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HABITAT FOR HUMANITY OF GREATER  
INDIANAPOLIS, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

DECEMBER 31, 2016 AND 2015

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Habitat for Humanity of Greater Indianapolis, Inc.:

We have audited the accompanying financial statements of Habitat for Humanity of Greater Indianapolis, Inc. (Habitat) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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 audits 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 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 Habitat as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Greenwalt CPAs, Inc.*

June 6, 2017

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
<b>ASSETS</b>		
Unrestricted cash	\$ 1,954,478	\$ 1,242,707
Cash limited as to use and timing	<u>335,733</u>	<u>345,524</u>
<i>Total cash</i>	2,290,211	1,588,231
Grants, sponsorships, and other receivables	688,772	586,347
Mortgage loans receivable, net	7,670,882	7,246,005
Inventory	175,868	155,691
Prepayments	9,673	14,897
Construction in progress	61,647	224,413
Homes available for resale	154,735	64,182
Land available for future builds	87,301	116,178
Property and equipment, net	2,786,607	2,847,071
CICF Endowment Fund	<u>68,278</u>	<u>56,001</u>
<i>Total assets</i>	<u>\$ 13,993,974</u>	<u>\$ 12,899,016</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 281,630	\$ 212,567
Current portion of mortgage service agreement	18,300	15,860
Current portion of notes payable	47,590	45,732
Accrued expenses and other liabilities	132,087	69,307
Escrow liability, net	<u>124,720</u>	<u>129,506</u>
<i>Total current liabilities</i>	<u>604,327</u>	<u>472,972</u>
<b>LONG - TERM LIABILITIES</b>		
Mortgage service agreement, net - long term	226,985	206,061
Notes payable, net - long term	<u>544,439</u>	<u>591,625</u>
<i>Total long-term liabilities</i>	<u>771,424</u>	<u>797,686</u>
<i>Total liabilities</i>	<u>1,375,751</u>	<u>1,270,658</u>
<b>COMMITMENTS (NOTES 4 AND 8)</b>		
<b>NET ASSETS</b>		
Unrestricted	12,294,875	11,251,304
Temporarily restricted	281,300	345,006
Permanently restricted	<u>42,048</u>	<u>32,048</u>
<i>Total net assets</i>	<u>12,618,223</u>	<u>11,628,358</u>
<i>Total net assets and liabilities</i>	<u>\$ 13,993,974</u>	<u>\$ 12,899,016</u>

**HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.**  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 1,818,692	\$ 17,278	\$ 10,000	\$ 1,845,970
Private grants	580,905	161,772	-	742,677
In-kind contributions	718,009	-	-	718,009
Home sales	1,713,307	-	-	1,713,307
Mortgage loan discount amortization	472,900	-	-	472,900
Fundraising events	228,657	-	-	228,657
ReStore income	1,798,959	-	-	1,798,959
Investment income gain (loss)	742	2,277	-	3,019
Gain (loss) from sale of stock	366	-	-	366
Gain on disposal of vacant lots	-	-	-	-
Gain on sale of mortgages	62,128	-	-	62,128
Loss on disposal of property and equipment	(9,812)	-	-	(9,812)
Other income, net	62,764	-	-	62,764
Net assets released from restrictions	245,033	(245,033)	-	-
<i>Total revenues, gains, and other support</i>	<u>7,692,650</u>	<u>(63,706)</u>	<u>10,000</u>	<u>7,638,944</u>
<b>EXPENSES</b>				
Construction program	3,915,169	-	-	3,915,169
Family services	159,995	-	-	159,995
Home repair	156,436	-	-	156,436
Volunteer services	261,880	-	-	261,880
Mortgage services	273,809	-	-	273,809
ReStore services	1,016,510	-	-	1,016,510
<i>Total program services</i>	<u>5,783,799</u>	<u>-</u>	<u>-</u>	<u>5,783,799</u>
Resource development	524,039	-	-	524,039
Management and general	341,241	-	-	341,241
<i>Total expenses</i>	<u>6,649,079</u>	<u>-</u>	<u>-</u>	<u>6,649,079</u>
<b>CHANGE IN NET ASSETS</b>	1,043,571	(63,706)	10,000	989,865
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>11,251,304</u>	<u>345,006</u>	<u>32,048</u>	<u>11,628,358</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 12,294,875</u>	<u>\$ 281,300</u>	<u>\$ 42,048</u>	<u>\$ 11,628,358</u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 1,640,583	\$ 221,053	\$ -	\$ 1,861,636
Private grants	520,133	100,000	-	620,133
In-kind contributions	545,622	-	-	545,622
Home sales	1,410,635	-	-	1,410,635
Mortgage loan discount amortization	512,528	-	-	512,528
Fundraising events	166,320	-	-	166,320
ReStore income	1,431,673	-	-	1,431,673
Investment loss	1,182	(1,581)	-	(399)
Loss from sale of stock	(366)	-	-	(366)
Gain on disposal of vacant lots	2,691	-	-	2,691
Loss on disposal of property and equipment	(3,372)	-	-	(3,372)
Gain on sale of mortgages	32,942	-	-	32,942
Other income, net	67,711	-	-	67,711
Net assets released from restrictions	117,082	(117,082)	-	-
	<u>6,445,364</u>	<u>202,390</u>	<u>-</u>	<u>6,647,754</u>
<i>Total revenues, gains, and other support</i>				
<b>EXPENSES</b>				
Construction program	3,398,125	-	-	3,398,125
Family services	191,039	-	-	191,039
Home repair	3,346	-	-	3,346
Volunteer services	215,378	-	-	215,378
Mortgage services	248,530	-	-	248,530
ReStore services	948,153	-	-	948,153
	<u>5,004,571</u>	<u>-</u>	<u>-</u>	<u>5,004,571</u>
<i>Total program services</i>				
Resource development	552,967	-	-	552,967
Management and general	305,610	-	-	305,610
	<u>5,863,148</u>	<u>-</u>	<u>-</u>	<u>5,863,148</u>
<i>Total expenses</i>				
<b>CHANGE IN NET ASSETS</b>	582,216	202,390	-	784,606
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>10,669,088</u>	<u>142,616</u>	<u>32,048</u>	<u>10,843,752</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 11,251,304</u></u>	<u><u>\$ 345,006</u></u>	<u><u>\$ 32,048</u></u>	<u><u>\$ 11,628,358</u></u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CHANGE IN CASH</b>		
<b>CHANGE IN NET ASSETS</b>	\$ 989,865	\$ 784,606
<b>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
(Gain) loss on the sale of stock	(366)	366
(Gain) loss on the disposal of vacant lots	-	(2,691)
Loss on disposal of property and equipment	9,812	3,372
Gain on the sale of mortgages	(62,128)	(32,942)
Depreciation	152,314	131,772
Mortgage discount expense	693,425	559,901
Amortization of discount on mortgage loans receivable	(472,900)	(512,528)
Donated housing supplies and property	(718,009)	(545,622)
<i>(Increase) decrease in operating assets:</i>		
Grants, sponsorships, and other receivables	(102,425)	(207,763)
Inventory	1,080	1,974
Prepayments	5,224	(1,383)
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	69,063	32,132
Accrued expenses and other liabilities	62,780	(43,501)
Mortgage service agreement	23,364	41,265
Escrow liability	(4,786)	19,084
<i>Total adjustments</i>	<u>(343,552)</u>	<u>(556,564)</u>
<i>Net cash provided by operating activities</i>	<u>646,313</u>	<u>228,042</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Collections of mortgage loans receivable	859,848	767,515
Purchases of property and equipment	(101,662)	(194,074)
Proceeds from sale of vacant lots	-	24,043
Purchase of vacant lots	(68,500)	(43,289)
Construction in progress additions	<u>(836,210)</u>	<u>(709,419)</u>
<i>Net cash used in investing activities</i>	<u>(146,524)</u>	<u>(155,224)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the sale of mortgages	247,519	214,613
Payments on notes payable	<u>(45,328)</u>	<u>(19,143)</u>
<i>Net cash used in financing activities</i>	<u>202,191</u>	<u>195,470</u>
<b>NET CHANGE IN CASH</b>	701,980	268,288
<b>CASH, BEGINNING OF YEAR</b>	<u>1,588,231</u>	<u>1,319,943</u>
<b>CASH, END OF YEAR</b>	<u>\$ 2,290,211</u>	<u>\$ 1,588,231</u>
<b>NONCASH ACTIVITIES</b>		
Change in donated ReStore inventory	\$ 21,257	\$ 40,384
Donated vacant lots	\$ 19,300	\$ 76,200
Donated home and foreclosed homes available for resale	\$ 184,516	\$ 7,083
Building acquired through note payable	\$ -	\$ 85,000

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### DESCRIPTION OF OPERATIONS

Habitat for Humanity of Greater Indianapolis, Inc., d/b/a Greater Indy Habitat, (Habitat) was incorporated as a not-for-profit organization in 1987 under the laws of the State of Indiana and is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian not-for-profit organization whose purpose is to join with low-income families and other community partners to provide home ownership opportunities and build communities of hope as an expression of God's love. Habitat operates throughout Marion County, Hendricks County, and Hancock County, Indiana.

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. Major sources of revenue for Habitat include contributions from the general public and sales of homes.

### BASIS OF ACCOUNTING AND USE OF ESTIMATES

The accompanying financial statements have been prepared on the accrual basis of accounting. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### FAIR VALUE MEASUREMENTS

Accounting Standards for Fair Value Measurement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. These standards also establish a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, giving highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and lowest priority to unobservable inputs (level 3 measurements).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### FAIR VALUE MEASUREMENTS, CONTINUED

Fair values measured on a recurring basis at December 31 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b><u>2016</u></b>				
CICF Endowment Fund	\$ 68,278	\$ -	\$ 68,278	\$ -
Mortgage service agreement liability	245,285	-	245,285	-
<b><u>2015</u></b>				
CICF Endowment Fund	\$ 56,001	\$ -	\$ 56,001	\$ -
Mortgage service agreement liability	221,921	-	221,921	-

The fair value of the mortgage servicing agreement liability is valued at the gross costs to service the mortgages less an estimated discount to present value as described in Note 4. Fair value of the CICF Endowment Fund is determined based on the fund value reported by CICF. CICF allocates investment income to the fund based on the unitized value of the assets held by each individual fund within the overall portfolio. There were no changes in the methods used to determine fair value during 2016. See Note 2.

### CASH

Habitat maintains cash balances at commercial banks. At December 31, 2016, Habitat maintained balances in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. Habitat has not experienced any losses in such account and believes it is not exposed to any significant credit risk.



# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### PROPERTY AND EQUIPMENT

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. Donated property and equipment are recorded at fair market value as of the date received. Depreciation is provided utilizing the straight line method over the estimated useful lives from 3 to 40 years of the depreciable assets. Maintenance and repairs are charged to expense as incurred.

Property and equipment is comprised of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 529,850	\$ 529,850
Buildings, warehouse, and improvements	2,518,110	2,473,573
Construction equipment	80,090	75,455
Office equipment	215,721	199,992
Vehicles	232,095	255,500
	<u>3,575,866</u>	<u>3,534,370</u>
Accumulated depreciation	<u>(789,259)</u>	<u>(687,299)</u>
	<u>\$ 2,786,607</u>	<u>\$ 2,847,071</u>

On July 17, 2016, a home under construction was damaged in a fire. Habitat submitted a claim to insurance and has recorded deferred insurance proceeds of \$44,322 at December 31, 2016 in accrued expenses and other liabilities on the statement of financial position. The proceeds represent 80% of the total claim received and are expected to cover the cost of restoring the home to original construction.

### INVENTORY

Inventory consists of assorted building materials and supplies and is valued at cost using the specific identification method.

Inventory also consists of donated items for sale at Habitat's ReStores. ReStore inventory is valued based on an average month of ReStore sales.

Inventory consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Construction materials and supplies	\$ 22,006	\$ 26,330
ReStore inventory	153,862	129,361
	<u>\$ 175,868</u>	<u>\$ 155,691</u>

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### NET ASSETS

The financial statements have been prepared in accordance with Accounting Standards for the preparation of Financial Statements of Not-for-Profit Organizations. These standards require the financial statements to report information regarding its assets, liabilities, and net assets and its revenue, expense, and other changes in net assets according to class. Net assets are classified as unrestricted, temporarily restricted, and permanently restricted. Habitat maintains the following classifications of net assets:

#### Unrestricted

These include revenue and expenses from the regular operations of Habitat which are at the discretion of the Board of Directors and management.

#### Temporarily Restricted

These include contributions and grant revenues used to meet expenses in accordance with restrictions specified by the donors or grantors and appropriations of interest on permanently restricted endowment assets for expenditures (See Note 2). When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Temporarily restricted net assets are comprised of the following at December 31:

	<u>2016</u>	<u>2015</u>
Household sponsorships	\$ 255,070	\$ 321,053
Endowment assets available for expenditure	<u>26,230</u>	<u>23,953</u>
	<u>\$ 281,300</u>	<u>\$ 345,006</u>

#### Permanently Restricted

Habitat has an endowment with the Central Indiana Community Foundation (CICF). The principal of this investment will remain in perpetuity. The interest and dividends are available to pay the expenses of Habitat. Permanently restricted net assets were \$42,048 and \$32,048 at December 31, 2016 and 2015, respectively. See Note 2.

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### SUPPORT AND REVENUE

Habitat reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restricted contributions received for which the restrictions are met in the same year are reported as unrestricted support by Habitat.

### DONATED SERVICES AND CONTRIBUTIONS

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills and are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation.

In addition to receiving contributions of service, Habitat receives in-kind contributions, primarily construction materials and parcels of land, from various donors. It is the policy of Habitat to record the estimated fair market value of certain in-kind donations as an expense in its statements of activities or as construction in progress in the statements of financial position and similarly increase contributions by a like amount. These amounts have been treated as non-cash transactions and excluded from the accompanying statements of cash flows.

A substantial number of volunteers have donated significant amounts of their time to Habitat's program services. While Habitat does not have a method to value volunteers time on an hourly basis, Habitat has reflected the increased value of installed materials versus uninstalled materials as an in-kind contribution.

### FUNDRAISING ACTIVITIES

Habitat has an ongoing resource development program to secure contributions from corporations, churches, and individuals.

### EXPENSE ALLOCATION

Expenses have been classified as program services, resource development, and management and general based on the actual direct expenditures and cost allocation based on estimates of time and usage by Habitat personnel and programs.

### ADVERTISING EXPENSE

Total advertising expense for 2016 and 2015 was \$24,562 and \$20,717, respectively. These costs were expensed as incurred.

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### INCOME TAXES

Habitat is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code under a group exemption letter granted to Habitat International and has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

### SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through June 6, 2017, which is the date the financial statements were available to be issued.

## 2. CICF ENDOWMENT FUND

Habitat holds an endowment through the CICF (see Note 1). The principal amount will permanently remain with CICF, with investment income earned on the investment to be paid back to Habitat. The maximum amount that Habitat may withdraw in a year is 5% of the prior fund balance plus any carryover spendable amount. Future donations made to the endowment will continue to remain permanently with CICF, with income earned on those donations to be paid to Habitat as described above.

Habitat's endowment funds consist of donor-restricted contributions that were made to provide a source of income for operations. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

### INTERPRETATION OF RELEVANT LAW

The Board of Directors of Habitat has interpreted the *State Prudent Management of Institutional Funds Act* (SPMIFA) as requiring the preservation of the purchasing power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Habitat classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. In accordance with SPMIFA, Habitat considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of Habitat and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of Habitat
- (7) The investment policies of Habitat.

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 2. CICF ENDOWMENT FUND, CONTINUED

Changes in endowment net assets for the years ended December 31:

<u>2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 23,953	\$ 32,048	\$ 56,001
Contributions	-	-	10,000	10,000
Investment gain	-	2,277	-	2,277
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 26,230</u>	<u>\$ 42,048</u>	<u>\$ 68,278</u>
<u>2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 25,534	\$ 32,048	\$ 57,582
Investment loss	-	(1,581)	-	(1,581)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 23,953</u>	<u>\$ 32,048</u>	<u>\$ 56,001</u>

### RETURN OBJECTIVES AND RISK PARAMETERS

Habitat has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its Endowment while seeking to maintain the purchasing power of the endowment assets.

### STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, Habitat relies on a total return strategy administered by CICF in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CICF targets a diversified asset allocation that places a greater emphasis on long-term growth and a reasonable return.

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 2. CICF ENDOWMENT FUND, CONTINUED

### SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

CICF has a policy that Habitat can disburse from the endowment up to 5% of the endowment's previous year fund balance for Habitat operating expenditures. This is consistent with Habitat's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

## 3. MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable are non-interest bearing and have been discounted at a rate which approximates the average prevailing market rate for these loans at their inception. Discounts are amortized, using the effective interest method, over the lives of the mortgages at 4.5%.

Mortgage loans are secured by related real estate. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept back the deed in lieu of foreclosure when homeowner mortgage payments are deemed seriously delinquent. Properties acquired through foreclosure or received by accepting a deed in lieu of foreclosure may be refurbished in partnership with and sold to other families in need of decent, affordable housing. Homes available for sale are stated at the lower of cost or market. Management estimates an allowance for doubtful mortgage receivables based on an evaluation of current economic conditions, historical trends, and past experience with homeowners.

New mortgage loans are based on 80% of the appraised value of each home. Original mortgages range from \$47,000 to \$116,000. Mortgage terms range from 20 to 30 years.

Second mortgages are placed on Habitat homes as needed to ensure affordability. Second mortgages are made up of the difference between the appraised value of the home and the first mortgage amount. It is the policy of Habitat not to recognize the second mortgages in their accounting records. However, the second mortgages are reduced, on a pro rata basis, over the life of the first mortgage and will only be due on demand upon the sale of the home or default on the mortgage to which they relate.

The allowance for doubtful accounts is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent to the mortgages balance. The amount of the allowance is based on management's evaluation of the collectability of the mortgages, including the nature of the portfolio, trends in historical loss experience, specific impaired mortgages, economic conditions and other risks inherent in the mortgage portfolio. Allowances for impaired loans are generally determined based on estimated value of the home tied to the mortgage. The allowance for doubtful mortgages was \$125,000 at December 31, 2016 and 2015.

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 3. MORTGAGE LOANS RECEIVABLE, CONTINUED

Mortgage loans receivable balances past due as of December 31 are as follows:

	<u>1 – 60 Days Past Due</u>	<u>60 – 90 Days Past Due</u>	<u>+90 Days Past Due</u>	<u>Total</u>
2016	\$ 138,832	\$ 12,444	\$ 45,031	\$ 196,307
2015	\$ 32,282	\$ 6,902	\$ 29,417	\$ 68,601

Mortgage loans receivable balances as of December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Mortgage loans receivable	\$ 12,937,228	\$ 12,384,301
Less: mortgage discounts	(5,141,346)	(5,013,296)
allowance for doubtful accounts	<u>(125,000)</u>	<u>(125,000)</u>
Mortgage loans receivable, net	<u>\$ 7,670,882</u>	<u>\$ 7,246,005</u>

## 4. SALE OF MORTGAGE RECEIVABLES AND MORTGAGE SERVICE AGREEMENT LIABILITY

At times, Habitat will sell certain mortgage loans receivable to banks. Habitat receives from the bank proceeds for the aggregate principal balance of the mortgage loans receivable sold and recognizes a liability amount to the bank for the present value of the servicing costs over the life of the loan. Habitat then administers these loans through their original maturities on behalf of the respective bank. In the event that a loan is delinquent by more than 60 days, Habitat will replace the nonperforming loan with a substitute loan.

Habitat determines the fair value of the servicing obligation based on cash flow models that incorporate, among other things, assumptions including discount rates. See below. Accordingly, Habitat classifies the fair value portion of its mortgage service agreement liability as a Level 2 fair value measurement.

The following table summarizes data related to the sale of mortgage receivables for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Cash proceeds from sale	\$ 247,519	\$ 214,613
Less: fair value of loans transferred	(155,043)	(134,823)
Less: loan servicing obligation	<u>(30,348)</u>	<u>(46,848)</u>
Gain recognized on sale	<u>\$ 62,128</u>	<u>\$ 32,942</u>

There were no delinquencies on the mortgage loans sold at December 31, 2016 and 2015. There were no credit losses during 2016 or 2015.

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 4. SALE OF MORTGAGE RECEIVABLES AND MORTGAGE SERVICE AGREEMENT LIABILITY, CONTINUED

Assumptions as of sale date:

	<u>2016</u>	<u>2015</u>
Discount rate	4%	4%
Weighted-average life of loans	20.96 years	24.11 years
Annual service cost per loan	\$ 610	\$ 610

Key assumptions used in measuring the fair value of mortgage service agreement liability and the sensitivity of the current fair value to immediate 10% and 20% changes at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	4%	4%
Effect of:		
10% adverse change	\$17,416	\$8,118
20% adverse change	\$26,078	\$15,695
Annual service costs per loan	\$610	\$610
Effect of:		
10% adverse change	\$15,260	\$22,107
20% adverse change	\$38,753	\$44,211

These sensitivities are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated because the relationship of change in assumption to change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independently from any change in another assumption. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.



# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 4. SALE OF MORTGAGE RECEIVABLES AND MORTGAGE SERVICE AGREEMENT LIABILITY, CONTINUED

### MORTGAGE SERVICING LIABILITY

Future servicing liabilities are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 18,300	\$ 15,860
One to five years	89,670	79,300
More than five years	<u>258,030</u>	<u>240,950</u>
Total mortgage service guarantees	366,000	336,110
Less discounts to present value (4%)	<u>(120,715)</u>	<u>(114,189)</u>
Net mortgage service guarantees	<u>\$ 245,285</u>	<u>\$ 221,921</u>

## 5. ESCROW LIABILITY

At December 31, 2016 and 2015, Habitat maintained a bank account at a financial institution holding escrow payments for taxes and insurance made on behalf of homeowners. The account has been included in cash limited as to use and timing and a corresponding escrow balance of \$124,720 and \$129,506 has been recorded as a liability in the statements of financial position as of December 31, 2016 and 2015, respectively.

## 6. NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Installment note, payable \$4,087 per month plus interest at 3.49% through June 2020, secured by building and land	\$ 526,321	\$ 556,119
Installment note, payable \$1,605 per month plus interest at 4.95% through September 2020, secured by building and land.	<u>65,708</u>	<u>81,238</u>
	592,029	637,357
Less – current portion	<u>(47,590)</u>	<u>(45,732)</u>
Long-term portion	<u>\$ 544,439</u>	<u>\$ 591,625</u>

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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## 6. NOTES PAYABLE, CONTINUED

Maturities of the notes payable are as follows for the years ending December 31:

2017	\$	47,590
2018		49,527
2019		51,545
2020		<u>443,367</u>
	\$	<u>592,029</u>

The installment note requires Habitat to maintain specified financial covenants. At December 31, 2016, Habitat was in compliance with these covenants or had received a waiver.

## 7. BANK LINE OF CREDIT

Habitat has a line of credit with a financial institution. The maximum amount available under the line of credit is \$250,000. Borrowings bear interest at the prime rate (3.75 and 3.50% at December 31, 2016 and 2015, respectively) determined by the bank and are secured by substantially all cash balances of Habitat. At December 31, 2016 and 2015, Habitat had no amounts outstanding on the line of credit.

## 8. OPERATING LEASES

Habitat leases Hendricks barn storage and ReStore warehouse space on a month to month basis. Monthly payments under these leases total \$1,050. Habitat leases office equipment under operating leases which expire at various dates through November 2021. Monthly payments under these leases total \$2,320. Habitat also leases trucks under operating leases that expire September 2020. Monthly lease payments for the trucks total \$2,533.

Total lease expense included in the statements of activities was \$57,563 and \$50,729 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease commitments under operating leases are as follows for the years ending December 31:

2017	\$	49,073
2018		35,889
2019		33,208
2020		25,608
2021		<u>2,574</u>
	\$	<u>146,352</u>

# HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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### 9. RETIREMENT PLAN

Habitat provides a simple IRA plan to eligible full time employees. Habitat contributes 2% of annual compensation of each participant in the plan. Total employer contributions for the years ended December 31, 2016 and 2015 were \$26,803 and \$25,254, respectively.

### 10. RELATED PARTY TRANSACTIONS

Habitat remits annually a portion of its contributions to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$100,000 and \$84,575 in 2016 and 2015, respectively. Such amounts are included in home construction expenses in the statement of activities.

During 2016 and 2015, Habitat paid \$25,000 of annual affiliate fees to Habitat for Humanity International.

Total amounts payable to Habitat for Humanity International as of December 31, 2016 and 2015 were \$100,000 and \$84,575, respectively.



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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of  
Habitat for Humanity of Greater Indianapolis, Inc.:

We have audited the financial statements of Habitat for Humanity of Greater Indianapolis, Inc. (Habitat) as of and for the years ended December 31, 2016 and 2015, and our report thereon dated June 6, 2017, which expressed an unmodified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown in Exhibits I and II is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The information presented in Exhibit III has not been subjected to the same auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion or provide any assurance on it.

June 6, 2017

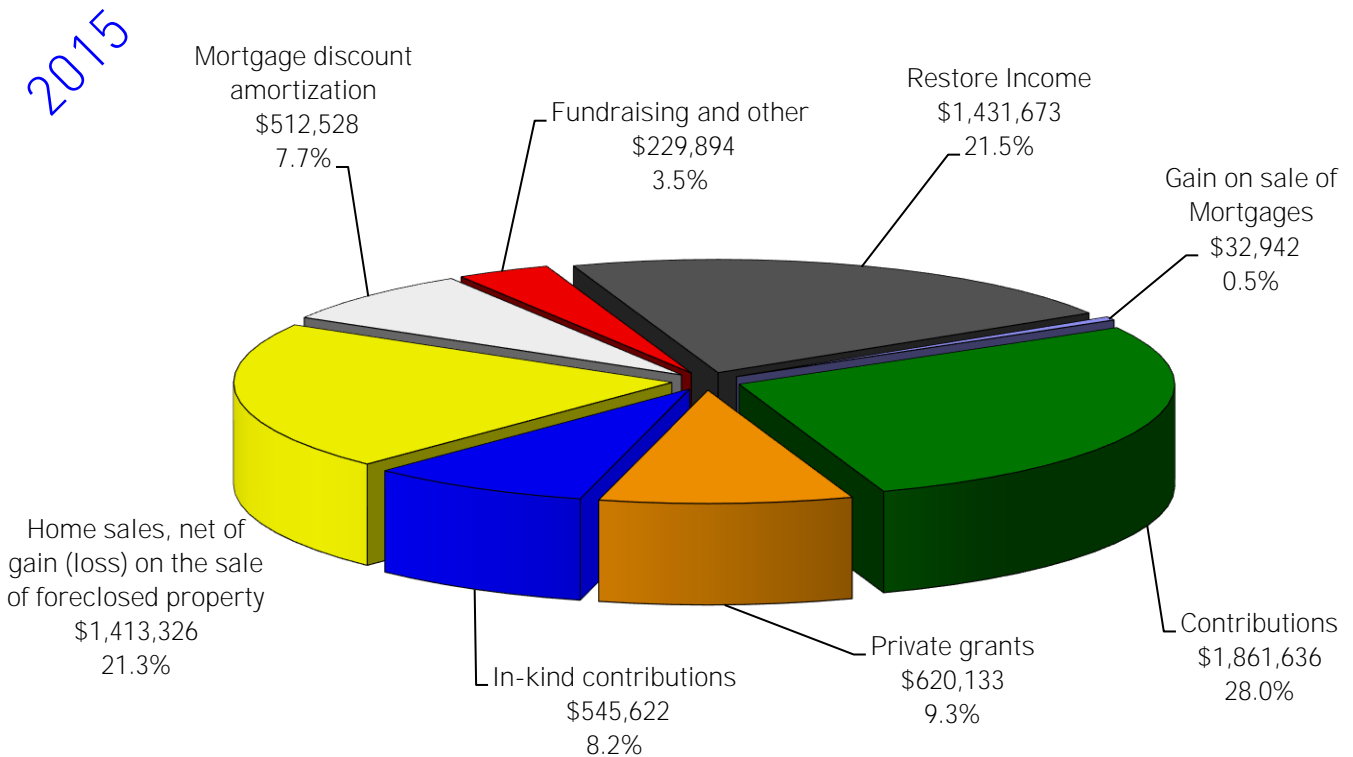
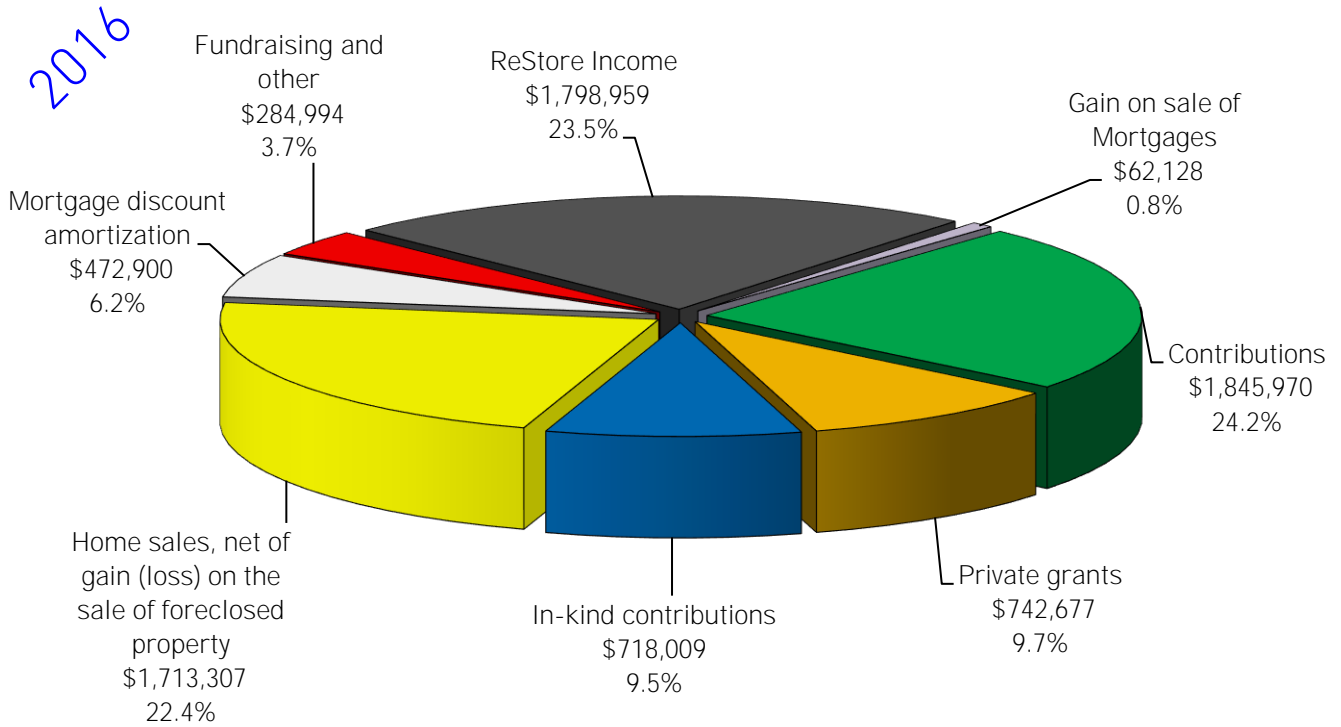
*Greenwalt CPAs, Inc.*

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

REVENUE GRAPHS, EXCLUDING INVESTMENT INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

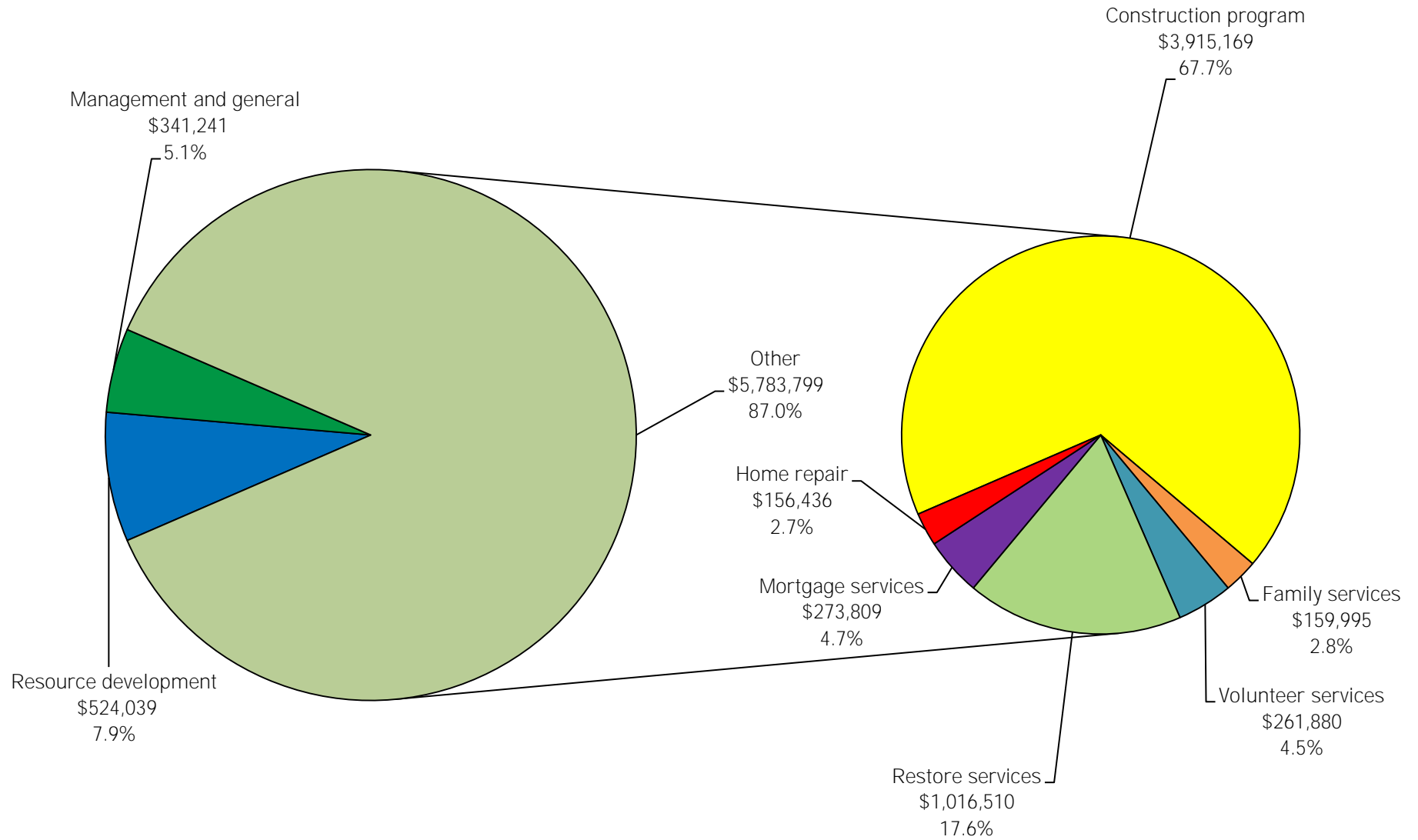
Exhibit I



HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

EXPENSE GRAPH

FOR THE YEAR ENDED DECEMBER 31, 2016



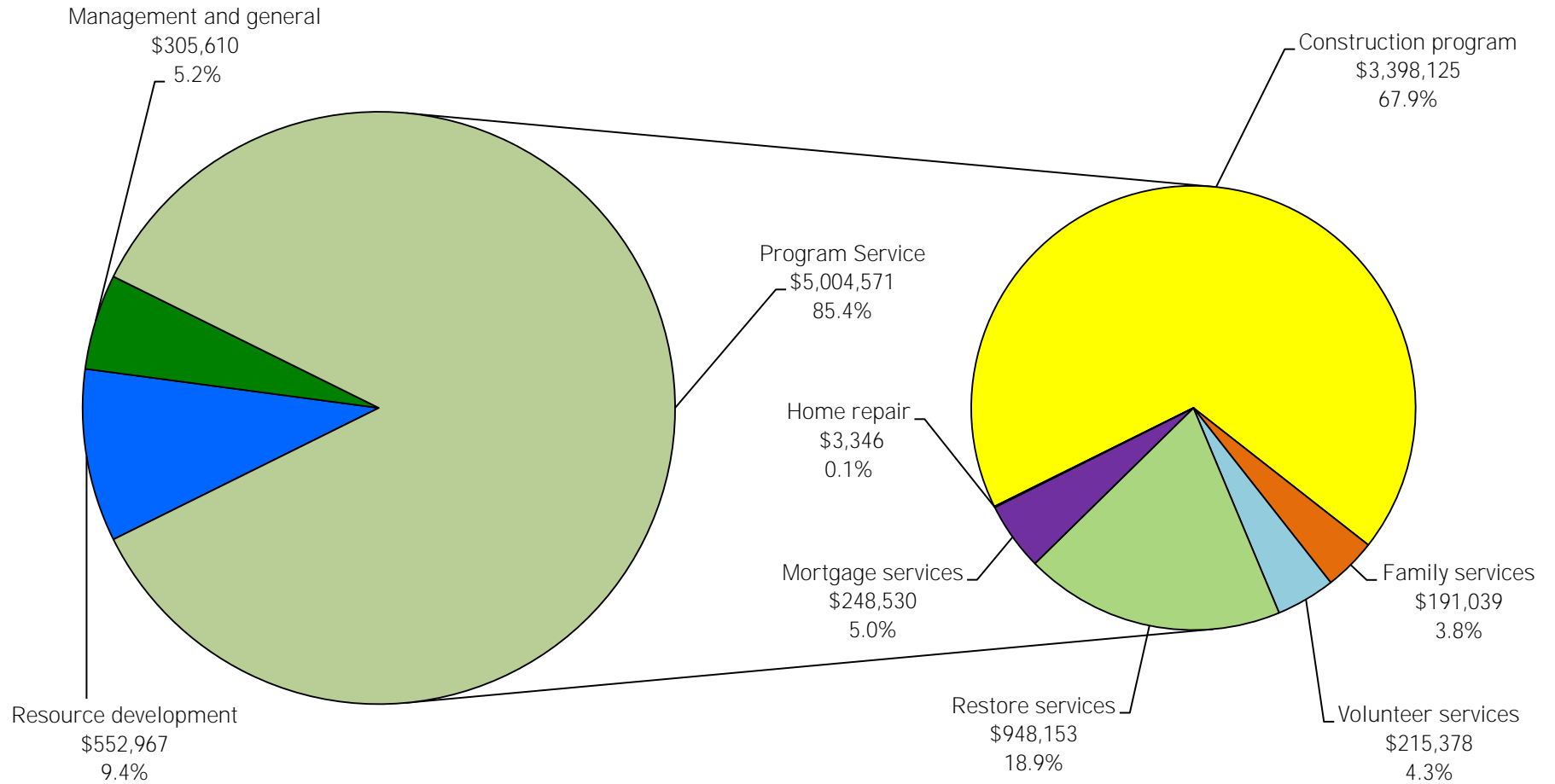
HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

EXPENSE GRAPH

FOR THE YEAR ENDED DECEMBER 31, 2015

Exhibit II

Page 2 of 2



HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.  
NUMBER OF HOUSES BUILT AND RECYCLED (UNAUDITED)  
FOR THE TEN YEARS ENDED DECEMBER 31, 2016

Exhibit III

