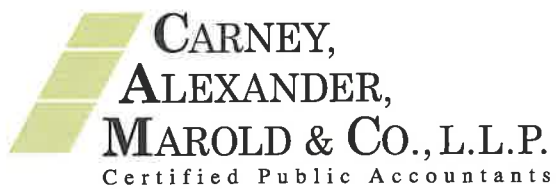


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IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

*Canny, Alexander, Marold + Co, LLP.*

November 23, 2020

IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

Statements of Financial Position  
As of June 30, 2020 and 2019

- ASSETS -

	2020	2019
<b>Current Assets:</b>		
Cash and cash equivalents - unrestricted	\$ 816,004	\$ 460,907
Cash and cash equivalents - restricted	-	208,614
Grants and accounts receivable	94,353	103,435
Pledges receivable	45,271	39,960
Work in process	888,316	632,149
Inventory	83,587	82,841
Current portion of real estate contracts receivable	247,188	246,133
Prepaid expenses	16,346	16,499
	<u>2,191,065</u>	<u>1,790,538</u>
<b>Total Current Assets</b>		
<b>Non-Current Assets:</b>		
Non-interest bearing real estate contracts receivable	5,669,184	6,009,445
Less discount on non-interest bearing contracts	(1,765,397)	(1,939,820)
	<u>3,903,787</u>	<u>4,069,625</u>
Less current portion above	(247,188)	(246,133)
	<u>3,656,599</u>	<u>3,823,492</u>
Reserve deposits on IFA loans	1,743	1,743
Beneficial interest in assets held by Community Foundation	374,208	363,129
Investment in ICD Habitat Leverage, LLC	-	1,838,337
Intangible assets, net of amortization	-	7,434
Pledges receivable, over one year	135,658	106,335
	<u>4,168,208</u>	<u>6,140,470</u>
<b>Total Non-Current Assets</b>	<b>4,168,208</b>	<b>6,140,470</b>
<b>Fixed Assets:</b>		
Furnishings and equipment	178,121	144,750
Construction equipment	116,471	113,722
Vehicles	85,925	42,506
Buildings	1,296,058	241,132
Leasehold improvements	-	68,547
Less accumulated depreciation	(342,319)	(276,337)
	<u>1,334,256</u>	<u>334,320</u>
<b>Net Fixed Assets</b>	<b>1,334,256</b>	<b>334,320</b>
<b>Total Assets</b>	<b><u>\$ 7,693,529</u></b>	<b><u>\$ 8,265,328</u></b>

The accompanying notes are an integral part of this statement.

- LIABILITIES AND NET ASSETS -

	2020	2019
Current Liabilities:		
Accounts payable	\$ 137,039	\$ 74,752
Accrued expenses	5,182	23,582
Escrow and HOA deposit liability	(1,601)	1,584
Current portion of long-term notes and mortgages	<u>61,398</u>	<u>2,254,392</u>
Total Current Liabilities	<u>202,018</u>	<u>2,354,310</u>
Long-term Liabilities:		
Deferred revenue	-	116,235
Notes and mortgages payable less current portion	<u>1,304,401</u>	<u>395,794</u>
Total Long-term Liabilities	<u>1,304,401</u>	<u>512,029</u>
Net Assets:		
Without donor restrictions	6,056,760	5,083,244
With donor restrictions	<u>130,350</u>	<u>315,745</u>
Total Net Assets	<u>6,187,110</u>	<u>5,398,989</u>
Total Liabilities and Net Assets	<u>\$ 7,693,529</u>	<u>\$ 8,265,328</u>

IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

Statements of Activities  
For the Years Ended June 30, 2020 and 2019

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Support:			
Grants and gifts:			
Churches	\$ 28,133	\$ -	\$ 28,133
Individuals	201,567	1,000	202,567
Bequests	10,000	-	10,000
Corporations	105,451	-	105,451
Grants	966,005	10,000	976,005
In kind contributions	749,452	-	749,452
Total Grants and Gifts	2,060,608	11,000	2,071,608
ReStore sales	560,686	-	560,686
Fundraising	94,538	-	94,538
Sales of homes	532,510	-	532,510
Critical repairs	14,242	-	14,242
Real estate contract discount amortization	370,850	-	370,850
Investment income	15,009	-	15,009
Realized/unrealized gain/(loss) on investments	3,423	-	3,423
Loss on asset disposal	(46,148)	-	(46,148)
Other income	29,543	-	29,543
	3,635,261	11,000	3,646,261
Net assets released from restrictions	196,395	(196,395)	-
	3,831,656	(185,395)	3,646,261
Expenses:			
Program services:			
Construction costs and family selection and nurture	1,606,210	-	1,606,210
ReStore	1,030,557	-	1,030,557
Critical repairs	122,903	-	122,903
Supporting services:			
Management and general	268,899	-	268,899
Fundraising and public relations	209,042	-	209,042
	3,237,611	-	3,237,611
Change in Net Assets from Operations	594,045	(185,395)	408,650
Other Changes:			
Cancellation of debt	379,471	-	379,471
Total Other Changes	379,471	-	379,471
Change in Net Assets	973,516	(185,395)	788,121
Net Assets at Beginning of Year	5,083,244	315,745	5,398,989
Net Assets at End of Year	\$ 6,056,760	\$ 130,350	\$ 6,187,110

The accompanying notes are an integral part of this statement.

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 27,732	\$ -	\$ 27,732
225,858	1,000	226,858
-	-	-
89,774	75,000	164,774
400,924	154,500	555,424
757,229		757,229
1,501,517	230,500	1,732,017
599,214	-	599,214
88,742	-	88,742
798,281	-	798,281
4,773	-	4,773
318,665	-	318,665
76,062	-	76,062
14,905	-	14,905
-	-	-
19,008	-	19,008
3,421,167	230,500	3,651,667
74,365	(74,365)	-
3,495,532	156,135	3,651,667
1,886,033	-	1,886,033
1,030,383	-	1,030,383
44,285	-	44,285
354,900	-	354,900
164,935	-	164,935
3,480,536	-	3,480,536
14,996	156,135	171,131
-	-	-
-	-	-
14,996	156,135	171,131
5,068,248	159,610	5,227,858
\$ 5,083,244	\$ 315,745	\$ 5,398,989



IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

Statements of Functional Expenses  
For the Year Ended June 30, 2020

	Program Services			Total Program Services
	Construction & Family Selection	ReStore	Critical Repairs	
Building materials and supplies	\$ 853,732	\$ -	\$ 60,679	\$ 914,411
Real estate contract discount	196,426	-	-	196,426
Cost of goods sold - ReStore	-	562,765	-	562,765
Salary	351,478	215,166	51,178	617,822
Payroll taxes	29,735	18,798	4,319	52,852
Retirement	9,830	8,143	1,864	19,837
Benefits	37,317	30,553	5,280	73,150
Insurance	15,965	23,887	-	39,852
Depreciation	34,619	36,048	-	70,667
Amortization	20,289	-	-	20,289
Utilities	-	6,464	189	6,653
Printing	-	680	-	680
Postage	-	55	-	55
Office supplies	3,465	4,577	-	8,042
Staff expense	-	7,217	1,862	9,079
Volunteer expense	33,062	3,669	256	36,987
Family selection expense	1,456	-	-	1,456
Computer and software	-	1,607	-	1,607
Small equipment	9,993	289	7,088	17,370
Vehicle costs	13,019	7,712	3,500	24,231
Tithe to Habitat International	41,675	-	-	41,675
Construction expense	5,046	-	1,144	6,190
Legal and accounting	16,107	7,877	-	23,984
Bank charges	-	11,200	3	11,203
Event expense	-	-	-	-
Grant expense	11,999	-	-	11,999
Advertising	-	3,388	200	3,588
Rent expense	-	(3,515)	-	(3,515)
Interest expense	821	30,829	-	31,650
Repairs & maintenance	-	17,899	-	17,899
Real estate holding expense	13,813	35,249	(74)	48,988
Miscellaneous	2,053	-	(63)	1,990
Less overhead charged to construction	(95,690)	-	(14,522)	(110,212)
	<u>\$ 1,606,210</u>	<u>\$ 1,030,557</u>	<u>\$ 122,903</u>	<u>\$ 2,759,670</u>

The accompanying notes are an integral part of this statement.

Supporting Services		Total	Total
Management and General	Fundraising	Supporting Services	Total
\$ -	\$ -	\$ -	\$ 914,411
-	-	-	196,426
-	-	-	562,765
59,228	85,197	144,425	762,247
5,005	7,206	12,211	65,063
3,510	4,986	8,496	28,333
6,202	9,003	15,205	88,355
9,963	-	9,963	49,815
10,632	-	10,632	81,299
-	-	-	20,289
7,084	-	7,084	13,737
5,810	-	5,810	6,490
1,401	1,456	2,857	2,912
2,010	-	2,010	10,052
27,889	-	27,889	36,968
-	-	-	36,987
-	-	-	1,456
73,078	-	73,078	74,685
-	-	-	17,370
-	-	-	24,231
-	-	-	41,675
-	-	-	6,190
5,996	-	5,996	29,980
13,854	-	13,854	25,057
-	90,345	90,345	90,345
-	-	-	11,999
-	10,849	10,849	14,437
-	-	-	(3,515)
25,053	-	25,053	56,703
12,184	-	12,184	30,083
-	-	-	48,988
-	-	-	1,990
-	-	-	(110,212)
<u>\$ 268,899</u>	<u>\$ 209,042</u>	<u>\$ 477,941</u>	<u>\$ 3,237,611</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 Supporting Services	Total
Management and General	Fundraising		
\$ -	\$ -	\$ -	\$ 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 Cash Flows  
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ 788,121	\$ 171,131
Adjustments to reconcile change in net assets to net cash used by operations:		
Origination of non-interest bearing mortgages	(532,510)	(891,161)
Real estate contract discount	196,426	370,101
Current year amortization of discount on contracts	(370,850)	(318,665)
Depreciation of buildings and equipment	81,299	56,539
Amortization of intangible assets	20,289	7,600
Deferred revenue	(116,235)	(13,761)
Earnings from ICD Habitat Leverage, LLC	-	(52,273)
Realized/unrealized (gain)/loss on investments	(3,423)	(14,905)
Cancellation of debt	(379,471)	-
Change in grants and accounts receivable	9,082	(62,033)
Change in pledges receivable	(34,634)	-
Change in work in process	(256,167)	7,224
Change in inventory	(746)	(1,098)
Change in prepaid expenses	153	5,234
Change in accounts payable	62,287	31,380
Change in accrued expenses	(18,400)	(6,119)
Change in escrow deposit liability	(3,185)	(3,752)
Net Cash Used by Operating Activities	<u>(557,964)</u>	<u>(714,558)</u>
Cash Flows From Investing Activities:		
Payments received on real estate contracts	872,772	878,835
Purchases of land, buildings, and equipment	(1,101,524)	(14,874)
Distribution from investment in ICD Habitat Leverage, LLC	32,248	16,169
(Increase)/Decrease in assets held at Community Foundation	(7,656)	1,965
Net Cash (Used)/Provided by Investing Activities	<u>(204,160)</u>	<u>882,095</u>
Cash Flows From Financing Activities:		
New borrowings	966,255	-
Payments reducing long-term notes	(57,648)	(93,546)
Net Cash (Used)/Provided by Financing Activities	<u>908,607</u>	<u>(93,546)</u>
Change in Cash and Cash Equivalents	146,483	73,991
Beginning Cash and Cash Equivalents	<u>669,521</u>	<u>595,530</u>
Ending Cash and Cash Equivalents	<u>\$ 816,004</u>	<u>\$ 669,521</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 56,660	\$ 38,644

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 3.60 - 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, 2020 and 2019 was \$81,299 and \$56,539, respectively.

IOWA HEARTLAND HABITAT FOR HUMANITY  
WATERLOO, IOWA

Notes to Financial Statements

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

Intangible Assets

Habitat amortized intangible assets with finite lives on a straight-line basis over their estimated useful lives. Intangible assets included costs associated with an investment in a joint venture, described in Note 7, that were being amortized using the straight-line method over 7 - 15 years. Original costs for intangibles was \$312,208. The investment was disposed of effective August 2019. Amortization expense, net of income was \$20,289 and \$7,600 as of June 30, 2020 and 2019, respectively.

Contributed Goods and Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, and would otherwise be purchased by the organization. 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. Donated services of \$35,175 for year ended June 30, 2020 are recorded as contributions at their fair values at the date of donation.

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 \$14,437 and \$14,155 for June 30, 2020 and 2019, 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, 2020 and 2019, Habitat had no uncertain tax positions requiring recognition in the financial statements. Habitat's income tax filings prior to 2017 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  
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Notes to Financial Statements

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

Related Entities

Habitat contributed \$41,675 and \$45,450 to Habitat International for the years ended June 30, 2020 and 2019, 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.

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 \$247,188 expected to be received during the year ended June 30, 2021) plus amounts for discounted interest and homeowners association dues (if applicable). At June 30, 2020, there were eleven homeowners that were behind on their payments with a total principal balance of 370,051. At June 30, 2019, there were seventeen homeowners that were behind on their payments with a total principal balance of \$767,851.

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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 3.60 - 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.

	2020		2019	
	Cost	Fair Value (level 3 inputs)	Cost	Fair Value (level 3 inputs)
Balance at beginning of year	\$4,069,625	\$4,069,625	\$ 4,108,735	\$ 4,108,735
New contracts receivable	532,510	532,510	891,161	891,161
Discount on new contracts	(196,426)	(196,426)	(370,101)	(370,101)
Collections	(523,456)	(523,456)	(528,658)	(528,658)
Contracts receivable sold	(349,316)	(349,316)	(350,177)	(350,177)
Imputed interest	370,850	370,850	318,665	318,665
Balance at end of year	\$3,903,787	\$ 3,903,787	\$ 4,069,625	\$ 4,069,625

Habitat was party to an arrangement with Community Bank & Trust in which it sold, with recourse, four non-interest bearing mortgage notes receivable for \$349,316 and \$350,177 as of June 30, 2020 and 2019, respectively. 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, 2020 and 2019, the balance of the unrecorded recourse obligation is \$986,775 and \$818,180, respectively.

IOWA HEARTLAND HABITAT FOR HUMANITY  
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Notes to Financial Statements

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 for a minimum of 5 years. 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, 2020 are unrestricted, unconditional and due over the next five years. Promises to give to be received after June 30, 2020 are discounted at 1.51%. The unamortized discount on promises to give is \$2,823 and \$4,798 as of June 30, 2020 and 2019, respectively.

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

	2020	2019
In one year or less	\$ 48,094	\$ 39,960
Between one year and five years	<u>135,658</u>	<u>111,133</u>
	183,752	151,093
Less: discounts to present value	<u>(2,823)</u>	<u>(4,798)</u>
	<u>\$ 180,929</u>	<u>\$ 146,295</u>
Reported under current assets	\$ 45,271	\$ 39,960
Reported under other assets	<u>135,658</u>	<u>106,335</u>
Total assets	<u>\$ 180,929</u>	<u>\$ 146,295</u>

Note 5: Work In Process

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

	2020		2019	
	Homes	Costs	Homes	Costs
Homes under construction, beginning of year	32	\$ 632,149	30	\$ 639,373
Additional costs incurred on beginning inventory		1,024,017		877,734
New homes started during year	25	82,630	6	98,683
New critical repairs started during year	19	29,236	10	39,759
Critical repairs completed	(20)	(60,582)	(6)	(21,106)
Homes transferred to homeowners	(5)	<u>(819,134)</u>	(8)	<u>(1,002,294)</u>
Total work in process	51	<u>\$ 888,316</u>	32	<u>\$ 632,149</u>

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

	2020		2019	
	Homes	Costs	Homes	Costs
Homes and critical repair under construction, end of year	20	\$ 649,160	9	\$ 278,672
Home sites, no construction by year end	31	<u>239,156</u>	23	<u>353,477</u>
		<u>\$ 888,316</u>		<u>\$ 632,149</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, 2020, 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):

	2020	2019
Balance at beginning of year	\$ 363,129	\$ 350,189
Contributions	11,000	1,000
Interest income	5,753	6,064
Investment fees	(4,097)	(4,029)
Realized/Unrealized gain/(loss)	3,423	14,905
Distribution received	<u>(5,000)</u>	<u>(5,000)</u>
Balance at end of year	<u>\$ 374,208</u>	<u>\$ 363,129</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 had 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 was payable to a community development entity (an affiliate of the joint venture). Loan proceeds were to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrued 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 would be 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, 2020 and 2019, respectively, is as follows:

	2020	2019
Balance at beginning of year	\$1,838,337	\$ 1,802,233
Investment income	-	52,273
Cancellation of debt	379,471	
Distributions	<u>(2,217,808)</u>	<u>(16,169)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 1,838,337</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:	2020	2019
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 \$16,534, due February 1, 2024	\$ 15,979	\$ 18,290
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 \$27,372, due December 1, 2033	46,975	49,975
Notes payable to US Cellular, repayable in monthly installments of \$86.40, 0% interest, secured by 4 Ipad, due August 31, 2020	173	1,210
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	356,042	391,395
Note payable to Farmers State Bank, repayable in monthly payments of \$4,275.44, 4.29% interest, secured by promissory notes on the ReStore building, due July 10, 2044	769,324	-
Note payable to Farmers State Bank for the Paycheck Protection Program, repayable in 17 payments of \$10,161.69, 1.0% interest, due March 6, 2022.	180,700	-
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 had a put option feature that was exercisable at the end of the compliance period that was exercised. See Note 7.	-	2,212,554
	<u>1,369,193</u>	<u>2,673,424</u>
Less unamortized debt issuance cost	(3,394)	(23,238)
Less current maturities	<u>(61,398)</u>	<u>(2,254,392)</u>
Long-term notes and mortgages payable	<u>\$1,304,401</u>	<u>\$ 395,794</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>	
2021	\$ 61,398
2022	64,158
2023	67,165
2024	70,233
2025	73,614

Habitat obtained a \$100,000 line of credit at Farmers State Bank dated November 22, 2017 secured by a general business security agreement. The line of credit was subsequently renewed on October 21, 2020 and increased to \$500,000. At June 30, 2020 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:

	2020	2019
Purpose Restriction Accomplished:		
Home construction costs	\$ 196,395	\$ 74,365
	<u>\$ 196,395</u>	<u>\$ 74,365</u>

Net assets with donor restrictions consist of the following as of June 30, 2020 and 2019:

Beneficial interest in assets held at Community Foundation	\$ 118,100	\$ 117,100
ReStore building purchase	-	75,000
Home construction costs	12,250	123,645
	<u>\$ 130,350</u>	<u>\$ 315,745</u>

Note 10: Pension Plan

Habitat contributes 4% during the year ending June 30, 2020 and 3% for the year ended June 30, 2019 toward a 401k plan for all eligible employees. Total pension expense for the period ended June 30, 2020 and 2019 was \$28,333 and \$22,839, respectively.

Note 11: 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.

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Notes to Financial Statements

Note 12: 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:

	2020	2019
Total financial assets		
Cash and cash equivalents	\$ 816,004	\$ 460,907
Cash and cash equivalents - restricted	-	208,614
Accounts and pledges receivable	139,624	143,395
	955,628	812,916
Less donor restrictions	-	208,614
Financial assets available to meet cash needs for general expenditures within one year	\$ 955,628	\$ 604,302

Note 13: Subsequent Events

Management has evaluated subsequent events through November 23, 2020, the date on which the financial statements were available to be issued.

The Organization expects the economic uncertainties resulting from the COVID-19 pandemic may negatively impact its operations. However, the financial impact and duration cannot be reasonably estimated at this time. The Organization had applied for forgiveness to the SBA Paycheck Protection Program loan and was granted forgiveness as of November 2, 2020.