

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2024 AND 2023



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAcconnect.com

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2024 AND 2023**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	9



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, 2024 and 2023, 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, 2024 and 2023, 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). 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
September 26, 2024

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 AND 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,270,954	\$ 1,592,645
Accounts Receivable	5,895	2,145
Current Mortgages Receivable, Net of Current Discount	33,096	36,061
Pledges Receivable	37,021	120,518
Construction in Progress	1,189,017	567,552
Inventory	55,389	51,505
Prepaid Expenses	-	537
Total Current Assets	2,591,372	2,370,963
MORTGAGES RECEIVABLE, Net of Current Portion, Discount, and Allowance for Credit Losses	487,885	572,770
PROPERTY AND EQUIPMENT (at Cost)		
Land	418,266	418,266
Building and Improvements	924,059	834,744
Equipment	133,543	133,543
Total Property and Equipment	1,475,868	1,386,553
Less: Accumulated Depreciation	(454,661)	(390,649)
Net Property and Equipment (at Depreciated Cost)	1,021,207	995,904
OTHER ASSETS		
Funds Held by Foundation	20,000	-
Notes Receivable	20,488	23,409
Total Other Assets	40,488	23,409
Total Assets	\$ 4,140,952	\$ 3,963,046
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 56,134	\$ 42,102
Payroll Liabilities	52,078	55,240
Accrued Expenses	5,317	13,401
Current Long-Term Debt, Net of Discount	24,658	20,768
Total Current Liabilities	138,187	131,511
LONG-TERM DEBT, Net of Current Portion and Discount	340,605	330,514
Total Liabilities	478,792	462,025
NET ASSETS		
Without Donor Restrictions:		
Undesignated	3,634,660	3,076,021
Designated by the Board for Operating Reserve	25,000	365,000
Total Without Donor Restrictions	3,659,660	3,441,021
With Donor Restrictions	2,500	60,000
Total Net Assets	3,662,160	3,501,021
Total Liabilities and Net Assets	\$ 4,140,952	\$ 3,963,046

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2024 AND 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT						
Home Sales	\$ 1,052,982	\$ -	\$ 1,052,982	\$ 1,024,161	\$ -	\$ 1,024,161
ReStore Sales	416,551	-	416,551	410,851	-	410,851
Contributions and Grants	367,856	337,103	704,959	229,980	380,128	610,108
Donated Services and Assets	551,575	-	551,575	502,035	-	502,035
Special Events	44,650	-	44,650	48,117	-	48,117
Interest Income	2,364	-	2,364	1,611	-	1,611
Other Income	22,180	-	22,180	591,957	-	591,957
Mortgage Discount Revenue-Retired Loans	70,922	-	70,922	27,458	-	27,458
Mortgage Discount Amortization	42,451	-	42,451	49,400	-	49,400
Mortgage Discount Amortization on New Loans	-	-	-	103,148	-	103,148
Net Assets Released from Restrictions	394,603	(394,603)	-	329,858	(329,858)	-
Total Revenues and Support	<u>2,966,134</u>	<u>(57,500)</u>	<u>2,908,634</u>	<u>3,318,576</u>	<u>50,270</u>	<u>3,368,846</u>
EXPENSES						
Program Services:						
Affordable Housing Costs	1,798,735	-	1,798,735	2,161,141	-	2,161,141
ReStore	738,824	-	738,824	633,059	-	633,059
Total Program Services	<u>2,537,559</u>	<u>-</u>	<u>2,537,559</u>	<u>2,794,200</u>	<u>-</u>	<u>2,794,200</u>
Supporting Services:						
Management and General	101,760	-	101,760	83,439	-	83,439
Fundraising	108,176	-	108,176	53,965	-	53,965
Total Supporting Services	<u>209,936</u>	<u>-</u>	<u>209,936</u>	<u>137,404</u>	<u>-</u>	<u>137,404</u>
Total Expenses	<u>2,747,495</u>	<u>-</u>	<u>2,747,495</u>	<u>2,931,604</u>	<u>-</u>	<u>2,931,604</u>
TOTAL CHANGE IN NET ASSETS	218,639	(57,500)	161,139	386,972	50,270	437,242
Net Assets - Beginning of Year	<u>3,441,021</u>	<u>60,000</u>	<u>3,501,021</u>	<u>3,054,049</u>	<u>9,730</u>	<u>3,063,779</u>
NET ASSETS - END OF YEAR	<u>\$ 3,659,660</u>	<u>\$ 2,500</u>	<u>\$ 3,662,160</u>	<u>\$ 3,441,021</u>	<u>\$ 60,000</u>	<u>\$ 3,501,021</u>

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		Total Expenses
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	
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	37,481	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	2,463	2,330	-	4,793
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	39,510	5,065	5,706	50,281
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	4,407	17,115	220	110	17,446
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	<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.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Program Services			Supporting Services		Total Expenses
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	
Conferences and Conventions	\$ 9,780	\$ -	\$ 9,780	\$ -	\$ -	\$ 9,780
Construction Costs	1,130,253	-	1,130,253	-	-	1,130,253
Depreciation	18,161	40,151	58,312	3,135	1,254	62,701
Dues and Subscriptions	1,272	1,434	2,706	-	-	2,706
Employee Benefits	31,882	13,995	45,877	5,625	2,691	54,193
Equipment Lease	1,686	475	2,161	-	-	2,161
Fees	21,863	12,700	34,563	1,332	851	36,746
Insurance	25,608	10,975	36,583	-	-	36,583
Interest	8,231	-	8,231	-	-	8,231
Loan Discount Amortization	21,753	-	21,753	-	-	21,753
Loan Discount Amortization on New Loans	415,203	-	415,203	-	-	415,203
Miscellaneous	-	-	-	2,326	-	2,326
Occupancy	7,598	16,030	23,628	-	-	23,628
Office Expenses	37,017	10,441	47,458	-	-	47,458
Payroll	267,534	117,431	384,965	47,200	22,579	454,744
Payroll Taxes	24,244	10,641	34,885	4,277	2,046	41,208
Postage and Shipping	3,439	513	3,952	154	1,027	5,133
Printing and Publications	10,977	1,638	12,615	491	3,277	16,383
Professional Fees	9,753	1,364	11,117	18,587	2,523	32,227
Public Relations	33,688	-	33,688	-	-	33,688
Purchased Product	10,306	-	10,306	-	-	10,306
Repairs and Maintenance	10,580	7,736	18,316	-	-	18,316
Special Events	2,641	-	2,641	-	17,560	20,201
Supplies	22,890	1,560	24,450	312	157	24,919
Telephone	3,097	3,097	6,194	-	-	6,194
Tithe to Habitat For Humanity International, Inc.	26,207	-	26,207	-	-	26,207
Travel	5,478	1,285	6,763	-	-	6,763
In-Kinds	-	381,593	381,593	-	-	381,593
Total	<u>\$ 2,161,141</u>	<u>\$ 633,059</u>	<u>\$ 2,794,200</u>	<u>\$ 83,439</u>	<u>\$ 53,965</u>	<u>\$ 2,931,604</u>

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributors and Grants	\$ 787,627	\$ 512,905
Cash Received from Sales and Special Events	1,536,363	2,011,430
Interest Received	2,364	1,611
Interest Paid	(7,668)	(8,231)
Cash Paid to Employees and Suppliers	(2,721,069)	(2,410,121)
Net Cash Provided (Used) by Operating Activities	(402,383)	107,594
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(20,000)	-
Principal Repayments From Homeowners	196,702	115,211
Purchases of Property and Equipment	(89,315)	(6,159)
Net Cash Provided by Investing Activities	87,387	109,052
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	34,750	-
Payments on Long-Term Debt	(41,445)	(36,845)
Net Cash Used by Financing Activities	(6,695)	(36,845)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(321,691)	179,801
Cash and Cash Equivalents - Beginning of Year	1,592,645	1,412,844
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,270,954	\$ 1,592,645

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2024 AND 2023**

	2024	2023
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 161,139	\$ 437,242
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Gain on Mortgages Assumed	-	(584,557)
Amortization on Mortgage Discounts	(42,451)	(49,400)
Remaining Discount from Early Mortgage Payoffs - Receivable	(70,922)	(27,458)
Provision for Loan Loss	4,521	-
Loss on Disposal of Equipment	-	2,550
Depreciation	64,012	62,701
Discount on New Mortgages Assumed	-	415,203
Amortization on Note Discounts	20,676	21,753
Loan Discount Revenue on New Long-Term Debt Assumed	-	(103,148)
(Increase) Decrease in Assets:		
Accounts Receivable	(3,750)	2,355
Pledges Receivable	83,497	(94,381)
Notes Receivable	2,921	(5,177)
Inventory	(3,884)	(50,343)
Construction in Progress	(621,465)	60,683
Prepaid Expenses	537	10,932
Increase (Decrease) in Liabilities:		
Accounts Payable	14,032	14,867
Payroll Liabilities	(3,162)	1,612
Accrued Expenses	(8,084)	(7,840)
Net Cash Provided (Used) by Operating Activities	\$ (402,383)	\$ 107,594
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Gross Mortgages Receivable Assumed	\$ -	\$ 785,016
Gross Long-Term Debt Assumed	\$ -	\$ 200,459

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2024 AND 2023

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:

	2024	2023
Cash in Checking	\$ 1,195,824	\$ 1,492,567
Cash in Savings	75,130	100,078
Total Cash and Cash Equivalents	\$ 1,270,954	\$ 1,592,645

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:

	2024	2023
Building Materials	\$ 15,418	\$ 20,785
ReStore Donated Inventory	39,971	30,720
Total Inventory	\$ 55,389	\$ 51,505

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, 2024 and 2023 was \$64,012 and \$62,701, 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, 2024 AND 2023

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 2024.

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, 2024 AND 2023

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, 2024 AND 2023

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. Prior to the adoption of ASC 326, the Company used an incurred loss model to measure an allowance for loan losses.

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 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.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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 8.75%, which matures on February 1, 2025. The Organization had no outstanding balances on the line of credit as of June 30, 2024 and 2023.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2024 and 2023.

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.

Change in Accounting Principle

The Organization has adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 26, 2024, the date the financial statements were available to be issued.

Subsequent to year end the Organization entered into a \$1,600,000 construction loan with USDA dated July 3, 2024 for the site development of Summer Meadows which is anticipated to be paid off as homes are sold on the development.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 2 INVESTMENTS

Investments consist of the following as of June 30:

	2024	2023
Community Foundation Holdings	\$ 20,000	\$ -
Total	\$ 20,000	\$ -

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.

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, 2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Community Foundation Holdings	\$ -	\$ -	\$ 20,000	\$ 20,000
Total	\$ -	\$ -	\$ 20,000	\$ 20,000
<u>June 30, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Community Foundation Holdings	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -	\$ -

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:

	2024	2023
Balance - Beginning of Year	\$ -	\$ -
Contributions	20,000	-
Distributions	-	-
Change in Value	-	-
Balance - End of Year	\$ 20,000	\$ -

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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.

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>2024</u>	<u>2023</u>
Cash and Cash Equivalents	\$ 1,270,954	\$ 1,592,645
Accounts Receivable	5,895	2,145
Current Maturities of Mortgages Receivable	33,096	36,061
Current Maturities of Pledges Receivable	37,021	120,518
Total Financial Assets	<u>1,346,966</u>	<u>1,751,369</u>
Donor-imposed Restrictions:		
Funds Subject to Purpose Restrictions	<u>(2,500)</u>	<u>(60,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 1,344,466</u>	<u>\$ 1,691,369</u>

NOTE 4 PLEDGES RECEIVABLE

Pledges Receivable were due as follows:

	<u>2024</u>	<u>2023</u>
Unconditional Promise to Give Expected to be Collected in:		
Less Than One Year	<u>\$ 37,021</u>	<u>\$ 120,518</u>
Total Unconditional Promises to Give	<u>\$ 37,021</u>	<u>\$ 120,518</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, 2024 AND 2023

NOTE 5 MORTGAGES RECEIVABLE (CONTINUED)

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

	2024	2023
Noninterest-Bearing Mortgages Receivable	\$ 1,123,935	\$ 1,320,637
Less: Current Portion of Mortgages Receivable	(75,596)	(85,561)
Less: Unamortized Mortgage Discount	(598,433)	(711,806)
Less: Allowance for Credit Losses	(4,521)	-
Adjust for Current Portion of Unamortized Mortgage Discount	42,500	49,500
Mortgages Receivable, Net of Current Portion and Discount	\$ 487,885	\$ 572,770

As of June 30, 2024 and 2023, gross mortgages receivable of \$687,281 and \$732,787, respectively, are pledged as collateral for the Organization's notes payable.

Transactions in the allowance for credit losses during the year ended June 30, 2024 are summarized as follows. The Organization adopted CECL as of July 1, 2023.

Allowance for Credit Losses:	1-4 Family
Beginning Balance	\$ -
Adoption of ASC 326	-
Provision	4,521
Mortgages Charged Off	-
Ending Balance	\$ 4,521

No amount was recorded for the year ended June 30, 2023 as management believed the mortgages receivable to be fully collectible.

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

	2024	2023
<u>Past Due Loans</u>		
15-29 Days Past Due	\$ 137,937	\$ -
30-59 Days Past Due	123,348	80,059
60-89 Days Past Due	-	-
>90 Days Past Due	-	-
Nonaccrual Loans	-	-
Total	\$ 261,285	\$ 80,059

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. 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, 2024 AND 2023

NOTE 6 LONG-TERM DEBT

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

<u>Description</u>	<u>2024</u>	<u>2023</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.	\$ 543,554	\$ 584,999
Notes payable to Habitat for Humanity International, Inc. in monthly installments through January 2031, 0% interest.	<u>34,750</u>	<u>-</u>
Total Long-Term Debt	578,304	584,999
Less: Current Portion of Long-Term Debt	(45,334)	(41,444)
Less: Unamortized Loan Discount	(213,041)	(233,717)
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>\$ 340,605</u>	<u>\$ 330,514</u>

Future principal payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 45,334
2026	48,629
2027	50,196
2028	49,731
2029	46,700
Thereafter	<u>337,714</u>
Total	<u>\$ 578,304</u>

NOTE 7 CONDITIONAL PROMISES TO GIVE

During the years ended June 30, 2024 and 2023, the Organization received four and five promises to give totaling \$379,318 and \$155,700, 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 2024 and 2023, respectively, some of the conditions were met and payment of \$283,106 and \$41,890 were received and recognized as revenue.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 8 RELATED PARTY TRANSACTIONS

As summarized in Note 5, the Organization has notes payable due to Habitat for Humanity of Minnesota, Inc., an affiliate, of \$578,304 and \$584,999 for the years ended June 30, 2024 and 2023, 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 2024 and 2023 was \$400 and \$500, 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, 2024 and 2023 were \$26,550 and \$26,207, respectively. The Organization also pays an annual fee of \$1,500 to Habitat for Humanity International, Inc.

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:

	2024	2023
Purpose Restrictions	\$ 394,603	\$ 329,858
Total Released Net Assets With Donor Restrictions	\$ 394,603	\$ 329,858

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

	2024	2023
Purpose Restrictions:		
Enhance Alexandria	\$ -	\$ 50,000
Team Build	2,500	10,000
Total Net Assets With Donor Restrictions	\$ 2,500	\$ 60,000

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, 2024 AND 2023

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:

	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	\$ 121,371	\$ 418,777	\$ 11,427	\$ 551,575

	2023			
	Affordable Housing	The ReStore	Management and General	Total
Professional Services	\$ -	\$ -	\$ 6,702	\$ 6,702
Construction Costs	35,284	-	-	35,284
Donated Materials	78,456	-	-	78,456
Land	-	-	-	-
ReStore Donations	-	381,593	-	381,593
Total	\$ 113,740	\$ 381,593	\$ 6,702	\$ 502,035

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.



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.