

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2025 AND 2024



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**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2025 AND 2024**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
STATEMENTS OF FUNCTIONAL EXPENSES	6
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	25
SCHEDULE OF FEDERAL EXPENDITURES	28
NOTES TO SCHEDULE OF FEDERAL EXPENDITURES	29
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	30



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2025 and 2024, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 audit 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 GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2025, on our consideration of HFH of Douglas County, Minnesota, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HFH of Douglas County, Minnesota, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HFH of Douglas County, Minnesota, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
November 25, 2025

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,783,388	\$ 1,270,954
Accounts Receivable	-	5,895
Current Mortgages Receivable, Net of Current Discount	40,846	33,096
Pledges Receivable, Current Portion	311,540	37,021
Construction in Progress	2,173,095	1,189,017
Inventory	74,055	55,389
Total Current Assets	<u>4,382,924</u>	<u>2,591,372</u>
MORTGAGES RECEIVABLE, Net of Current Portion, Discount, and Allowance for Credit Losses	547,061	487,885
PROPERTY AND EQUIPMENT (at Cost)		
Land	418,266	418,266
Building and Improvements	943,645	924,059
Equipment	137,693	133,543
Total Property and Equipment	<u>1,499,604</u>	<u>1,475,868</u>
Less: Accumulated Depreciation	<u>(522,007)</u>	<u>(454,661)</u>
Net Property and Equipment (at Depreciated Cost)	977,597	1,021,207
OTHER ASSETS		
Pledges Receivable, Net of Current Portion and Discount	473,695	-
Funds Held by Foundation	20,550	20,000
Notes Receivable	11,749	20,488
Total Other Assets	<u>505,994</u>	<u>40,488</u>
Total Assets	<u><u>\$ 6,413,576</u></u>	<u><u>\$ 4,140,952</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 61,775	\$ 56,134
Payroll Liabilities	75,245	52,078
Accrued Expenses	2,922	5,317
Accrued Interest	38,313	-
Current Long-Term Debt, Net of Discount	<u>181,367</u>	<u>24,658</u>
Total Current Liabilities	<u>359,622</u>	<u>138,187</u>
LONG-TERM DEBT, Net of Current Portion and Discount	<u>1,630,267</u>	<u>340,605</u>
Total Liabilities	1,989,889	478,792
NET ASSETS		
Without Donor Restrictions:		
Undesignated	2,971,287	3,634,660
Designated by the Board for Operating Reserve	440,000	25,000
Total Without Donor Restrictions	<u>3,411,287</u>	<u>3,659,660</u>
With Donor Restrictions	<u>1,012,400</u>	<u>2,500</u>
Total Net Assets	<u>4,423,687</u>	<u>3,662,160</u>
Total Liabilities and Net Assets	<u><u>\$ 6,413,576</u></u>	<u><u>\$ 4,140,952</u></u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2025 AND 2024

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT						
Home Sales	\$ 1,720,420	\$ -	\$ 1,720,420	\$ 1,052,982	\$ -	\$ 1,052,982
ReStore Sales	390,975	-	390,975	416,551	-	416,551
Contributions and Grants	332,276	1,160,923	1,493,199	367,856	337,103	704,959
Donated Services and Assets	606,656	-	606,656	551,575	-	551,575
Special Events	51,250	-	51,250	44,650	-	44,650
Interest Income	2,837	-	2,837	2,364	-	2,364
Other Income	5,255	-	5,255	22,180	-	22,180
Mortgage Discount Revenue-Retired Loans	-	-	-	70,922	-	70,922
Mortgage Discount Amortization	41,440	-	41,440	42,451	-	42,451
Net Assets Released from Restrictions	151,023	(151,023)	-	394,603	(394,603)	-
Total Revenues and Support	3,302,132	1,009,900	4,312,032	2,966,134	(57,500)	2,908,634
EXPENSES						
Program Services:						
Affordable Housing Costs	2,585,289	-	2,585,289	1,798,735	-	1,798,735
ReStore	692,792	-	692,792	738,824	-	738,824
Total Program Services	3,278,081	-	3,278,081	2,537,559	-	2,537,559
Supporting Services:						
Management and General	97,526	-	97,526	101,760	-	101,760
Fundraising	174,898	-	174,898	108,176	-	108,176
Total Supporting Services	272,424	-	272,424	209,936	-	209,936
Total Expenses	3,550,505	-	3,550,505	2,747,495	-	2,747,495
TOTAL CHANGE IN NET ASSETS	(248,373)	1,009,900	761,527	218,639	(57,500)	161,139
Net Assets - Beginning of Year	3,659,660	2,500	3,662,160	3,441,021	60,000	3,501,021
NET ASSETS - END OF YEAR	<u>\$ 3,411,287</u>	<u>\$ 1,012,400</u>	<u>\$ 4,423,687</u>	<u>\$ 3,659,660</u>	<u>\$ 2,500</u>	<u>\$ 3,662,160</u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2025

	Program Services			Supporting Services		Total Expenses
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	
Provision for Loan Losses	\$ -	\$ -	\$ -	\$ 2,111	\$ -	\$ 2,111
Conferences and Conventions	6,361	265	6,626	-	-	6,626
Construction Costs	1,758,746	-	1,758,746	-	-	1,758,746
Depreciation	24,349	40,152	64,501	3,468	1,387	69,356
Dues and Subscriptions	2,609	425	3,034	-	-	3,034
Employee Benefits	39,413	18,292	57,705	7,784	11,161	76,650
Equipment Lease	4,225	1,123	5,348	-	-	5,348
Fees	27,681	8,075	35,756	2,342	352	38,450
Insurance	30,724	10,795	41,519	-	-	41,519
Interest	45,402	-	45,402	-	-	45,402
Loan Discount Amortization	22,524	-	22,524	-	-	22,524
Miscellaneous	10,070	463	10,533	136	-	10,669
Occupancy	9,412	15,495	24,907	-	-	24,907
Office Expenses	51,021	14,390	65,411	-	-	65,411
Payroll	266,027	123,468	389,495	52,543	75,330	517,368
Payroll Taxes	28,783	13,359	42,142	5,685	8,150	55,977
Postage and Shipping	3,422	453	3,875	151	1,007	5,033
Printing and Publications	8,849	2,654	11,503	295	2,949	14,747
Professional Fees	6,851	6,426	13,277	22,781	49,372	85,430
Public Relations	15,295	15,003	30,298	-	-	30,298
Purchased Product	-	16,924	16,924	-	-	16,924
Repairs and Maintenance	12,399	6,573	18,972	-	-	18,972
Special Events	2,356	183	2,539	-	25,075	27,614
Supplies	16,961	4,657	21,618	230	115	21,963
Telephone	4,472	1,916	6,388	-	-	6,388
Tithe to Habitat For Humanity International, Inc.	-	28,000	28,000	-	-	28,000
Travel	11,058	1,229	12,287	-	-	12,287
Mortgage Discount	176,279	-	176,279	-	-	176,279
In-Kinds	-	362,472	362,472	-	-	362,472
Total Expenses by Function	\$ 2,585,289	\$ 692,792	\$ 3,278,081	\$ 97,526	\$ 174,898	\$ 3,550,505

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024

	Program Services			Supporting Services		
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	Total Expenses
Provision for Loan Losses	\$ -	\$ -	\$ -	\$ 4,521	\$ -	\$ 4,521
Conferences and Conventions	6,402	-	6,402	-	-	6,402
Construction Costs	1,150,238	-	1,150,238	-	-	1,150,238
Depreciation	19,380	40,151	59,531	3,201	1,280	64,012
Dues and Subscriptions	2,221	361	2,582	-	-	2,582
Employee Benefits	37,480	20,158	57,638	7,389	8,324	73,351
Equipment Lease	2,863	761	3,624	-	-	3,624
Fees	19,233	12,318	31,551	2,210	478	34,239
Insurance	29,946	10,521	40,467	-	-	40,467
Interest	7,668	-	7,668	-	-	7,668
Loan Discount Amortization	20,676	-	20,676	-	-	20,676
Miscellaneous	2,023	441	2,464	2,330	-	4,794
Occupancy	7,296	12,015	19,311	-	-	19,311
Office Expenses	50,063	14,120	64,183	-	-	64,183
Payroll	282,253	151,799	434,052	55,642	62,683	552,377
Payroll Taxes	25,693	13,818	39,511	5,065	5,706	50,282
Postage and Shipping	3,490	462	3,952	154	1,026	5,132
Printing and Publications	6,809	2,043	8,852	227	2,270	11,349
Professional Fees	8,608	5,867	14,475	20,801	2,875	38,151
Public Relations	22,206	16,172	38,378	-	-	38,378
Purchased Product	14,620	-	14,620	-	-	14,620
Repairs and Maintenance	20,215	10,972	31,187	-	-	31,187
Special Events	2,696	363	3,059	-	23,424	26,483
Supplies	12,708	4,406	17,114	220	110	17,444
Telephone	4,302	1,844	6,146	-	-	6,146
Tithe to Habitat For Humanity International, Inc.	26,550	-	26,550	-	-	26,550
Travel	13,096	1,455	14,551	-	-	14,551
In-Kinds	-	418,777	418,777	-	-	418,777
Total Expenses by Function	<u>\$ 1,798,735</u>	<u>\$ 738,824</u>	<u>\$ 2,537,559</u>	<u>\$ 101,760</u>	<u>\$ 108,176</u>	<u>\$ 2,747,495</u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributors and Grants	\$ 759,619	\$ 787,627
Cash Received from Sales and Special Events	2,344,179	1,536,363
Interest Received	2,837	2,364
Interest Paid	(45,402)	(7,668)
Cash Paid to Employees and Suppliers	(3,737,953)	(2,721,069)
Net Cash Used by Operating Activities	<u>(676,720)</u>	<u>(402,383)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(550)	(20,000)
Principal Repayments From Homeowners	75,103	196,702
Issuance of Mortgages Receivable	(283,500)	-
Purchases of Property and Equipment	(25,746)	(89,315)
Net Cash Provided (Used) by Investing Activities	<u>(234,693)</u>	<u>87,387</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	1,469,053	34,750
Payments on Long-Term Debt	(45,206)	(41,445)
Net Cash Provided (Used) by Financing Activities	<u>1,423,847</u>	<u>(6,695)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	512,434	(321,691)
Cash and Cash Equivalents - Beginning of Year	<u>1,270,954</u>	<u>1,592,645</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,783,388</u></u>	<u><u>\$ 1,270,954</u></u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 761,527	\$ 161,139
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Amortization on Mortgage Discounts	(41,440)	(42,451)
Remaining Discount from Early Mortgage Payoffs - Receivable	-	(70,922)
Provision for Loan Loss	6,632	4,521
Depreciation	69,356	64,012
Discount on New Mortgages	176,279	-
Amortization on Note Discounts	22,524	20,676
(Increase) Decrease in Assets:		
Accounts Receivable	5,895	(3,750)
Pledges Receivable	(748,214)	83,497
Notes Receivable	8,739	2,921
Inventory	(18,666)	(3,884)
Construction in Progress	(984,078)	(621,465)
Prepaid Expenses	-	537
Increase (Decrease) in Liabilities:		
Accounts Payable	5,641	14,032
Payroll Liabilities	23,167	(3,162)
Accrued Interest	38,313	-
Accrued Expenses	(2,395)	(8,084)
Net Cash Used by Operating Activities	<u><u>\$ (676,720)</u></u>	<u><u>\$ (402,383)</u></u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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 accounting principles generally accepted in the United States of America (GAAP). 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. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

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 nonprofit Organization. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Method of Accounting

The accompanying financial statements have been prepared in accordance with GAAP 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 GAAP 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, 2025 AND 2024

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:

	2025	2024
Cash in Checking	\$ 1,708,345	\$ 1,195,824
Cash in Savings	75,043	75,130
Total Cash and Cash Equivalents	<u>\$ 1,783,388</u>	<u>\$ 1,270,954</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

Building Materials 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. The Organization also has donated inventory on hand at the end of the year. The ending inventory value is based on average daily sales. Inventory consists of the following:

	2025	2024
Building Materials	\$ 32,944	\$ 15,418
ReStore Donated Inventory	41,111	39,971
Total Inventory	<u>\$ 74,055</u>	<u>\$ 55,389</u>

Property and Equipment

Property and equipment additions over \$5,000 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, 2025 and 2024 was \$69,356 and \$64,012, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the balance sheet. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2025.

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.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages Receivable (Continued)

The accrual of the mortgage discount is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. Loans are returned to accrual status when all the principal amounts contractually due are brought current and future payments are reasonably assured.

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.

Allowance for Credit Losses on Mortgages

Effective, July 1, 2023, the allowance for credit losses on mortgages is a valuation account that is deducted from the amortized cost basis of mortgages to present the net amount expected to be collected. The allowance for credit losses on mortgages is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Mortgage losses are charged off against the allowance for credit losses on mortgages when the Organization determines the mortgage balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on mortgages.

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, current information and events, probable that the Organization will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreements, or delinquencies.

The allowance for credit losses on mortgages estimate incorporates a reasonable and supportable economic forecast through the use of historical losses adjusted for current factors.

The Organization only has one portfolio segment. The risk characteristics of this segment are as follows:

1-4 Family: The degree of risk in 1-4 family lending depends primarily on the note amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These notes generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these notes. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Mortgages (Continued)

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. On a yearly basis, the Organization reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If management determines that changes are warranted based on those reviews, the allowance is adjusted.

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.

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 fair market value. 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. Revenue is recognized upon the home closing date.

ReStore Sales

ReStore income is recognized at a point in time when the item is sold. There is only a single performance obligation and the transaction price is the price listed within the ReStore.

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.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

Line of Credit

The Organization has an unsecured \$200,000 line of credit at a local bank with an interest rate of 8.5%, which matures on February 1, 2027. The Organization had no outstanding balances on the line of credit as of June 30, 2025 and 2024.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2025 and 2024.

Tax Increment Financing

The Organization has entered into a contract for private redevelopment (generally referred to as the Tax Increment Financing (TIF) Agreement) with the Alexandria Economic Development Authority in and for the city of Alexandria, Minnesota. In accordance with this agreement, the Organization must comply with certain construction improvements. In exchange for complying with these and other requirements of the agreement, the Organization will receive from the city of Alexandria a tax increment subsidy through a period ending no later than February 2052. The Organization will recognize this revenue as the subsidies are received.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 25, 2025, the date the financial statements were available to be issued.

Revisions

Certain revisions of amounts previously reported have been made to the accompanying financial statements. In footnote 3 of the financial statements, the disclosure of the financial assets available for general expenditures for the prior year has been revised to \$1,319,466. The revision had no impact on previously reported net assets.

NOTE 2 INVESTMENTS

Investments consist of the following as of June 30:

	2025	2024
Community Foundation Holdings	\$ 20,550	\$ 20,000
Total	<u>\$ 20,550</u>	<u>\$ 20,000</u>

The Organization has adopted an accounting standard related to the holding of contributions for others. Adoption of this standard affects the recording of funds transferred to a community foundation when the Organization is both the donor and designated beneficiary of those funds. In this situation, organizations are required to record the fair market value of these assets on their financial statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 INVESTMENTS (CONTINUED)

Community Foundation Holdings reside at Community Giving for the charitable purposes of its Alexandria Area Community Foundation division to support the charitable activities of Habitat for Humanity of Douglas County. The Organization's agreements with Community Giving require that income of the Donor-Designated Funds be distributed to the Organization subject to the purpose of the Fund as Community Giving may determine.

The Organization used fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Organization measures fair value, refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of June 30:

<u>June 30, 2025</u>	Level 1	Level 2	Level 3	Total
Assets:				
Community Foundation Holdings	\$ -	\$ -	\$ 20,550	\$ 20,550
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,550</u>	<u>\$ 20,550</u>

<u>June 30, 2024</u>	Level 1	Level 2	Level 3	Total
Assets:				
Community Foundation Holdings	\$ -	\$ -	\$ 20,000	\$ 20,000
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Unrealized changes in fair value of investments and realized gains and losses from sales are recorded in investment income in the statement of activities.

The changes in investment measured at fair value using Level 3 inputs are reflected below:

	2025	2024
Balance - Beginning of Year	\$ 20,000	\$ -
Contributions	-	20,000
Distributions	-	-
Change in Value	550	-
Balance - End of Year	<u>\$ 20,550</u>	<u>\$ 20,000</u>

NOTE 3 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.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 3 LIQUIDITY AND AVAILABILITY (CONTINUED)

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:

	2025	2024
Cash and Cash Equivalents	\$ 1,783,388	\$ 1,270,954
Accounts Receivable	-	5,895
Current Maturities of Mortgages Receivable	40,846	33,096
Current Maturities of Pledges Receivable	311,540	37,021
Total Financial Assets	<u>2,135,774</u>	<u>1,346,966</u>
Less:		
Funds Subject to Donor Restrictions	(1,012,400)	(2,500)
Board Designations	<u>(440,000)</u>	<u>(25,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u><u>\$ 683,374</u></u>	<u><u>\$ 1,319,466</u></u>

NOTE 4 PLEDGES RECEIVABLE

Included in pledges receivable at June 30 are the following unconditional promises to give:

	2025	2024
Unconditional Promise to Give Expected to be Collected in:		
Less Than One Year	\$ 311,540	\$ 37,021
One to Five Years	500,000	-
Total	<u>811,540</u>	<u>37,021</u>
Less: Discounts on Promises to Give	26,305	-
Net Unconditional Promises to Give	<u><u>\$ 785,235</u></u>	<u><u>\$ 37,021</u></u>

NOTE 5 MORTGAGES RECEIVABLE

It is the Organization's policy to sell completed houses to individuals under payment terms that require no interest. GAAP requires that such transactions be discounted to more closely reflect current economic conditions.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 5 MORTGAGES RECEIVABLE (CONTINUED)

These mortgages have been discounted to reflect interest at rates ranging from 7.38% to 8.18% as follows:

	2025	2024
Noninterest-Bearing Mortgages Receivable	\$ 1,327,811	\$ 1,123,935
Less: Current Portion of Mortgages Receivable	(82,346)	(75,596)
Less: Unamortized Mortgage Discount	(733,272)	(598,433)
Less: Allowance for Credit Losses	(6,632)	(4,521)
Adjust for Current Portion of Unamortized Mortgage Discount	41,500	42,500
Mortgages Receivable, Net of Current Portion and Discount	<u>\$ 547,061</u>	<u>\$ 487,885</u>

As of June 30, 2025 and 2024, gross mortgages receivable of \$637,151 and \$687,281, respectively, are pledged as collateral for the Organization's notes payable.

Transactions in the allowance for credit losses during the year ended June 30, 2025 are summarized as follows.

	2025	2024
Allowance for Credit Losses:	<u>1-4 Family</u>	<u>1-4 Family</u>
Beginning Balance	\$ 4,521	\$ -
Adoption of ASC 326	-	-
Provision	2,111	4,521
Mortgages Charged Off	-	-
Ending Balance	<u>\$ 6,632</u>	<u>\$ 4,521</u>

The following tables show an aging analysis of loan portfolio by time past due as of June 30:

	2025	2024
<u>Past Due Loans</u>		
15-29 Days Past Due	\$ 60,753	\$ 137,937
30-59 Days Past Due	68,671	123,348
60-89 Days Past Due	19,942	-
>90 Days Past Due	-	-
Nonaccrual Loans	-	-
Total	<u>\$ 149,366</u>	<u>\$ 261,285</u>

Loan Modifications

Loan modifications may occur when a borrower experiences financial difficulty and needs temporary or permanent relief from the original terms of the loan. The organization considers many factors in determining whether to agree to a loan modification and seek a solution that will both minimize potential loss to the organization and provide assistance to the borrower. There were no loan modifications for the year ending June 30, 2025. For the year ending June 30, 2024, there was one loan modification which extended payment terms by 11 months. All other terms remained the same.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

<u>Description</u>	<u>2025</u>	<u>2024</u>
Notes payable to Habitat for Humanity of Minnesota in monthly installments through March 2038 - stated rates of 0-3% interest, effective rates 7.39% to 8%; secured by mortgages receivable.	\$ 501,462	\$ 543,554
Notes payable to Habitat for Humanity International, Inc. in monthly installments through January 2031, 0% interest.	42,422	34,750
Notes payable to Minnesota Housing Finance Agency payable on August 3, 2027. 0% interest rate. Loan to be forgiven on maturity date if compliance items are met.	100,000	-
Notes payable to Minnesota Housing Finance Agency payable on May 2, 2027. 0% interest rate. Loan to be forgiven on maturity date if compliance items are met.	76,750	-
Notes payable to US Department of Agriculture in one lump sum principal and interest payment to be due and payable on July 3, 2029, 4.125% interest.	<u>1,281,517</u>	<u>-</u>
Total Long-Term Debt	2,002,151	578,304
Less: Current Portion of Long-Term Debt	(202,043)	(45,334)
Less: Unamortized Loan Discount	(190,517)	(213,041)
Adjust for Current Portion of Unamortized Loan Discount	<u>20,676</u>	<u>20,676</u>
Long-Term Debt, Net of Current Portion and Discount	<u><u>\$ 1,630,267</u></u>	<u><u>\$ 340,605</u></u>

Future principal payments are as follows:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2026	\$ 202,043
2027	286,962
2028	301,490
2029	869,249
2030	46,016
Thereafter	296,391
Total	<u><u>\$ 2,002,151</u></u>

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 6 LONG-TERM DEBT (CONTINUED)

The note payable to the United States Department of Agriculture (USDA) was entered into by the Organization on July 3, 2024, with an original principal balance of \$1,281,517. The purpose of the loan is for site development and infrastructure to build 42 single family homes. The payment terms are for one lump sum of principal and interest to be due and payable on July 3, 2029, five years from the date of the promissory note. As housing lots are sold before the final due date of the note, the proceeds of the sales will be applied on the note. The projection is to close on three to five homes each fiscal year. Payment will be made on the note after each home is closed. Closing dates are assumptions based on the plan to build out homes in the Summer Meadows development.

Future principal payments for the USDA note payable are estimated as the following:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2026	\$ 154,414
2027	160,016
2028	151,759
2029	816,328
Total	<u>\$ 1,282,517</u>

NOTE 7 CONDITIONAL PROMISES TO GIVE

During the years ended June 30, 2025 and 2024, the Organization received four and five promises to give totaling \$954,394 and \$684,224, respectively, that contained donor conditions. Since these are conditional promises to give, they are not recorded as contribution revenue until the donor conditions are met. During 2025 and 2024, respectively, some of the conditions were met and payment of \$469,597 and \$283,106 were received and recognized as revenue.

NOTE 8 RELATED PARTY TRANSACTIONS

As summarized in Note 6, the Organization has notes payable due to Habitat for Humanity of Minnesota, Inc., an affiliate, of \$501,462 and \$543,554 for the years ended June 30, 2025 and 2024, 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 2025 and 2024 was \$400. The Organization also pays a down payment assistance fee of \$2,525 for each house that was closed for a total of \$15,150 and \$10,100 for the years ended June 30, 2025 and 2024, respectively.

The Organization contributes a portion 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, 2025 and 2024 were \$28,000 and \$26,550, respectively. The Organization also pays a Habitat 2.0 and Direct Marketing fee that occurs quarterly for a total of \$7,296 for the year ended June 30, 2025.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 9 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:

	2025	2024
Purpose Restrictions	\$ 151,023	\$ 394,603
Total Released Net Assets With Donor Restrictions	<u>\$ 151,023</u>	<u>\$ 394,603</u>

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

	2025	2024
Purpose and Time Restrictions:		
Summer Meadows	\$ 1,012,400	\$ -
Team Build	-	2,500
Total Net Assets With Donor Restrictions	<u>\$ 1,012,400</u>	<u>\$ 2,500</u>

NOTE 11 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.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 12 DONATED SERVICES AND ASSETS

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:

	2025			
	Affordable Housing	The ReStore	Management and General	Total
Professional Services	\$ -	\$ -	\$ 43,101	\$ 43,101
Construction Costs	75,436	-	-	75,436
Donated Materials	125,647	-	-	125,647
ReStore Donations	-	362,472	-	362,472
Total	<u>\$ 201,083</u>	<u>\$ 362,472</u>	<u>\$ 43,101</u>	<u>\$ 606,656</u>

	2024			
	Affordable Housing	The ReStore	Management and General	Total
Professional Services	\$ -	\$ -	\$ 11,427	\$ 11,427
Construction Costs	44,830	-	-	44,830
Donated Materials	76,541	-	-	76,541
ReStore Donations	-	418,777	-	418,777
Total	<u>\$ 121,371</u>	<u>\$ 418,777</u>	<u>\$ 11,427</u>	<u>\$ 551,575</u>

Donated materials are valued at the wholesale prices that would be received for similar products. Professional services and construction costs are valued at the cost that the Organization would pay that specific professional. Land is valued at fair market value. ReStore Donations are valued at the wholesale prices that would be received for similar products. There were no donor-imposed restrictions associated with the donated goods.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of HFH of Douglas County, Minnesota, Inc., which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HFH of Douglas County, Minnesota, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HFH of Douglas County, Minnesota, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of HFH of Douglas County, Minnesota, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2025-001 and 2025-002 that we consider to be a material weaknesses.

Report on Compliance and Other Matters


As part of obtaining reasonable assurance about whether HFH of Douglas County, Minnesota, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

HFH of Douglas County, Minnesota, Inc.'s Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the HFH of Douglas County, Minnesota, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. HFH of Douglas County, Minnesota, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

St. Cloud, Minnesota
November 25, 2025



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited HFH of Douglas County, Minnesota, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HFH of Douglas County, Minnesota, Inc.'s major federal programs for the year ended June 30, 2025. HFH of Douglas County, Minnesota, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, HFH of Douglas County, Minnesota, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of HFH of Douglas County, Minnesota, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of HFH of Douglas County, Minnesota, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to HFH of Douglas County, Minnesota, Inc.'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HFH of Douglas County, Minnesota, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about HFH of Douglas County, Minnesota, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding HFH of Douglas County, Minnesota, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of HFH of Douglas County, Minnesota, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of HFH of Douglas County, Minnesota, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-003 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on HFH of Douglas County, Minnesota, Inc.'s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. HFH of Douglas County, Minnesota, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
November 25, 2025

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
SCHEDULE OF FEDERAL EXPENDITURES
YEAR ENDED JUNE 30, 2025**

Federal Grantor/Pass-Through Grant/Program Title	Assistance Listing Number	Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Habitat for Humanity International Capacity Building Program	14.252	B20CBGA001	\$ 4,569
Older Adult Home Modification Program	14.921	GAHMR0019-23	80,135
Self-Help Homeownership Opportunity Program:			
SHOP 2021	14.247	S-H2-10-68-0000	30,360
SHOP 2022	14.247	S-H2-20-00-0002	<u>18,856</u>
Total U.S. Department of Housing and Urban Development			133,920
U.S. Department of Agriculture			
Rural Housing Site Loans	10.411		<u>1,281,517</u>
Total Federal Awards			<u><u>\$ 1,415,437</u></u>

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES SCHEDULE OF FEDERAL EXPENDITURES
YEAR ENDED JUNE 30, 2025**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of HFH of Douglas County, Minnesota, Inc., under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of HFH of Douglas County, Minnesota, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of HFH of Douglas County, Minnesota, Inc.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. HFH of Douglas County, Minnesota, Inc. has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 RURAL HOUSING SITE LOANS

The rural housing site loans programs listed subsequently are administered directly by HFH of Douglas County, Minnesota, Inc. and balances and transactions relating to these programs are included in HFH of Douglas County, Minnesota, Inc.'s basic consolidated financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2025 consists of:

<u>Program Title</u>	<u>FAL Number</u>	<u>Amount Outstanding</u>
Rural Housing Site Loans	10.411	\$ 1,281,517

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025**

Section I – Summary of the Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? X yes no
 - Significant deficiency(ies) identified? yes X none reported
3. Noncompliance material to basic financial statements noted? yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of Major Federal Programs

Assistance Listing Number(s)

10.411

Name of Federal Program or Cluster

Rural Housing Site Loans

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 yes X no

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2025**

Section II – Financial Statement Findings

2025-001

Type of Finding

Material Weakness in Internal Control over Financial Reporting: Financial Statement Preparation

Condition: The Organization does not have a policy in place over annual financial reporting in accordance with accounting practices prescribed by U.S. generally accepted accounting principles, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the Organization's internal controls.

Criteria: The Organization must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Context: While performing audit procedures, it was noted that management does not have internal controls in place to provide reasonable assurance that the financial statements are prepared in accordance with U.S. GAAP.

Effect: This condition increases the possibility that error or irregularities may occur with respect to the financial statements.

Cause: The Organization has not adopted a policy over the annual financial reporting in accordance with accounting practices prescribed by U.S. generally accepted accounting principles, however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Repeat Finding: N/A

Recommendation: The Organization should continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

Views of Responsible Officials: Management will annually review staff capacity to internally prepare the annual financial statements and determine if an internal control policy over the annual financial reporting is feasible.

2025-002

Type of Finding

Material Weakness in Internal Control over Financial Reporting: Audit Adjustments

Condition: Audit adjustments were posted to the Organization's accounts, which was a necessary step in ensuring that the financial statements were fairly stated under GAAP.

Criteria: Management is responsible for the accuracy and completeness of all financial records and related information. Management is reasonable for all controls over the year-end financial reporting process to ensure conformity with GAAP.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2025**

Section II – Financial Statement Findings (Continued)

2025-002 (Continued)

Effect: This resulted in the financial statements being fairly stated under GAAP.

Cause: The Organization's control policies and procedures did not prevent or detect a misstatement of the financial statements.

Repeat Finding: N/A

Recommendation: The Organization should continue to review and establish month end and year end processes to ensure the account balances are accurately recorded in accordance with GAAP.

Views of Responsible Officials: The Organization will continue to implement controls to ensure financial statements are in accordance with GAAP.

Section III – Findings and Questioned Costs – Major Federal Programs

2025-003

Federal Agency: U.S. Department of Agriculture

Federal Program Title: Rural Housing Site Loans

Federal Assistance Listing Number: 10.411

Federal Award and Identification Number and Year: 269813615 - 2024

Pass-Through Agency: N/A

Pass-Through Number(s): N/A

Award Period: 07/03/2024-07/03/2029

Type of Finding:

- Significant Deficiency in Internal Control over Major Federal Programs

Criteria: When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition: During our testing we noted sam.gov searches for our selections but no documentation was retained to support that the search was performed prior to the procurement date for the vendors selected. Also noted there was no review performed over the search after the search was made.

Questioned Costs: N/A

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2025**

2025-003 (Continued)

Context: Two of the two selections did not have any documentation retained to support suspension/debarment procedures were followed until after entering into the covered transaction as the policy in place only requires the search be performed.

Cause: Management was aware of the suspension and debarment requirements dictated by the Uniform Guidance; however, the client's policy is not formally documented and does not include the required time frame.

Effect: Potential for the Organization to do business with entities that are suspended or debarred which is not allowed per Uniform Guidance.

Repeat Finding: N/A

Recommendation: The Organization should implement a formal internal control policy over the suspension and debarment rules and follow them before entering into a covered transaction with another entity and that this search is reviewed.

Views of Responsible Officials: The Organization will implement and follow a suspension and debarment policy in accordance with 2 CFR section 180.995 and specify the review of a vendor must be done prior to entering into a covered transaction.

