

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
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YEARS ENDED JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
HFH of Douglas County, Minnesota, Inc.
Alexandria, Minnesota

We have audited the accompanying financial statements of HFH of Douglas County, Minnesota, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
HFH of Douglas County, Minnesota, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HFH of Douglas County, Minnesota, Inc., as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 26, 2019

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 434,579	526,458
Accounts Receivable	11,565	11,130
Current Mortgages Receivable, Net of Current Discount	47,517	56,598
Pledges Receivable	22,675	23,475
Construction in Progress	325,431	195,794
Inventory	15,315	105,942
Prepaid Expenses	2,894	2,894
Total Current Assets	<u>859,976</u>	<u>922,291</u>
MORTGAGES RECEIVABLE, Net of Current Portion and Discount	570,635	530,124
PROPERTY AND EQUIPMENT (at Cost)		
Land	418,266	418,266
Building and Improvements	764,058	555,185
Equipment	56,492	56,492
Construction in Progress	-	117,066
Total Property and Equipment	<u>1,238,816</u>	<u>1,147,009</u>
Less: Accumulated Depreciation	<u>(182,942)</u>	<u>(141,943)</u>
Net Property and Equipment (at Depreciated Cost)	1,055,874	1,005,066
OTHER ASSETS		
Pledges Receivable, Net of Current Portion	-	6,000
Notes Receivable	13,507	4,419
Land Held for Development	-	68,138
Total Other Assets	<u>13,507</u>	<u>78,557</u>
 Total Assets	 <u><u>\$ 2,499,992</u></u>	 <u><u>\$ 2,536,038</u></u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 55,972	\$ 86,545
Payroll Liabilities	26,118	26,811
Accrued Expenses	15,733	9,764
Current Long-Term Debt, Net of Discount	<u>28,158</u>	<u>29,627</u>
Total Current Liabilities	125,981	152,747
 LONG-TERM DEBT, Net of Current Portion and Discount	 <u>436,415</u>	 <u>464,666</u>
 Total Liabilities	 562,396	 617,413
 NET ASSETS		
Without Donor Restrictions	1,933,938	1,881,136
With Donor Restrictions	<u>3,658</u>	<u>37,489</u>
Total Net Assets	<u>1,937,596</u>	<u>1,918,625</u>
 Total Liabilities and Net Assets	 <u><u>\$ 2,499,992</u></u>	 <u><u>\$ 2,536,038</u></u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT						
Home Sales	\$ 587,195	\$ -	\$ 587,195	\$ 564,152	\$ -	\$ 564,152
ReStore Sales	248,483	-	248,483	250,752	-	250,752
Contributions	249,899	17,620	267,519	158,218	40,800	199,018
Donated Materials	55,370	-	55,370	46,021	-	46,021
Contributed Services	40,469	-	40,469	47,336	-	47,336
Grants	-	116,169	116,169	-	113,869	113,869
Special Events	22,450	-	22,450	21,650	-	21,650
Interest Income	1,055	-	1,055	897	-	897
Gain on Sale of Building	-	-	-	33,851	-	33,851
Mortgage Discount Revenue-Retired Loans	-	-	-	119,687	-	119,687
Mortgage Discount Amortization	50,025	-	50,025	47,964	-	47,964
Net Assets Released from Restrictions	167,620	(167,620)	-	142,180	(142,180)	-
Total Revenues and Support	1,422,566	(33,831)	1,388,735	1,432,708	12,489	1,445,197
EXPENSES						
Program Services:						
Affordable Housing Costs	1,114,862	-	1,114,862	979,294	-	979,294
ReStore	157,749	-	157,749	154,989	-	154,989
Total Program Services	1,272,611	-	1,272,611	1,134,283	-	1,134,283
Supporting Services:						
Management and General	66,470	-	66,470	73,776	-	73,776
Fundraising	30,683	-	30,683	25,952	-	25,952
Total Supporting Services	97,153	-	97,153	99,728	-	99,728
Total Expenses	1,369,764	-	1,369,764	1,234,011	-	1,234,011
TOTAL CHANGE IN NET ASSETS	52,802	(33,831)	18,971	198,697	12,489	211,186
Net Assets - Beginning of Year	1,881,136	37,489	1,918,625	1,682,439	25,000	1,707,439
NET ASSETS - END OF YEAR	<u>\$ 1,933,938</u>	<u>\$ 3,658</u>	<u>\$ 1,937,596</u>	<u>\$ 1,881,136</u>	<u>\$ 37,489</u>	<u>\$ 1,918,625</u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	2019					
	Program Services			Supporting Services		
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	Total Expenses
Bad Debts	\$ -	\$ -	\$ -	\$ 200	\$ -	\$ 200
Conferences and Conventions	2,891	-	2,891	-	-	2,891
Construction Costs	677,732	-	677,732	-	-	677,732
Depreciation	9,716	30,571	40,287	509	203	40,999
Dues and Subscriptions	2,911	3,283	6,194	-	-	6,194
Employee Benefits	9,198	4,236	13,434	1,718	910	16,062
Equipment Lease	3,195	901	4,096	-	-	4,096
Fees	4,983	6,029	11,012	784	408	12,204
Insurance	15,626	6,697	22,323	-	-	22,323
Interest	11,415	3,834	15,249	-	-	15,249
Loan Discount Amortization	16,764	-	16,764	-	-	16,764
Miscellaneous	3,086	-	3,086	2,985	-	6,071
Mortgage Discount Expense-New Loans	82,545	-	82,545	-	-	82,545
Occupancy	7,108	9,177	16,285	-	-	16,285
Office Expenses	10,976	3,096	14,072	-	-	14,072
Payroll	150,881	69,486	220,367	28,189	14,932	263,488
Payroll Taxes	14,158	6,520	20,678	2,645	1,401	24,724
Postage and Shipping	2,309	346	2,655	103	689	3,447
Printing and Publications	6,555	978	7,533	293	1,957	9,783
Professional Fees	1,312	683	1,995	28,897	650	31,542
Public Relations	20,136	-	20,136	-	-	20,136
Repairs and Maintenance	4,582	6,635	11,217	-	-	11,217
Special Events	2,120	-	2,120	-	9,459	11,579
Supplies	11,028	736	11,764	147	74	11,985
Telephone	2,496	2,496	4,992	-	-	4,992
Tithe to Habitat For Humanity International, Inc.	32,421	-	32,421	-	-	32,421
Travel	8,718	2,045	10,763	-	-	10,763
Total	\$ 1,114,862	\$ 157,749	\$ 1,272,611	\$ 66,470	\$ 30,683	\$ 1,369,764

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	2018					
	Program Services			Supporting Services		
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	Total Expenses
Bad Debts	\$ -	\$ -	\$ -	\$ 535	\$ -	\$ 535
Conferences and Conventions	2,038	-	2,038	-	-	2,038
Construction Costs	619,168	-	619,168	-	-	619,168
Depreciation	7,420	24,710	32,130	1,727	691	34,548
Dues and Subscriptions	3,210	3,620	6,830	-	-	6,830
Employee Benefits	10,450	4,878	15,328	2,225	758	18,311
Equipment Lease	3,611	1,018	4,629	-	-	4,629
Fees	4,834	4,379	9,213	756	302	10,271
Insurance	15,273	6,545	21,818	-	-	21,818
Interest	12,340	5,128	17,468	-	-	17,468
Loan Discount Amortization	16,764	-	16,764	-	-	16,764
Miscellaneous	90	-	90	1,359	-	1,449
Mortgage Discount Expense-New Loans	24,995	-	24,995	-	-	24,995
Occupancy	6,743	10,230	16,973	-	-	16,973
Office Expenses	4,550	1,283	5,833	-	-	5,833
Payroll	167,709	78,289	245,998	35,716	12,160	293,874
Payroll Taxes	12,796	5,974	18,770	2,725	928	22,423
Postage and Shipping	1,914	286	2,200	86	572	2,858
Printing and Publications	4,411	658	5,069	198	1,317	6,584
Professional Fees	1,429	125	1,554	28,288	1,479	31,321
Public Relations	18,732	-	18,732	-	-	18,732
Repairs and Maintenance	3,448	4,028	7,476	-	-	7,476
Special Events	1,574	-	1,574	-	7,666	9,240
Supplies	8,368	803	9,171	161	79	9,411
Telephone	1,967	1,968	3,935	-	-	3,935
Tithe to Habitat For Humanity International, Inc.	20,911	-	20,911	-	-	20,911
Travel	4,549	1,067	5,616	-	-	5,616
Total	\$ 979,294	\$ 154,989	\$ 1,134,283	\$ 73,776	\$ 25,952	\$ 1,234,011

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributors and Grants	\$ 380,965	\$ 292,194
Cash Received from Sales and Special Events	717,666	796,149
Interest Received	1,055	897
Interest Paid	(15,249)	(17,468)
Cash Paid to Employees and Suppliers	(1,114,537)	(773,184)
Net Cash Provided (Used) by Operating Activities	<u>(30,100)</u>	<u>298,588</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal Repayments From Homeowners	71,678	299,361
Proceeds from Sale of Equipment	-	59,582
Purchases of Property and Equipment	(86,973)	(142,759)
Net Cash Provided (Used) by Investing Activities	<u>(15,295)</u>	<u>216,184</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(46,484)	(232,231)
Net Cash Used by Financing Activities	<u>(46,484)</u>	<u>(232,231)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(91,879)	282,541
Cash and Cash Equivalents - Beginning of Year	<u>526,458</u>	<u>243,917</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 434,579</u></u>	<u><u>\$ 526,458</u></u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 18,971	\$ 211,186
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Mortgages Issued to Homeowners	(135,628)	-
Amortization on Mortgage Discounts	(50,025)	(47,964)
Remaining Discount from Early Mortgage Payoffs - Receivable	-	(119,687)
Land Inventory Transferred to Construction in Progress	68,138	(28,391)
Donated Property and Equipment	-	(18,634)
Gain on Sale of Building	-	(33,851)
Depreciation	40,999	34,548
Discount on New Mortgages Issued	82,545	-
Amortization on Note Discounts	16,764	16,764
Remaining Discount from Early Mortgage Payoffs - Note Payable	-	24,995
Effect of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(435)	(1,103)
Pledges Receivable	6,800	3,463
Notes Receivable	(9,088)	(4,419)
Inventory	90,627	222,259
Construction in Progress	(129,637)	9,302
Escrow Funds Receivable	-	2,500
Accounts Payable	(35,407)	22,350
Payroll Liabilities	(693)	5,872
Accrued Expenses	5,969	(602)
Net Cash Provided (Used) by Operating Activities	<u>\$ (30,100)</u>	<u>\$ 298,588</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and Equipment Purchased through Accounts Payable	<u>\$ 4,834</u>	<u>\$ 40,405</u>
Mortgages Issued to Homeowners	<u>\$ 135,628</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Habitat for Humanity (HFH) of Douglas County, Minnesota, Inc. (the Organization) was incorporated January 31, 1997. The Organization is an affiliate of Habitat for Humanity International, Inc., an ecumenical Christian ministry that builds with people in need of decent, affordable housing regardless of race or religion, and welcomes volunteers and supporters from all backgrounds. The Organization seeks to help homeowners achieve the strength, stability, and independence they need to build a better life for themselves and their families. The Organization is supported primarily through donor contributions.

May 1, 2014, the Organization opened the ReStore. The ReStore is a nonprofit home improvement store/donation center that sells new and gently used building materials, furniture, and appliances. Profits support the construction of affordable housing in Douglas County.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization 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 restrictions. Designated amounts represent those revenues which the board has set aside for a particular purpose. No amounts were designated for the year ending June 30, 2019.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Method of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Policy of the Habitat for Humanity International Affiliate Operations Manual.

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 certain reported amounts and disclosures. Actual results could differ from estimates.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of the following:

	2019	2018
Cash in Checking	\$ 259,459	326,397
Cash in Savings	175,120	200,061
Total Cash and Cash Equivalents	<u>\$ 434,579</u>	<u>\$ 526,458</u>

The Organization maintains its cash balances at local financial institutions. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. At times the balance may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash accounts.

Inventory

Inventory includes items held for sale or to use for construction, and are valued at cost for purchased items or fair market value for donated items which is determined at the time of donation. Inventory consists of the following:

	2019	2018
Building Materials	\$ 15,315	\$ 986
Finished Houses	-	104,956
Total Inventory	<u>\$ 15,315</u>	<u>\$ 105,942</u>

Property and Equipment

Property and equipment additions over \$1,000 are recorded at cost except those involving donations. Donated items are recorded at their estimated fair market value at the time of donation. Maintenance and repairs are charged to expense. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. Depreciation expense for the years ended June 30, 2019 and 2018 was \$40,999 and \$34,548, respectively.

Impairment or Disposal of Long-Lived Assets

The Organization follows standards for, Accounting for the Impairment or Disposal of Long-Lived Assets. The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment loss recognized in 2019.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give are recognized as assets and revenue in the period in which the pledges are made. Pledges receivable are normally expected to be collected within one year and are uncollateralized. The Organization expects to collect all pledges therefore no allowance for uncollectible pledges has been accrued.

Mortgages Receivable

Mortgages receivable balances represent the amount charged to the homeowners for Habitat houses built and are to be paid back over an established and mutually agreed period of time. These mortgages are typically paid back on a monthly basis. At the same time the first mortgage is signed, a second lien mortgage is executed by the homeowner, reflecting the difference between the purchase price and the fair market value of the house. This second mortgage, also known as a "silent mortgage," is a legal document executed for protection against homeowners who may sell their house for a profit before the mortgage is paid off and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowners with an onerous new mortgage.

The Organization's mortgages are noninterest bearing and have been discounted to present value based upon prevailing market rates for low-income housing at the inception of the mortgages. Habitat For Humanity International, Inc. (HFHI) develops a discount rate once a year on June 30. The difference between the face amount of the mortgage and its present value is accounted for as a discount that is recorded on the statement of financial position as a contra account to Mortgages Receivable and amortized over the life of the mortgage using the straight-line method. The effect of discounting on the financial statements results in Mortgages Receivable being reduced by the discount amount as the expense is increased. HFHI recommends that mortgage discounts be charged as a program services expense to a Mortgage Discount Expense account and each year a ratable amount of the discount be amortized to a Mortgage Discount Amortization revenue account. For practical purposes, delinquent or prepaid mortgage payments are not adjusted in the annual amortization. However, mortgage payoffs or foreclosures do result in the remaining Unamortized Discount balance being closed and recorded to a Mortgage Discount Revenue account.

The Organization's policy for determining when mortgages are past due or delinquent is based on how recently payments have been received. Mortgages are considered past due 15 days after the due date.

Construction in Progress and Land Held for Development

Construction in progress and land held for development are stated at cost and include land under development, property taxes, and direct costs of housing construction. Indirect costs of housing construction are allocated when the house is complete.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes Payable

Notes payable are at -0-% or below market interest rates and are discounted to net present value. These notes are secured by noninterest bearing mortgages receivable that have also been discounted. The difference between the face amount of the note and its present value is accounted for as a discount and is amortized over the life of the note.

Home Sales

Homes are sold to qualified buyers at approximately the cost to build the home. Noninterest bearing mortgages are accepted as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages and revenue is recognized upon closing. Noninterest bearing mortgages have been discounted at various rates based upon prevailing market rates for low-income housing at the inception of the mortgages. See Note 4.

Contributions

All contributions are considered available for unrestricted use, unless specifically restricted by the donor. Contributions with donor restrictions are recorded as increases in net assets with donor restrictions as appropriate. When a time restriction is met or a purpose restriction accomplished, 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 restriction.

Functional Allocation of Expenses

The cost of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited based on specific identification and time studies. Other expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Line of Credit

The Organization has an unsecured \$200,000 line of credit at a local bank with an interest rate of 6%, which matures on January 11, 2021. The Organization had no outstanding balances on the line of credit as of June 30, 2019 and 2018.

Income Taxes

HFH of Douglas County, Minnesota, Inc. qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Therefore, no expense has been recognized for income taxes in the accompanying financial statements. The Organization is not a private foundation and contributions to the Organization qualify as charitable deductions by the contributor.

The Organization follows the income tax standard for uncertain tax positions. The Organization evaluated its tax positions and determined it has no uncertain tax positions as of June 30, 2019 and 2018.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require specialized skills. However, certain other contributed services that require specialized skills, were provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenue and expense. Such amounts, which are included in the statements of activities, are as follows:

	2019			2018		
	Affordable Housing	Management and General	Total	Affordable Housing	Management and General	Total
Professional Services	\$ -	\$ 13,952	\$ 13,952	\$ -	\$ 17,826	\$ 17,826
Construction Costs	26,517	-	26,517	29,510	-	29,510
Total	<u>\$ 26,517</u>	<u>\$ 13,952</u>	<u>\$ 40,469</u>	<u>\$ 29,510</u>	<u>\$ 17,826</u>	<u>\$ 47,336</u>

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 26, 2019. September 26, 2019, the date the financial statements were available to be issued.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 LIQUIDITY AND AVAILABILITY

Habitat for Humanity of Douglas County structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, Habitat for Humanity of Douglas County maintains a line of credit in the amount of \$200,000 which can be drawn upon. Further, Habitat for Humanity of Douglas County maintains an operating reserve included as part of cash and cash equivalents on the accompanying statements of financial position.

Habitat for Humanity of Douglas County's financial assets due within one year of the statements of financial position date for general expenditures are as follows:

	2019	2018
Cash and Cash Equivalents	\$ 434,579	\$ 526,458
Accounts Receivable	11,565	11,130
Current Maturities of Mortgages Receivable	47,517	56,598
Current Maturities of Pledges Receivable	22,675	23,475
Total Financial Assets	516,336	617,661
Donor-imposed Restrictions:		
Funds Subject to Purpose Restrictions	(3,658)	(37,489)
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 512,678</u>	<u>\$ 580,172</u>

NOTE 3 PLEDGES RECEIVABLE

Pledges Receivable were due as follows:

	2019	2018
Unconditional Promise to Give Expected to be Collected in:		
Less Than One Year	\$ 22,675	\$ 23,475
One to Five Years	-	6,000
Total Unconditional Promises to Give	<u>\$ 22,675</u>	<u>\$ 29,475</u>

NOTE 4 MORTGAGES RECEIVABLE

It is the Organization's policy to sell completed houses to individuals under payment terms that require no interest. Accounting principles generally accepted in the United States of America require that such transactions be discounted to more closely reflect current economic conditions.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 MORTGAGES RECEIVABLE (CONTINUED)

These mortgages have been discounted to reflect interest at rates ranging from 7.39% to 8.48% as follows:

	2019	2018
Noninterest Bearing Mortgages Receivable	\$ 1,457,891	\$ 1,393,941
Less: Current Portion of Mortgages Receivable	(98,133)	(110,286)
Less: Unamortized Mortgage Discount	(839,739)	(807,219)
Adjust for Current Portion of Unamortized Mortgage Discount	50,616	53,688
Mortgages Receivable, Net of Current Portion and Discount	<u>\$ 570,635</u>	<u>\$ 530,124</u>

As of June 30, 2019 and 2018, mortgages receivable (net of discount) of \$225,655 and \$234,452, respectively, are pledged as collateral for the Organization's notes payable. Management believes mortgages receivable to be fully collectible; therefore, no allowance has been recorded.

NOTE 5 LONG-TERM DEBT

As of June 30, 2019 and 2018, long-term debt consists of the following:

<u>Description</u>	2019	2018
Notes payable to Habitat for Humanity of Minnesota in monthly installments through March 2038 - stated rates of 0-3% interest, effective rates 7.39%- 8%; secured by mortgages receivable.	\$ 512,208	\$ 544,007
Mortgage payable - bank, 59 monthly installments of \$1,117 with interest calculated on the unpaid principal balances at 3.125% beginning January 1, 2018 and a balloon payment of \$115,822 due December 1, 2022; secured by real estate.	146,207	154,892
Contract for deed - bank, five yearly payments of \$6,000 with interest calculated on the unpaid principal balance at 1.68% beginning January 1, 2016; secured by 1.12 acres of land.	6,000	12,000
Total Long-Term Debt	664,415	710,899
Less: Current Portion of Long-Term Debt	(44,922)	(46,391)
Less: Unamortized Loan Discount	(199,842)	(216,606)
Adjust for Current Portion of Unamortized Loan Discount	16,764	16,764
Long-Term Debt, Net of Current Portion and Discount	<u>\$ 436,415</u>	<u>\$ 464,666</u>

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 LONG-TERM DEBT (CONTINUED)

Future principal payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 44,922
2021	39,287
2022	40,311
2023	149,706
2024	31,757
Thereafter	358,432
Total	<u>\$ 664,415</u>

NOTE 6 CONDITIONAL PROMISES TO GIVE

On January 2018, the Organization received two promises to give totaling \$91,500 that contained donor conditions. Since this is a conditional promise to give, it is not recorded as contribution revenue until the donor conditions are met. During 2018, some of the conditions were met and payment of \$44,500 was received and recognized as revenue.

On June 2018 and October 2018, the Organization received two promises to give totaling \$103,000 that contained donor conditions. Since this is a conditional promise to give, it is not recorded as contribution revenue until the donor conditions are met. During 2019, some of the conditions were met and payment of \$44,000 was received and recognized as revenue.

NOTE 7 RELATED PARTY TRANSACTIONS

As summarized in Note 5, the Organization has notes payable due to Habitat for Humanity of Minnesota, Inc., an affiliate, of \$512,208 and \$544,007 for the years ended June 30, 2019 and 2018, respectively. The Organization also pays an annual fee of \$100 per home closed on during each year to Habitat for Humanity of Minnesota, Inc. The annual fee paid during 2019 and 2018 was \$400 for both years ended.

The Organization contributes 10% of its contributions without donor restrictions (excluding in-kind contributions) to Habitat for Humanity International, Inc. for their international housing programs. Contributions for the years ended June 30, 2019 and 2018 were \$32,421 and \$20,911, respectively. The Organization also pays an annual fee of \$1,500 to Habitat for Humanity International, Inc.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or time specified by the donors as follow for the years ended June 30:

	2019	2018
Purpose Restrictions	\$ 167,620	\$ 142,180
Total Released Net Assets With Donor Restrictions	<u>\$ 167,620</u>	<u>\$ 142,180</u>

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	2019	2018
Purpose Restrictions:		
Aging in Place	\$ 2,672	\$ 7,203
Women's Build and Other Programs	986	286
Brandon House	-	30,000
Total Net Assets With Donor Restrictions	<u>\$ 3,658</u>	<u>\$ 37,489</u>

NOTE 10 COMMITMENTS

The Organization offers a 10-year warranty on homes upon completion of construction at which they are liable for any costs related to items that fall under the warranty.