

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2022 AND 2021**



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## 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, 2022 and 2021, 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, 2022 and 2021, 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 audit. 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**

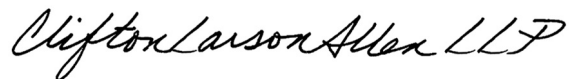
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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.



**CliftonLarsonAllen LLP**

St. Cloud, Minnesota  
October 6, 2022

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2022 AND 2021**

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,412,844	\$ 947,439
Accounts Receivable	4,500	24,250
Current Mortgages Receivable, Net of Current Discount	27,115	29,874
Pledges Receivable	26,137	75,214
Construction in Progress	628,235	786,054
Inventory	1,162	30,715
Prepaid Expenses	11,469	5,565
Total Current Assets	2,111,462	1,899,111
<b>MORTGAGES RECEIVABLE, Net of Current Portion and Discount</b>	250,256	323,585
<b>PROPERTY AND EQUIPMENT (at Cost)</b>		
Land	418,266	418,266
Building and Improvements	834,744	822,222
Equipment	132,167	96,075
Total Property and Equipment	1,385,177	1,336,563
Less: Accumulated Depreciation	(330,181)	(276,206)
Net Property and Equipment (at Depreciated Cost)	1,054,996	1,060,357
<b>OTHER ASSETS</b>		
Notes Receivable	18,232	5,691
Total Other Assets	18,232	5,691
Total Assets	\$ 3,434,946	\$ 3,288,744

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.  
STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
JUNE 30, 2022 AND 2021**

	2022	2021
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 27,235	\$ 51,976
Payroll Liabilities	53,628	53,065
Accrued Expenses	21,241	29,607
Current Long-Term Debt, Net of Discount	15,116	15,043
Total Current Liabilities	117,220	149,691
 <b>LONG-TERM DEBT, Net of Current Portion and Discount</b>	 253,947	 268,825
Total Liabilities	371,167	418,516
 <b>NET ASSETS</b>		
Without Donor Restrictions:		
Undesignated	2,679,049	2,465,228
Designated by the Board for Operating Reserve	375,000	375,000
Total Without Donor Restrictions	3,054,049	2,840,228
With Donor Restrictions	9,730	30,000
Total Net Assets	3,063,779	2,870,228
Total Liabilities and Net Assets	\$ 3,434,946	\$ 3,288,744

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2022 AND 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND SUPPORT</b>						
Home Sales	\$ 1,200,485	\$ -	\$ 1,200,485	\$ 889,381	\$ -	\$ 889,381
ReStore Sales	350,719	-	350,719	332,270	-	332,270
Contributions and Grants	234,087	304,481	538,568	275,923	461,610	737,533
PPP Loan Forgiveness	-	-	-	77,200	-	77,200
Donated Services and Assets	117,182	-	117,182	177,637	-	177,637
Special Events	41,926	-	41,926	39,750	-	39,750
Interest Income	528	-	528	306	-	306
Mortgage Discount Revenue-Retired Loans	62,184	-	62,184	170,952	-	170,952
Mortgage Discount Amortization	28,836	-	28,836	36,070	-	36,070
Net Assets Released from Restrictions	324,751	(324,751)	-	461,610	(461,610)	-
Total Revenues and Support	2,360,698	(20,270)	2,340,428	2,461,099	-	2,461,099
<b>EXPENSES</b>						
Program Services:						
Affordable Housing Costs	1,750,491	-	1,750,491	1,377,819	-	1,377,819
ReStore	230,957	-	230,957	217,736	-	217,736
Total Program Services	1,981,448	-	1,981,448	1,595,555	-	1,595,555
Supporting Services:						
Management and General	74,458	-	74,458	73,920	-	73,920
Fundraising	90,971	-	90,971	84,333	-	84,333
Total Supporting Services	165,429	-	165,429	158,253	-	158,253
Total Expenses	2,146,877	-	2,146,877	1,753,808	-	1,753,808
<b>TOTAL CHANGE IN NET ASSETS</b>	213,821	(20,270)	193,551	707,291	-	707,291
Net Assets - Beginning of Year	2,840,228	30,000	2,870,228	2,132,937	30,000	2,162,937
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,054,049</u>	<u>\$ 9,730</u>	<u>\$ 3,063,779</u>	<u>\$ 2,840,228</u>	<u>\$ 30,000</u>	<u>\$ 2,870,228</u>

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2022**

2022

	Program Services			Supporting Services		Total Expenses
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	
Bad Debts	\$ -	\$ -	\$ -	\$ 375	\$ -	\$ 375
Conferences and Conventions	14,506	-	14,506	-	-	14,506
Construction Costs	1,176,507	-	1,176,507	-	-	1,176,507
Depreciation	12,322	40,151	52,473	2,822	1,128	56,423
Dues and Subscriptions	1,109	1,250	2,359	-	-	2,359
Employee Benefits	17,095	7,744	24,839	2,409	2,827	30,075
Equipment Lease	2,357	665	3,022	-	-	3,022
Fees	14,098	10,542	24,640	906	700	26,246
Insurance	26,115	11,192	37,307	-	-	37,307
Interest	8,779	-	8,779	-	-	8,779
Loan Discount Amortization	15,840	-	15,840	-	-	15,840
Miscellaneous	-	-	-	2,513	-	2,513
Occupancy	7,774	13,128	20,902	-	-	20,902
Office Expenses	34,053	9,605	43,658	-	-	43,658
Payroll	258,988	108,107	367,095	42,143	31,107	440,345
Payroll Taxes	25,189	10,514	35,703	4,100	3,025	42,828
Postage and Shipping	2,687	401	3,088	120	803	4,011
Printing and Publications	8,787	1,312	10,099	393	2,623	13,115
Professional Fees	2,388	334	2,722	18,479	618	21,819
Public Relations	31,804	-	31,804	-	-	31,804
Purchased Product	8,103	-	8,103	-	-	8,103
Repairs and Maintenance	9,624	10,803	20,427	-	-	20,427
Special Events	4,291	-	4,291	-	48,041	52,332
Supplies	20,852	991	21,843	198	99	22,140
Telephone	2,964	2,963	5,927	-	-	5,927
Tithe to Habitat For Humanity International, Inc.	38,907	-	38,907	-	-	38,907
Travel	5,352	1,255	6,607	-	-	6,607
<b>Total</b>	<b>\$ 1,750,491</b>	<b>\$ 230,957</b>	<b>\$ 1,981,448</b>	<b>\$ 74,458</b>	<b>\$ 90,971</b>	<b>\$ 2,146,877</b>

See accompanying Notes to Financial Statements.



**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2021**

2021

	Program Services			Supporting Services		Total Expenses
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	
Bad Debts	\$ -	\$ -	\$ -	\$ 750	\$ -	\$ 750
Conferences and Conventions	3,217	-	3,217	-	-	3,217
Construction Costs	875,616	-	875,616	-	-	875,616
Depreciation	9,765	40,151	49,916	2,684	1,073	53,673
Dues and Subscriptions	1,308	1,474	2,782	-	-	2,782
Employee Benefits	14,286	6,483	20,769	2,076	1,866	24,711
Equipment Lease	3,774	1,065	4,839	-	-	4,839
Fees	5,971	9,961	15,932	841	661	17,434
Insurance	24,539	10,517	35,056	-	-	35,056
Interest	10,285	3,448	13,733	-	-	13,733
Loan Discount Amortization	15,840	-	15,840	-	-	15,840
Miscellaneous	5,382	-	5,382	2,980	-	8,362
Occupancy	7,929	11,737	19,666	-	-	19,666
Office Expenses	21,782	6,144	27,926	-	-	27,926
Payroll	226,922	102,978	329,900	32,969	29,638	392,507
Payroll Taxes	20,609	9,353	29,962	2,994	2,692	35,648
Postage and Shipping	2,927	437	3,364	130	874	4,368
Printing and Publications	5,613	838	6,451	251	1,675	8,377
Professional Fees	169	224	393	27,803	169	28,365
Public Relations	22,427	-	22,427	-	-	22,427
Repairs and Maintenance	5,104	6,961	12,065	-	-	12,065
Special Events	26,591	-	26,591	-	45,465	72,056
Supplies	25,012	2,210	27,222	442	220	27,884
Telephone	3,237	3,237	6,474	-	-	6,474
Tithe to Habitat For Humanity International, Inc.	37,308	-	37,308	-	-	37,308
Travel	2,206	518	2,724	-	-	2,724
<b>Total</b>	<b>\$ 1,377,819</b>	<b>\$ 217,736</b>	<b>\$ 1,595,555</b>	<b>\$ 73,920</b>	<b>\$ 84,333</b>	<b>\$ 1,753,808</b>

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Contributors and Grants	\$ 594,854	\$ 777,688
Cash Received from Sales and Special Events	1,593,130	1,263,365
Interest Received	528	306
Interest Paid	(8,779)	(13,733)
Cash Paid to Employees and Suppliers	(1,799,729)	(2,057,624)
Net Cash Provided (Used) by Operating Activities	380,004	(29,998)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Principal Repayments From Homeowners	167,108	371,038
Purchases of Property and Equipment	(51,062)	(22,933)
Net Cash Provided by Investing Activities	116,046	348,105
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt	(30,645)	(167,351)
Net Cash Used by Financing Activities	(30,645)	(167,351)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	465,405	150,756
Cash and Cash Equivalents - Beginning of Year	947,439	796,683
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,412,844	\$ 947,439

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	2021
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 193,551	\$ 707,291
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Amortization on Mortgage Discounts	(28,836)	(36,070)
Remaining Discount from Early Mortgage Payoffs - Receivable	(62,184)	(170,952)
Loss on Disposal of Equipment	-	1,964
Depreciation	56,423	53,673
Amortization on Note Discounts	15,840	15,840
Loan Forgiveness	-	(77,200)
(Increase) Decrease in Assets:		
Accounts Receivable	19,750	(12,250)
Pledges Receivable	49,077	(27,288)
Notes Receivable	(12,541)	2,493
Inventory	29,553	(18,109)
Construction in Progress	157,819	(462,627)
Prepaid Expenses	(5,904)	(1,216)
Increase (Decrease) in Liabilities:		
Accounts Payable	(24,741)	(28,935)
Payroll Liabilities	563	6,270
Accrued Expenses	(8,366)	17,118
Net Cash Provided (Used) by Operating Activities	\$ 380,004	\$ (29,998)

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**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. 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 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, 2022 AND 2021**

**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:

	2022	2021
Cash in Checking	\$ 1,312,840	\$ 872,435
Cash in Savings	100,004	75,004
Total Cash and Cash Equivalents	\$ 1,412,844	\$ 947,439

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:

	2022	2021
Building Materials	\$ 1,162	\$ 30,715
Total Inventory	\$ 1,162	\$ 30,715

**Property and Equipment**

Property and equipment additions over \$2,500 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, 2022 and 2021 was \$56,423 and \$53,673, 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 2022.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**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, 2022 AND 2021**

**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. 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.

**Line of Credit**

The Organization has an unsecured \$200,000 line of credit at a local bank with an interest rate of 6.5%, which matures on February 1, 2023. The Organization had no outstanding balances on the line of credit as of June 30, 2022 and 2021.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

**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, 2022 and 2021.

**Change in Accounting Principle**

During fiscal period 2022, the Organization adopted FASB Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, which requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities and profit additional disclosures about contributions to nonfinancial assets. Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 6, 2022, the date the financial statements were available to be issued. Subsequent to year end, the Organization agreed to assume 13 mortgages from an affiliate Habitat for Humanity. The gross amount of these mortgages receivable total \$808,186 with \$204,495 being payable to an HRA for a net positive impact of \$603,691.

**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.



**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 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:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 1,412,844	\$ 947,439
Accounts Receivable	4,500	24,250
Current Maturities of Mortgages Receivable	27,115	29,874
Current Maturities of Pledges Receivable	<u>26,137</u>	<u>75,214</u>
Total Financial Assets	1,470,596	1,076,777
Donor-imposed Restrictions:		
Funds Subject to Purpose Restrictions	<u>(9,730)</u>	<u>(30,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 1,460,866</u>	<u>\$ 1,046,777</u>

**NOTE 3 PLEDGES RECEIVABLE**

Pledges Receivable were due as follows:

	<u>2022</u>	<u>2021</u>
Unconditional Promise to Give Expected to be Collected in:		
Less Than One Year	<u>\$ 26,137</u>	<u>\$ 75,214</u>
Total Unconditional Promises to Give	<u>\$ 26,137</u>	<u>\$ 75,214</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.**  
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**NOTE 4 MORTGAGES RECEIVABLE (CONTINUED)**

These mortgages have been discounted to reflect interest at rates ranging from 7.23% to 8.48% as follows:

	<u>2022</u>	<u>2021</u>
Noninterest-Bearing Mortgages Receivable	\$ 650,832	\$ 817,940
Less: Current Portion of Mortgages Receivable	(55,543)	(62,838)
Less: Unamortized Mortgage Discount	(373,461)	(464,481)
Adjust for Current Portion of Unamortized Mortgage Discount	<u>28,428</u>	<u>32,964</u>
Mortgages Receivable, Net of Current Portion and Discount	<u><u>\$ 250,256</u></u>	<u><u>\$ 323,585</u></u>

As of June 30, 2022 and 2021, mortgages receivable (net of discount) of \$107,219 and \$138,192, 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, 2022 and 2021, long-term debt consists of the following:

<u>Description</u>	<u>2022</u>	<u>2021</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.	<u>\$ 421,385</u>	<u>\$ 452,030</u>
Total Long-Term Debt	421,385	452,030
Less: Current Portion of Long-Term Debt	(30,956)	(30,883)
Less: Unamortized Loan Discount	(152,322)	(168,162)
Adjust for Current Portion of Unamortized Loan Discount	<u>15,840</u>	<u>15,840</u>
Long-Term Debt, Net of Current Portion and Discount	<u><u>\$ 253,947</u></u>	<u><u>\$ 268,825</u></u>

Future principal payments are as follows:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2023	\$ 30,956
2024	31,757
2025	32,336
2026	32,931
2027	33,544
Thereafter	<u>259,861</u>
Total	<u><u>\$ 421,385</u></u>

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.  
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**NOTE 6    CONDITIONAL PROMISES TO GIVE**

During the years ended June 30, 2022 and 2021, the Organization received five and four promises to give totaling \$410,111 and \$329,717, 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 2022 and 2021, respectively, some of the conditions were met and payment of \$43,841 and \$149,613 were 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 \$421,385 and \$452,030 for the years ended June 30, 2022 and 2021, 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 2022 and 2021 was \$400 for both years, respectively.

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, 2022 and 2021 were \$38,907 and \$37,308, respectively. The Organization also pays an annual fee of \$1,500 to Habitat for Humanity International, Inc.

**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:

	2022	2021
Purpose Restrictions	\$    324,751	\$    461,610
Total Released Net Assets With Donor Restrictions	\$    324,751	\$    461,610

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.**  
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**NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS**

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

	2022	2021
Purpose Restrictions:		
DEI Toolkit	\$ 9,730	\$ -
Brandon House	-	30,000
Total Net Assets With Donor Restrictions	\$ 9,730	\$ 30,000

**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.

**NOTE 11 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:

	2022			2021		
	Affordable Housing	Management and General	Total	Affordable Housing	Management and General	Total
Professional Services	\$ -	\$ 26,439	\$ 26,439	\$ -	\$ 33,183	\$ 33,183
Construction Costs	36,028	-	36,028	28,404	-	28,404
Donated Materials	34,015	-	34,015	116,050	-	116,050
Land	20,700	-	20,700	-	-	-
Total	\$ 90,743	\$ 26,439	\$ 117,182	\$ 144,454	\$ 33,183	\$ 177,637

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.



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