	<u>\$ 128,255</u>

IOWA HEARTLAND HABITAT FOR HUMANITY
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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 9). 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, 2016 and 2015, respectively, is as follows:

	2016	2015
Balance at beginning of year	\$ 1,693,919	\$ 1,657,815
Investment income	52,274	52,273
Distributions	<u>(16,169)</u>	<u>(16,169)</u>
Balance at end of year	<u>\$ 1,730,024</u>	<u>\$ 1,693,919</u>

Note 7: Operating leases

Habitat entered into operating leases during year ended June 30, 2016 and 2015 on a month to month basis. Three storage units were obtained during the current year with monthly rent of \$60 and \$175. Four storage units were obtained during the prior year with monthly rent of \$123 and \$73. 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. The lease also requires payments for a proportionate share of common area maintenance.

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Notes to Financial Statements

Note 7: Operating leases: (continued)

Following is a schedule of future minimum lease payments under the leases at June 30, 2016:

Year Ending June 30, 2017	\$	22,024
June 30, 2018		30,549
June 30, 2019		37,416
June 30, 2020		43,100
June 30, 2021		-

Note 8: Long-Term Debt:

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

Notes payable:	2016	2015
Note payable to John Deere Financial for skid loader, repaid in monthly installments of \$845.83, 0% interest, due July 7, 2018	\$ 16,296	\$ 16,296
Note payable to City of Waterloo, repaid in monthly installments of \$5,000, 0% interest, secured by promissory note for 923 Lafayette, Waterloo of \$54,832, due May 21, 2016	-	50,750
Notes payable to Iowa Finance Authority (Loan #04-04, #04-10, #04-11), repayable in monthly installments of \$452, 0% interest, secured by promissory notes for 424 Florence, Waterloo, and 324 Irving, Waterloo, with balances of \$3,076 and \$8,142, due October 1, 2021	12,624	18,048
Notes payable to Habitat for Humanity Iowa, repayable in monthly installments of \$687, 4% interest, secured by promissory notes for 823 W 6th St, Cedar Falls, and 1213 Lantz Ave, Cedar Falls with balances of \$16,733, and \$22,853, due February 1, 2024	38,691	68,218
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 \$36,468, due December 1, 2033	58,628	61,398
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
	2,338,793	2,427,264
Less current maturities	(17,613)	(74,711)
Long-term notes and mortgages payable	<u>\$ 2,321,180</u>	<u>\$ 2,352,553</u>

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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>	
2017	\$ 17,613
2018	22,249
2019	9,113
2020	7,108
2021	7,335

Habitat obtained a \$100,000 line of credit at Farmers State Bank dated October 29, 2014 secured by a general business security agreement, expiring on November 8, 2016. At June 30, 2016 no amounts were borrowed against the line of credit.

Note 9: Pension Plan:

Habitat contributes 3% toward a 401k plan for all eligible employees. Total pension expense for the period ended June 30, 2016 and 2015 was \$14,247 and \$9,643, respectively.

Note 10: Subsequent Event

The board of directors for Habitat has signed a plan of merger to acquire Buchanan County Habitat for Humanity. The merger is anticipated to be completed by December 31, 2016.