

**HABITAT FOR HUMANITY
OF GREATER INDIANAPOLIS, INC.**

FINANCIAL REPORT

December 31, 2018



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Greater Indianapolis, Inc.
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Greater Indianapolis, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

Auditor's 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 of 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 auditor's 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.

INDEPENDENT AUDITOR'S REPORT - continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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.

Pile CPAs

Indianapolis, Indiana
May 8, 2019

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
<u>ASSETS</u>		
Unrestricted cash	\$ 3,358,568	\$ 3,042,907
Cash limited as to use and timing	525,501	527,021
TOTAL CASH	<u>3,884,069</u>	<u>3,569,928</u>
Grants, sponsorships, and other receivables	675,477	1,161,329
Mortgage loans receivable, net	9,404,313	8,340,017
Inventory	211,814	196,758
Prepayments	121,163	13,428
Construction in progress	97,727	29,940
Land and homes available for resale and future builds	89,629	134,321
Property and equipment, net	2,822,507	2,787,152
Beneficial interest in assets held by others	74,058	76,969
	<u>\$ 17,380,757</u>	<u>\$ 16,309,842</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Mortgage service agreement, current portion	\$ 10,491	\$ 10,088
Notes payable, current portion	51,545	49,528
Accounts payable	306,550	318,045
Accrued expenses and other liabilities	118,184	122,701
Escrow liability, net	160,833	133,789
Deferred revenue	25,619	-
TOTAL CURRENT LIABILITIES	<u>673,222</u>	<u>634,151</u>
<u>LONG-TERM LIABILITIES</u>		
Mortgage service agreement, less current portion	260,972	271,464
Notes payable, less current portion	444,005	495,237
	<u>704,977</u>	<u>766,701</u>
<u>NET ASSETS</u>		
Without donor restrictions	15,328,403	14,150,002
With donor restrictions		
Time restrictions	632,107	716,940
Perpetual in nature	42,048	42,048
	<u>674,155</u>	<u>758,988</u>
TOTAL NET ASSETS	<u>16,002,558</u>	<u>14,908,990</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 17,380,757</u>	<u>\$ 16,309,842</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENTS OF ACTIVITIES

Year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>REVENUES AND SUPPORT</u>			
Contributions	\$ 2,401,463	\$ 361,371	\$ 2,762,834
Private grants	749,620	-	749,620
In-kind contributions	554,370	-	554,370
Panel builds	286,729	60,000	346,729
	<u>3,992,182</u>	<u>421,371</u>	<u>4,413,553</u>
Home sales	2,412,550	-	2,412,550
ReStore income	2,126,788	-	2,126,788
	<u>4,539,338</u>	<u>-</u>	<u>4,539,338</u>
Mortgage loan discount amortization	552,057	-	552,057
Investment income gain (loss)	4,594	(2,911)	1,683
Gain on sale of mortgages	-	-	-
Other income, net	178,494	-	178,494
Net assets released from restrictions	503,293	(503,293)	-
	<u>1,238,438</u>	<u>(506,204)</u>	<u>732,234</u>
TOTAL SUPPORT AND REVENUE	<u>9,769,958</u>	<u>(84,833)</u>	<u>9,685,125</u>
<u>EXPENSES</u>			
Program services	7,574,727	-	7,574,727
Supporting activities	1,016,830	-	1,016,830
	<u>8,591,557</u>	<u>-</u>	<u>8,591,557</u>
TOTAL EXPENSES	<u>8,591,557</u>	<u>-</u>	<u>8,591,557</u>
CHANGE IN NET ASSETS	1,178,401	(84,833)	1,093,568
<u>NET ASSETS</u>			
Beginning of year	<u>14,150,002</u>	<u>758,988</u>	<u>14,908,990</u>
End of year	<u>\$ 15,328,403</u>	<u>\$ 674,155</u>	<u>\$ 16,002,558</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENTS OF ACTIVITIES - continued

Year ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>REVENUES AND SUPPORT</u>			
Contributions	\$ 2,858,437	\$ 541,000	\$ 3,399,437
Private grants	678,725	125,000	803,725
In-kind contributions	688,730	-	688,730
Panel builds	196,300	15,000	211,300
	<u>4,422,192</u>	<u>681,000</u>	<u>5,103,192</u>
Home sales	2,246,217	-	2,246,217
ReStore income	2,029,329	-	2,029,329
	<u>4,275,546</u>	<u>-</u>	<u>4,275,546</u>
Mortgage loan discount amortization	527,478	-	527,478
Investment income gain (loss)	1,628	8,690	10,318
Gain on sale of mortgages	93,825	-	93,825
Other income, net	77,015	-	77,015
Net assets released from restrictions	254,050	(254,050)	-
	<u>953,996</u>	<u>(245,360)</u>	<u>708,636</u>
TOTAL SUPPORT AND REVENUE	<u>9,651,734</u>	<u>435,640</u>	<u>10,087,374</u>
<u>EXPENSES</u>			
Program services	6,774,030	-	6,774,030
Supporting activities	1,022,577	-	1,022,577
TOTAL EXPENSES	<u>7,796,607</u>	<u>-</u>	<u>7,796,607</u>
CHANGE IN NET ASSETS	1,855,127	435,640	2,290,767
<u>NET ASSETS</u>			
Beginning of year	<u>12,294,875</u>	<u>323,348</u>	<u>12,618,223</u>
End of year	<u>\$ 14,150,002</u>	<u>\$ 758,988</u>	<u>\$ 14,908,990</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended December 31, 2018

	Program Services					Supporting Activities				
	Construction Program	Home-ownership Services	Volunteer Services	Home Repairs	ReStore Services	Total Program	Fundraising Resource Development	Mgmt. and General	Total Supporting	Total
Costs of homes	\$ 2,482,094	\$ -	\$ -	\$ -	\$ -	\$ 2,482,094	\$ -	\$ -	\$ -	\$ 2,482,094
Mortgage discount	974,515	-	-	-	-	974,515	-	-	-	974,515
Salaries and wages	406,281	235,056	129,782	192,226	974,371	1,937,716	398,076	203,900	601,976	2,539,692
Retirement	6,442	3,448	2,406	1,956	9,118	23,370	6,605	3,959	10,564	33,934
Travel, seminars, and meetings	1,242	4,464	2,746	124	34,016	42,592	7,826	29,277	37,103	79,695
Maintenance and utilities	61,607	-	-	5,754	112,536	179,897	-	48,909	48,909	228,806
Telephone and communications	11,131	6,376	5,852	5,507	17,196	46,062	10,211	6,146	16,357	62,419
Bank and credit card fees	-	18,736	-	-	35,162	53,898	11,397	3,869	15,266	69,164
Computer and technology	2,671	10,031	1,970	1,217	4,785	20,674	15,559	5,723	21,282	41,956
Advertising	-	14,050	-	-	15,686	29,736	3,600	-	3,600	33,336
Printing, publications, and postage	2,057	6,771	2,058	1,025	4,952	16,863	15,660	5,181	20,841	37,704
Fundraising and promotional events	-	3,708	-	-	2,475	6,183	110,314	-	110,314	116,497
Depreciation	92,875	-	-	-	66,383	159,258	-	29,338	29,338	188,596
Tithings to Habitat International	75,000	-	-	-	-	75,000	-	-	-	75,000
Professional fees	-	-	-	-	26,720	26,720	-	26,286	26,286	53,006
Indirect construction costs	280,730	-	14,140	23,546	1,658	320,074	16,721	860	17,581	337,655
Mortgage service expense	-	88,429	-	-	-	88,429	-	(10,088)	(10,088)	78,341
Interest	-	-	-	-	19,001	19,001	-	-	-	19,001
Contracted services	896	2,988	-	-	55,018	58,902	4,135	-	4,135	63,037
Miscellaneous	102,352	17,197	4,351	538	45,259	169,697	6,130	9,500	15,630	185,327
In-kind	498,562	-	-	-	-	498,562	-	-	-	498,562
Insurance	124,089	22,952	16,616	13,131	49,825	226,613	33,689	14,047	47,736	274,349
Repair expense	-	-	-	118,871	-	118,871	-	-	-	118,871
	<u>\$ 5,122,544</u>	<u>\$ 434,206</u>	<u>\$ 179,921</u>	<u>\$ 363,895</u>	<u>\$ 1,474,161</u>	<u>\$ 7,574,727</u>	<u>\$ 639,923</u>	<u>\$ 376,907</u>	<u>\$ 1,016,830</u>	<u>\$ 8,591,557</u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - continued

Year ended December 31, 2017

	Program Services					Supporting Activities				Total
	Construction Program	Home-ownership Services	Volunteer Services	Home Repairs	ReStore Services	Total Program	Fundraising Resource Development	Mgmt. and General	Total Supporting	
Costs of homes	\$ 2,019,765	\$ -	\$ -	\$ -	\$ -	\$ 2,019,765	\$ -	\$ -	\$ -	\$ 2,019,765
Mortgage discount	890,800	-	-	-	-	890,800	-	-	-	890,800
Salaries and wages	373,410	232,378	131,070	160,230	863,304	1,760,392	334,592	220,318	554,910	2,315,302
Retirement	6,077	3,897	1,174	2,049	6,816	20,013	5,647	4,043	9,690	29,703
Travel, seminars, and meetings	1,204	3,628	2,599	231	22,191	29,853	5,193	34,834	40,027	69,880
Maintenance and utilities	49,510	-	-	3,207	79,814	132,531	-	45,664	45,664	178,195
Telephone and communications	13,677	7,515	7,874	5,741	14,184	48,991	9,990	9,700	19,690	68,681
Bank and credit card fees	-	15,421	-	-	32,819	48,240	23,110	2,426	25,536	73,776
Computer and technology	2,811	14,242	7,997	1,138	2,454	28,642	13,363	10,198	23,561	52,203
Advertising	-	-	-	-	1,744	1,744	28,962	-	28,962	30,706
Printing, publications, and postage	1,455	3,735	2,813	820	665	9,488	18,020	5,755	23,775	33,263
Fundraising and promotional events	-	870	-	-	-	870	97,328	-	97,328	98,198
Depreciation	134,874	-	-	-	5,278	140,152	-	25,819	25,819	165,971
Tithings to Habitat International	80,000	-	-	-	-	80,000	-	-	-	80,000
Professional fees	-	-	-	-	-	-	-	19,985	19,985	19,985
Indirect construction costs	118,227	-	12,350	13,666	808	145,051	12,900	2,814	15,714	160,765
Mortgage service expense	-	78,851	-	-	-	78,851	-	(8,489)	(8,489)	70,362
Interest	-	-	-	-	20,957	20,957	-	-	-	20,957
Contracted services	971	-	-	-	46,707	47,678	18,198	-	18,198	65,876
Miscellaneous	55,405	13,622	5,526	240	54,998	129,791	2,750	52,902	55,652	185,443
In-kind	695,148	-	-	-	6,551	701,699	-	-	-	701,699
Insurance	98,785	22,531	27,060	10,026	29,832	188,234	16,915	9,640	26,555	214,789
Repair expense	-	-	-	250,288	-	250,288	-	-	-	250,288
	<u>\$ 4,542,119</u>	<u>\$ 396,690</u>	<u>\$ 198,463</u>	<u>\$ 447,636</u>	<u>\$ 1,189,122</u>	<u>\$ 6,774,030</u>	<u>\$ 586,968</u>	<u>\$ 435,609</u>	<u>\$ 1,022,577</u>	<u>\$ 7,796,607</u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,093,568	\$ 2,290,767
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Gain) loss on disposal of property and equipment	929	(7,649)
(Gain) loss on sale of property	22,237	-
(Gain) loss on the sale of mortgages	-	(93,825)
Depreciation	188,596	165,971
Mortgage discount expense	974,515	890,800
Amortization of discount on mortgage loans receivable	(286,915)	(412,056)
Unrealized (gain) loss on beneficial interest	2,911	(8,690)
Donated housing supplies and property	(554,370)	(688,730)
(Increase) decrease in:		
Grants, sponsorships, and other receivables	485,852	(472,557)
Inventory	(7,039)	(1,523)
Prepayments	(107,735)	(3,755)
Increase (decrease) in:		
Accounts payable	(11,495)	36,415
Accrued expenses and other liabilities	21,102	(9,386)
Mortgage service agreement	(10,089)	36,267
Escrow liability	27,044	9,069
Net cash provided by operating activities	<u>1,839,111</u>	<u>1,731,118</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Collections of mortgage loans receivable	981,457	866,746
Purchases of property and equipment	(224,880)	(168,548)
Proceeds from sale of assets	-	9,681
Purchase of vacant lots	(224,356)	(61,231)
Construction in progress additions	<u>(2,007,976)</u>	<u>(1,404,571)</u>
Net cash (used in) investing activities	<u>(1,475,755)</u>	<u>(757,923)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from the sale of mortgages	-	353,786
Payments on notes payable	<u>(49,215)</u>	<u>(47,264)</u>
Net cash provided by financing activities	<u>(49,215)</u>	<u>306,522</u>
Increase in cash and cash equivalents	314,141	1,279,717
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning	<u>3,569,928</u>	<u>2,290,211</u>
Ending	<u>\$ 3,884,069</u>	<u>\$ 3,569,928</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

STATEMENT OF CASH FLOWS - continued

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>SUPPLEMENTAL DISCLOSURE OF NON-CASH</u>		
<u>INVESTING AND FINANCING ACTIVITIES</u>		
Change in donated ReStore inventory	\$ 8,017	\$ 19,367
Donated vacant lots	20,300	85,600
Donated home and foreclosed homes available	17,828	96,690
Donated housing supplies	508,225	487,073
	<u>\$ 554,370</u>	<u>\$ 688,730</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Habitat for Humanity of Greater Indianapolis, Inc., d/b/a Greater Indy Habitat, (the "Organization") 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"). The Organization is a nondenominational Christian organization whose purpose is to collaborate 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. We envision a world where everyone has a decent place to live. The Organization operates throughout Marion, Hendricks and Hancock County.

Although Habitat International assists with informational resources, training, publications and prayer support, the Organization is primarily and directly responsible for its own operations. Major sources of revenue for the Organization include contributions from the general public, ReStore income and sales of homes.

A summary of the Organization's significant accounting policies is as follows:

A. Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting.

B. Basis of Presentation

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with accounting principles generally accepted in the United States of America. This has been done by classification of fund transactions and balances into two categories of net assets:

Net Assets without donor restrictions: These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net Assets with Donor Restrictions: These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

C. Cash

The Organization maintains cash balances at two commercial banks. The Organization maintains its cash in banks accounts which, at times, may exceed federally insured limits. To date, there have been no losses on such accounts.

D. 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 the Organization's various ReStores. ReStore inventory is valued based on an average month of ReStore sales.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

E. 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.

F. Support and Revenue

The Organization 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, 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. Restricted contributions received for which the restrictions are met in the same year are reported as net assets without donor restriction support by the Organization.

G. 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, the Organization receives in-kind contributions, primarily construction materials and parcels of land, from various donors. It is the policy of the Organization 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 the Organization's program services. While the Organization does not have a method to value volunteers' time on an hourly basis, it has reflected the increased value of installed materials versus uninstalled materials as an in-kind contribution.

H. Fundraising Activities

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

I. Advertising Expense

Advertising costs are expensed as incurred. Advertising expense was \$33,336 and \$30,706 for the years ended December 31, 2018 and 2017, respectively.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

J. Sales Tax Collected

The State of Indiana imposes a sales tax on all of the Organization's ReStore sales. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

K. Expense Allocation

Expenses have been classified as programming and support services based on the actual direct expenditures and cost allocation based on estimates of time and usage by Organization personnel and programs.

L. Tax Status

The Organization is exempt from federal and state income taxes on its related activities under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been made

The Organization files the required federal and state information returns. Whenever tax returns are filed, the filing Organization must evaluate the merits of its tax positions and determine if they will be ultimately sustained. Those tax positions for the Organization include maintaining their tax-exempts status and the taxability of any unrelated business income. The Organization believes these positions are sustainable. Although the Organization has not incurred any interest and penalties associated with these positions, it is their policy to expense them in the statement of activities.

M. Use of 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 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.

N. Reclassifications

Certain prior year balances have been reclassified to conform with current year classifications and presentations.

O. Subsequent Events

The Organization has evaluated subsequent events through May 8, 2019, which is the date the financial statements were available to be issued.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 2 RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities. The standard aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications has been reduced from three classes (unrestricted, temporarily restricted and permanently restricted to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements are presented regarding risk exposure and availability of cash for short term use. Expenses are reported by both their natural and functional classification to aid in the usefulness of financial statements. The Organization adopted this standard for the year ending December 31, 2018 and applied it retrospectively.

NOTE 3 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contract with customers. This standard will be effective for the entity for the year ending December 31, 2019. The Organization is currently in the process of evaluating the effect of adoption of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and corresponding lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either finance or operating, and this distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the entity for the year ending December 31, 2020. The Organization is currently in the process of evaluating the effect of adoption of this ASU on its financial statements.

NOTE 4 LIQUIDITY AND AVAILABILITY

The Organization has diverse revenue streams that include contributions, income from ReStore operations, and sale of homes. In 2019, the Organization will be working on a new strategic plan to direct focus and expend capital in key areas such as ReStore growth, land acquisition, and increasing housing solutions.

The Organization's financial health is monitored through monthly reporting to the Board of Directors. The Organization maintains an operating reserve and investment policy, gift acceptance policy, and mortgage leveraging policy to help ensure proper management of financial assets.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 4 LIQUIDITY AND AVAILABILITY - continued

The table below represents financial assets available for general expenditures within one year at December 31, 2018:

	<u>2018</u>
Financial assets at year-end:	
Cash and cash equivalents	\$ 3,884,069
Grants, sponsorships, and other receivables	675,477
Mortgage loans receivable, net	9,404,313
Prepayments	121,163
Beneficial interest in assets held by others	<u>74,058</u>
Total financial assets	<u>14,159,080</u>
Less amounts not available to be used within one year:	
Cash limited to as to use and timing	(525,501)
Beneficial interest in assets held by others	(74,058)
Estimated principal payments to be received after one year	(791,933)
Donor-imposed restrictions	<u>(600,097)</u>
Financial assets not available to be used within one year	<u>(1,991,589)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 12,167,491</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 529,850	\$ 529,850
Buildings, warehouse, and improvements	2,750,620	2,607,562
Construction equipment	131,612	81,220
Office equipment	238,397	247,238
Vehicles	<u>253,506</u>	<u>232,406</u>
	3,903,985	3,698,276
Accumulated depreciation	<u>(1,081,478)</u>	<u>(911,124)</u>
	<u>\$ 2,822,507</u>	<u>\$ 2,787,152</u>

NOTE 6 INVENTORY

Inventory consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Construction materials and supplies	\$ 35,470	\$ 25,850
Restore inventory	<u>176,344</u>	<u>170,908</u>
	<u>\$ 211,814</u>	<u>\$ 196,758</u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 7 BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization maintains an Endowment Fund (the "Fund") with the Central Indiana Community Foundation ("CICF"). The primary purpose of the Fund is to provide support to the Organization to carry out its role and mission. All gifts, bequests and devises to this Fund shall be irrevocable once accepted by CICF. The Organization believes the fair value of the future cash flows to be received from its beneficial interest in assets held by CICF approximates the fair value of the underlying assets held by CICF. The assets held at CICF are entirely comprised of pooled investment funds held and managed by CICF. Fair value is based on the net asset value per share as determined by CICF and provided to the Organization. The Fund consists of equities, fixed income, venture capital and private equity, marketable alternatives, real assets, and cash equivalent funds. The investment is directed by CICF and the portfolio is designed to achieve returns consistent with CICF's adopted investment policies. The Organization is the only beneficiary of the investment earnings, which are distributed in accordance with the agreements between CICF and the Organization.

NOTE 8 FAIR VALUE MEASUREMENTS

The Organization utilizes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- **Level 1** Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- **Level 2** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- **Level 3** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. While the Organization believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 8 FAIR VALUE MEASUREMENTS - continued

During the years ended December 31, 2018 and 2017, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Beneficial interest in assets held by others: Determined by Organization's proportionate share of the CICF's pooled investment portfolio. The Organization does not receive a detailed listing of the portfolio's assets. The Organization uses the net asset value to determine the CICF valuation using the market approach.

Mortgage service agreement liability: Valued at the gross costs to service the mortgages less an estimated discount to present value at year-end.

Assets and liabilities measured at fair value as of December 31, 2018 and 2017 are summarized as follows:

	2018			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest in assets held by others	\$ 74,058	\$ -	\$ 74,058	\$ -
Mortgage service agreement liability	\$ 271,463	\$ -	\$ 271,463	\$ -
	2017			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest in assets held by others	\$ 76,969	\$ -	\$ 76,969	\$ -
Mortgage service agreement liability	\$ 281,552	\$ -	\$ 281,552	\$ -

Management evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total assets. For the years ended December 31, 2018 and 2017, there were no transfers in or out of Levels 1, 2 or 3.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 9 RETIREMENT PLAN

The Organization provides a simple IRA plan to eligible full-time employees. The Organization contributes 2% of annual compensation of each participant in the plan. Total employer contributions for the years ended December 31, 2018 and 2017 was \$33,933 and \$29,702, respectively.

NOTE 10 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 the Organization 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 \$50,000 to \$129,000. Mortgage terms range from 15 to 30 years.

Second mortgages are placed on the Organization's 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 the Organization 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 \$0 and \$125,000 at December 31, 2018 and 2017, respectively.

Mortgage loan receivables from homeowners that have filed for bankruptcy or where foreclosure proceedings have been field are \$67,890 and \$4,851 at December 31, 2018 and 2017, respectively.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 10 MORTGAGE LOANS RECEIVABLE - continued

Other past due mortgage loans receivable from homeowners 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>
2018	\$ <u>16,220</u>	\$ <u>1,080</u>	\$ <u>-</u>	\$ <u>17,300</u>
2017	\$ <u>17,291</u>	\$ <u>8,849</u>	\$ <u>1,352</u>	\$ <u>27,492</u>

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

	<u>2018</u>	<u>2017</u>
Mortgage loans receivable	\$ 15,192,857	\$ 13,831,103
Less: mortgage discounts	(5,788,544)	(5,366,086)
allowance for doubtful accounts	-	(125,000)
Mortgage loans receivable, net	<u>\$ 9,404,313</u>	<u>\$ 8,340,017</u>

NOTE 11 SALE OF MORTGAGE RECEIVABLES

At times, the Organization will sell certain mortgage loans receivable to banks. The Organization 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. The Organization 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 90 days, the Organization will replace the nonperforming loan with a substitute loan.

The Organization 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, the Organization 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 year ended December 31:

	<u>2018</u>	<u>2017</u>
Cash proceeds from sale	\$ -	\$ 353,786
Less: fair value of loans transferred	-	(215,205)
loan servicing obligation	-	(44,755)
Gain recognized on sale	<u>\$ -</u>	<u>\$ 93,825</u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 11 SALE OF MORTGAGE RECEIVABLES - continued

There were no delinquencies on the mortgage loans sold at December 31, 2018 and 2017. There were no credit losses during 2018 or 2017.

Assumptions as of sale date are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	N/A	4.0%
Weighted-average life of loans	N/A	24 years
Annual service cost per loan	N/A	\$ 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>2018</u>	<u>2017</u>
Discount rate	4.5%	4.5%
Effect of:		
10% adverse change	\$ 42,059	\$ 33,551
20% adverse change	52,241	43,957
Annual service costs per loan	610	610
Effect of:		
10% adverse change	7,747	2,872
20% adverse change	15,725	28,228

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.

Future servicing liabilities are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 21,350	\$ 21,350
One to five years	104,310	104,920
More than five years	289,140	309,880
Total mortgage service guarantees	414,800	436,150
Less: discounts to present value (4.50%)	(143,336)	(154,598)
Net mortgage service guarantees	<u>\$ 271,464</u>	<u>\$ 281,552</u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 12 ESCROW LIABILITY

At December 31, 2018 and 2017, the Organization 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 \$145,383 and \$117,349, respectively, has been recorded as a liability in the statements of financial position as of December 31, 2018 and 2017, respectively.

NOTE 13 LINE OF CREDIT

The Organization has a line of credit with a financial institution with a maximum debt facility of \$250,000. Amounts borrowed are secured by a commercial security agreement securing all assets of the Organization. There were no borrowings on the line of credit in 2018 and 2017. Interest is assessed at the prime rate. The effective rate at December 31, 2018 and 2017 was 5.50% and 4.50%, respectively.

NOTE 14 NOTES PAYABLE

Notes payable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Installment note, payable \$4,087 per month plus interest at 3.49% through June 2020, secured by building and land	\$ 463,360	\$ 495,397
Installment note, payable \$1,605 per month plus interest at 4.95% through September 2020, secured by building and land	32,190	49,368
	<u>495,550</u>	<u>544,765</u>
Less current maturities	<u>(51,545)</u>	<u>(49,528)</u>
	<u>\$ 444,005</u>	<u>\$ 495,237</u>

Scheduled maturities as of December 31, 2018 are as follows:

2019	\$ 51,545
2020	<u>444,005</u>
	<u>\$ 495,550</u>

The installment note requires the Organization to maintain specified financial covenants. At December 31, 2018 and 2017, the Organization was in compliance with these covenants.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 15 OPERATING LEASES

The Organization leases Hendricks barn storage and ReStore warehouse space on a month to month basis. Monthly payments under these leases total \$1,050. The Organization leases office equipment under operating leases which expire at various dates through July 2023. Monthly payments under these leases total \$686 per month. The Organization also leases trucks under operating leases that expire September 2022. Monthly lease payments for the trucks total \$3,903.

On February 23, 2018, the Organization signed a new lease for warehouse space in Marion County. The lease is for sixty-three months, expiring in April 2023. Monthly payments are \$8,283.63, which includes common area maintenance charges, through April 2019. Rent shall increase each May by three percent.

Total lease expense included in the statements of activities was \$140,239 and \$61,673 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under these obligations are as follows:

	<u>Storage & Warehouse</u>	<u>Equipment</u>	<u>Trucks</u>	<u>Total</u>
2019	\$ 114,745	\$ 8,231	\$ 46,842	\$ 169,818
2020	102,145	8,231	39,242	149,618
2021	102,145	6,711	16,442	125,298
2022	102,145	2,568	12,331	117,044
2023	34,048	1,498	-	35,546
	<u>\$ 455,228</u>	<u>\$ 27,239</u>	<u>\$ 114,857</u>	<u>\$ 597,324</u>

NOTE 16 RELATED PARTY TRANSACTIONS

The Organization remits annually a portion of its contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. The Organization contributed \$75,000 and \$80,000 in 2018 and 2017 respectively.

During 2018 and 2017, the Organization paid \$25,000 of annual affiliate fees to Habitat International.

Total amounts payable to Habitat International as of December 31, 2018 and 2017 was \$100,000 and \$105,000, respectively.

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 17 NET ASSETS

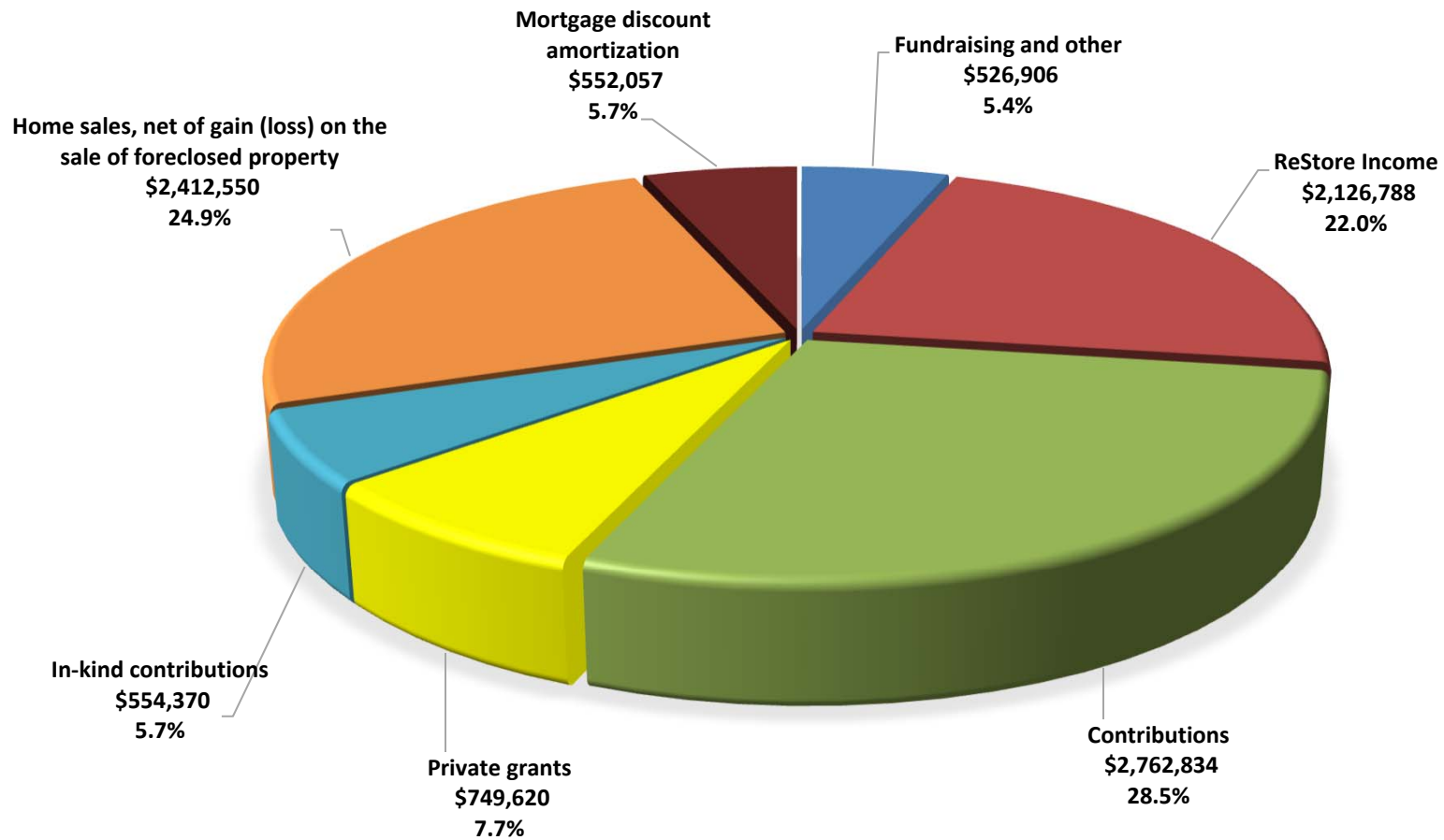
Net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Without donor restrictions:	\$ 15,328,403	\$ 14,150,002
With donor restrictions:		
Time restrictions:		
Household sponsorships - future builds	\$ 166,371	\$ 256,000
Operating and housing support	433,726	426,020
Beneficial interest in assets held by CICF	32,010	34,920
Perpetual in nature:		
Beneficial interest in assets held by CICF	<u>42,048</u>	<u>42,048</u>
	<u>\$ 674,155</u>	<u>\$ 758,988</u>

HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

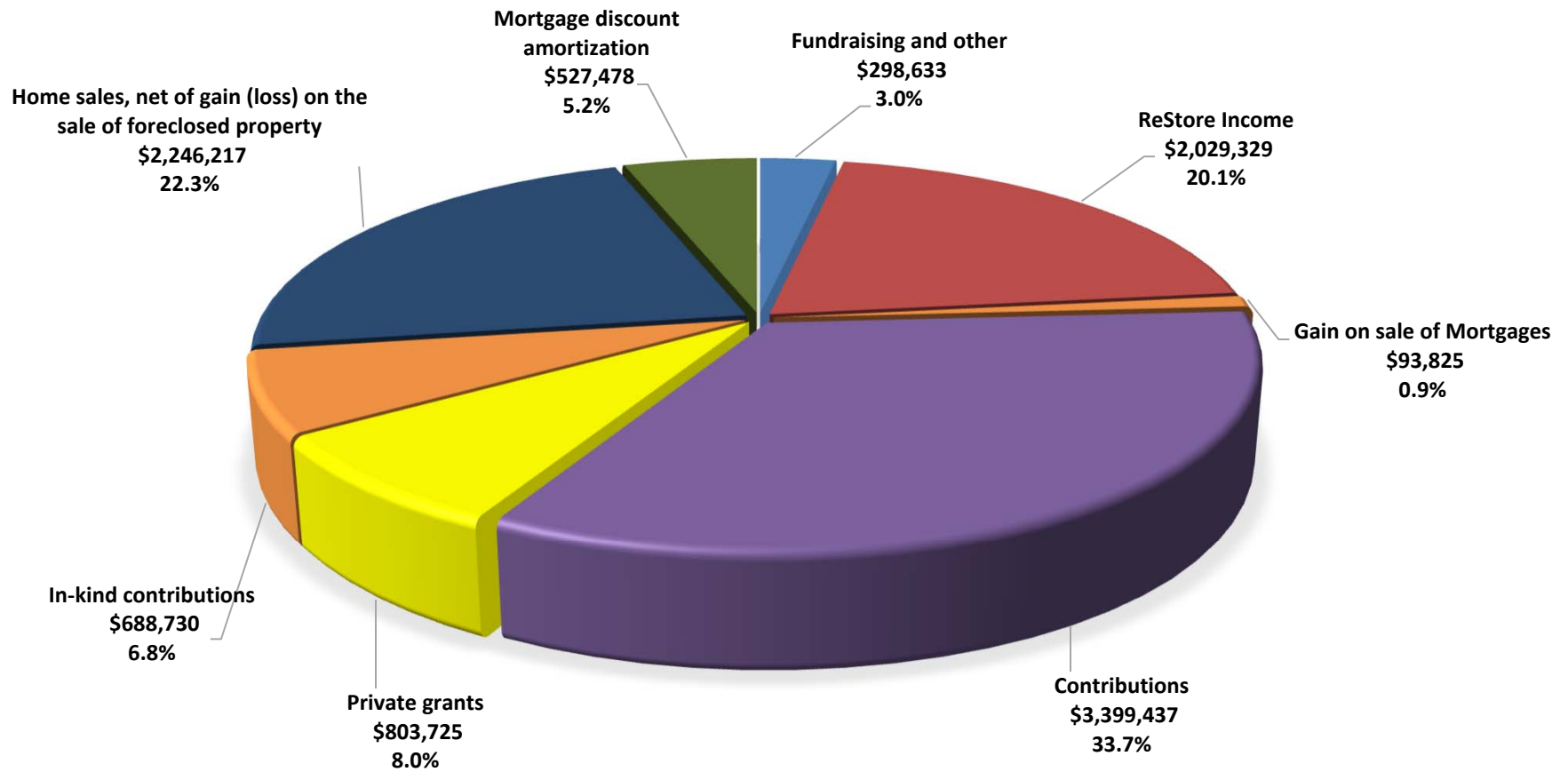
REVENUE GRAPHS

Year ended December 31, 2018
See Independent Auditor's Report



HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

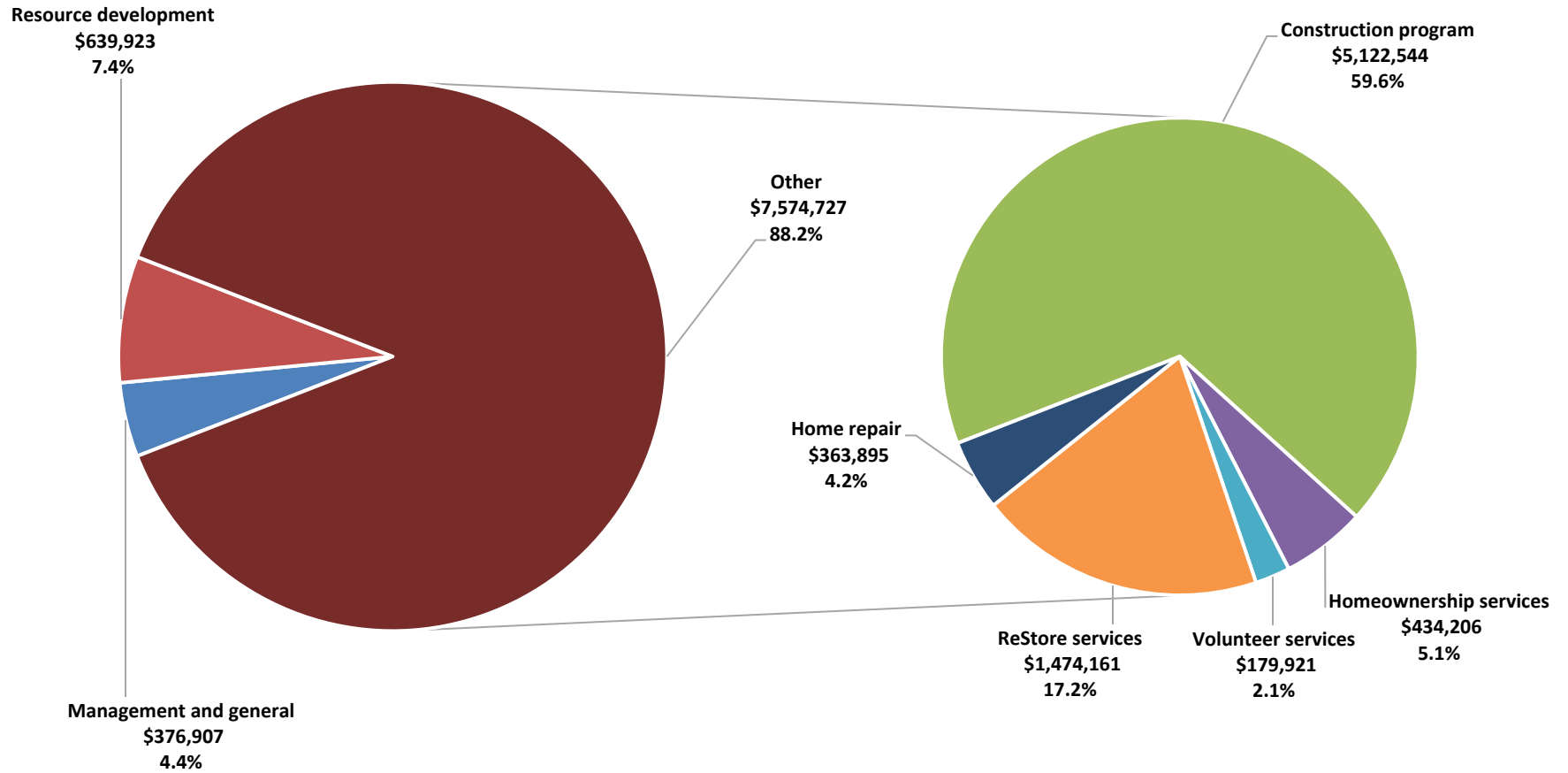
REVENUE GRAPHS - continued
Year ended December 31, 2017
See Independent Auditor's Report



HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

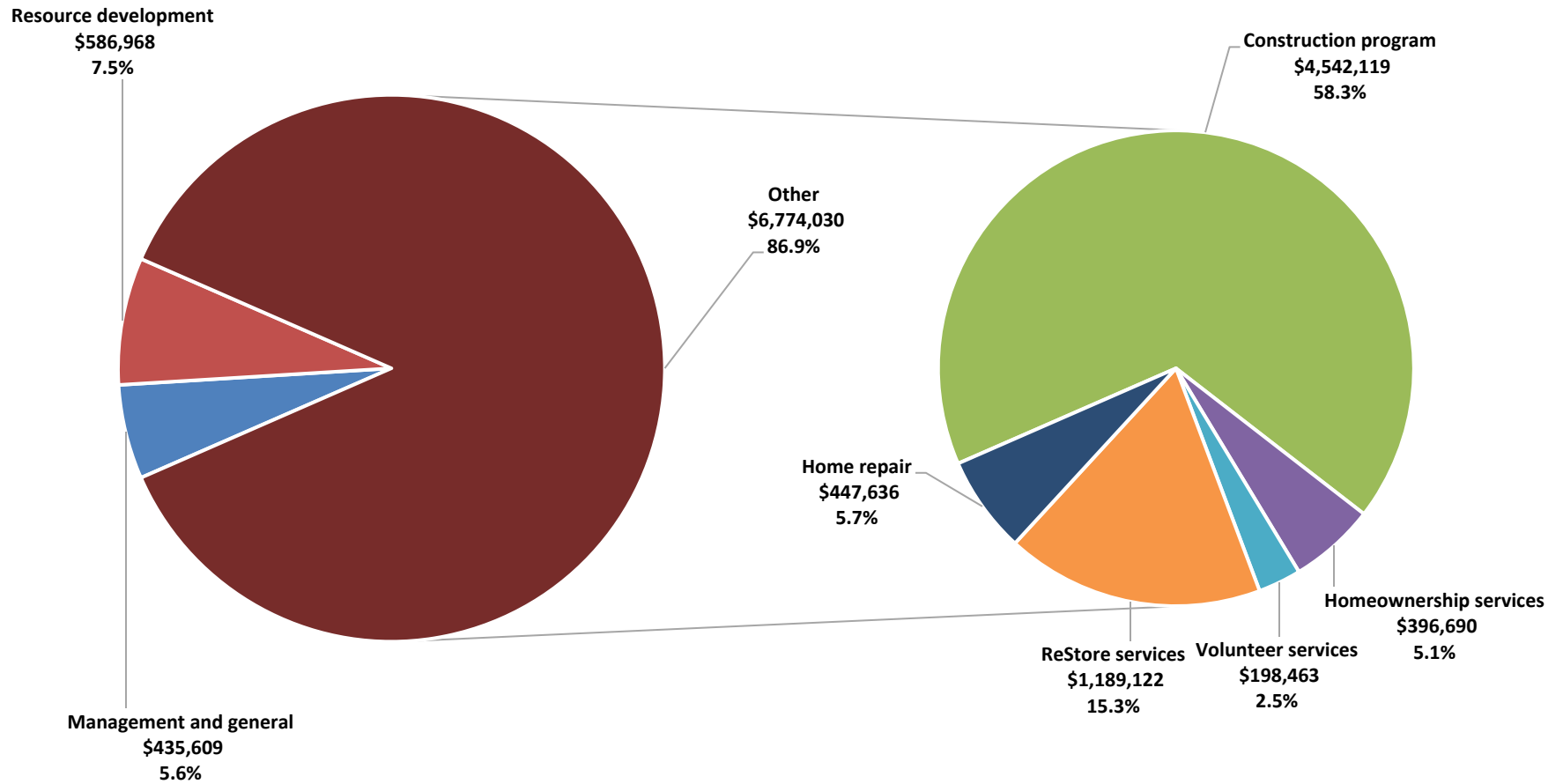
EXPENSE GRAPHS

Year ended December 31, 2018
See Independent Auditor's Report



HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

EXPENSE GRAPHS - continued
Year ended December 31, 2017
See Independent Auditor's Report



HABITAT FOR HUMANITY OF GREATER INDIANAPOLIS, INC.

NUMBER OF HOUSES BUILT AND REHABBED (UNAUDITED)

Year ended December 31, 2018

See Independent Auditor's Report

