

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of HFH of Douglas County, Minnesota, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HFH of Douglas County, Minnesota, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 19, 2018

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 526,458	243,917
Accounts Receivable	11,130	10,027
Current Mortgages Receivable, Net of Current Discount	56,598	63,824
Pledges Receivable	23,475	20,938
Construction in Progress	195,794	205,096
Inventory	105,942	328,201
Escrow Funds	-	2,500
Prepaid Expenses	2,894	2,894
Total Current Assets	922,291	877,397
MORTGAGES RECEIVABLE, Net of Current Portion and Discount	530,124	654,608
PROPERTY AND EQUIPMENT (at Cost)		
Land	418,266	432,196
Building and Improvements	555,185	505,287
Equipment	56,492	40,833
Construction in Progress	117,066	-
Total Property and Equipment	1,147,009	978,316
Less: Accumulated Depreciation	(141,943)	(114,769)
Net Property and Equipment (at Depreciated Cost)	1,005,066	863,547
OTHER ASSETS		
Pledges Receivable, Net of Current Portion	6,000	12,000
Notes Receivable	4,419	-
Land Held for Development	68,138	39,747
Total Other Assets	78,557	51,747
Total Assets	\$ 2,536,038	\$ 2,447,299

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2018 AND 2017**

	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 86,545	\$ 23,790
Payroll Liabilities	26,811	20,939
Accrued Expenses	9,764	10,366
Current Long-Term Debt, Net of Discount	29,627	289,242
Total Current Liabilities	152,747	344,337
LONG-TERM DEBT, Net of Current Portion and Discount	464,666	395,523
Total Liabilities	617,413	739,860
NET ASSETS		
Unrestricted	1,881,136	1,640,041
Designated	-	42,398
Temporarily Restricted	37,489	25,000
Total Net Assets	1,918,625	1,707,439
Total Liabilities and Net Assets	\$ 2,536,038	\$ 2,447,299

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Home Sales	\$ 564,152	\$ -	\$ 564,152	\$ 423,560	\$ -	\$ 423,560
ReStore Sales	250,752	-	250,752	238,801	-	238,801
Contributions	158,218	40,800	199,018	167,606	9,000	176,606
Donated Materials	46,021	-	46,021	24,496	-	24,496
Contributed Services	47,336	-	47,336	40,847	-	40,847
Grants	-	113,869	113,869	-	131,293	131,293
Special Events	21,650	-	21,650	10,250	-	10,250
Interest Income	897	-	897	343	-	343
Gain on Sale of Building	33,851	-	33,851	-	-	-
Mortgage Discount Revenue-Retired Loans	119,687	-	119,687	-	-	-
Mortgage Discount Amortization	47,964	-	47,964	54,273	-	54,273
Net Assets Released from Restrictions	142,180	(142,180)	-	140,293	(140,293)	-
Total Revenues and Support	<u>1,432,708</u>	<u>12,489</u>	<u>1,445,197</u>	<u>1,100,469</u>	<u>-</u>	<u>1,100,469</u>
EXPENSES						
Program Services						
Affordable Housing Costs	979,294	-	979,294	871,650	-	871,650
ReStore	154,989	-	154,989	168,507	-	168,507
Total Program Services	<u>1,134,283</u>	<u>-</u>	<u>1,134,283</u>	<u>1,040,157</u>	<u>-</u>	<u>1,040,157</u>
Supporting Services						
Management and General	73,776	-	73,776	50,014	-	50,014
Fundraising	25,952	-	25,952	23,026	-	23,026
Total Supporting Services	<u>99,728</u>	<u>-</u>	<u>99,728</u>	<u>73,040</u>	<u>-</u>	<u>73,040</u>
Total Expenses	<u>1,234,011</u>	<u>-</u>	<u>1,234,011</u>	<u>1,113,197</u>	<u>-</u>	<u>1,113,197</u>
TOTAL CHANGE IN NET ASSETS	198,697	12,489	211,186	(12,728)	-	(12,728)
Net Assets - Beginning of Year	<u>1,682,439</u>	<u>25,000</u>	<u>1,707,439</u>	<u>1,695,167</u>	<u>25,000</u>	<u>1,720,167</u>
NET ASSETS - END OF YEAR	<u><u>\$ 1,881,136</u></u>	<u><u>\$ 37,489</u></u>	<u><u>\$ 1,918,625</u></u>	<u><u>\$ 1,682,439</u></u>	<u><u>\$ 25,000</u></u>	<u><u>\$ 1,707,439</u></u>

See accompanying Notes to Financial Statements.

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

2018

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

See accompanying Notes to Financial Statements.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

2017

	Program Services			Supporting Services		Total Expenses
	Affordable Housing Costs	The ReStore	Program Services Total	Management and General	Fundraising	
Bad Debts	\$ 250	\$ -	\$ 250	\$ -	\$ -	\$ 250
Conferences and Conventions	2,534	354	2,888	-	655	3,543
Construction Costs	437,026	-	437,026	-	-	437,026
Depreciation	4,239	22,041	26,280	1,413	565	28,258
Dues and Subscriptions	5,407	285	5,692	-	-	5,692
Employee Benefits	9,210	4,231	13,441	1,983	453	15,877
Equipment Lease	2,816	232	3,048	166	99	3,313
Fees	5,226	3,577	8,803	673	188	9,664
Insurance	21,447	2,383	23,830	-	-	23,830
Interest	2,970	15,445	18,415	990	396	19,801
Loan Discount Amortization	19,008	-	19,008	-	-	19,008
Miscellaneous	1,240	-	1,240	4,974	-	6,214
Mortgage Discount Expense-New Loans	70,066	-	70,066	-	-	70,066
Occupancy	4,119	13,251	17,370	795	329	18,494
Office Expenses	2,956	-	2,956	-	-	2,956
Payroll	194,756	89,477	284,233	2,450	9,590	296,273
Payroll Taxes	12,638	5,806	18,444	2,721	622	21,787
Postage and Shipping	1,200	177	1,377	35	353	1,765
Printing and Publications	5,387	804	6,191	241	1,608	8,040
Professional Fees	-	-	-	33,250	400	33,650
Public Relations	13,577	3,394	16,971	-	-	16,971
Repairs and Maintenance	7,628	3,208	10,836	-	-	10,836
Special Events	1,035	-	1,035	-	7,129	8,164
Supplies	9,141	2,888	12,029	231	347	12,607
Telephone	4,008	461	4,469	92	46	4,607
Tithe to Habitat For Humanity International, Inc.	22,181	-	22,181	-	-	22,181
Travel	11,585	493	12,078	-	246	12,324
Total	\$ 871,650	\$ 168,507	\$ 1,040,157	\$ 50,014	\$ 23,026	\$ 1,113,197

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributors and Grants	\$ 292,194	\$ 329,834
Cash Received from Sales and Special Events	796,149	546,768
Interest Received	897	343
Interest Paid	(17,468)	(19,801)
Cash Paid to Employees and Suppliers	(773,184)	(847,039)
Net Cash Provided by Operating Activities	298,588	10,105
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal Repayments From Homeowners	299,361	90,874
Proceeds from Sale of Equipment	59,582	-
Purchase of Land Held for Development	-	(2,257)
Purchases of Property and Equipment	(142,759)	(2,648)
Net Cash Provided by Investing Activities	216,184	85,969
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(232,231)	(54,377)
Net Cash Used by Financing Activities	(232,231)	(54,377)
NET INCREASE IN CASH AND CASH EQUIVALENTS	282,541	41,697
Cash and Cash Equivalents - Beginning of Year	243,917	202,220
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 526,458	\$ 243,917

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 211,186	\$ (12,728)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Mortgages Issued to Homeowners	-	(125,843)
Amortization on Mortgage Discounts	(47,964)	(54,273)
Remaining Discount from Early Mortgage Payoffs - Receivable	(119,687)	-
Land Inventory Transferred to Construction in Progress	(28,391)	16,068
Donated Property and Equipment	(18,634)	-
Gain on Sale of Building	(33,851)	-
Depreciation	34,548	28,258
Discount on New Mortgages Issued	-	70,066
Amortization on Note Discounts	16,764	19,008
Remaining Discount from Early Mortgage Payoffs - Note Payable	24,995	-
Effect of Changes in Operating Assets and Liabilities		
Accounts Receivable	(1,103)	(2,100)
Pledges Receivable	3,463	24,035
Notes Receivable	(4,419)	-
Inventory	222,259	(131,059)
Construction in Progress	9,302	169,360
Escrow Funds Receivable	2,500	(500)
Prepaid Expenses	-	846
Accounts Payable	22,350	5,732
Payroll Liabilities	5,872	617
Accrued Expenses	(602)	2,618
Net Cash Provided by Operating Activities	\$ 298,588	\$ 10,105
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and Equipment Purchased through Accounts Payable	\$ 40,405	\$ -
Mortgages Issued to Homeowners	\$ -	\$ 125,843

See accompanying Notes to Financial Statements.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

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

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose. No amounts were designated for the year ending June 30, 2018.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. Generally, the donors of these resources permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization has no permanently restricted net assets.

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, 2018 AND 2017

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:

	2018	2017
Cash in Checking	\$ 326,397	53,874
Cash in Savings	200,061	190,043
Total Cash and Cash Equivalents	\$ 526,458	\$ 243,917

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:

	2018	2017
Building Materials	\$ 986	\$ 22,867
Finished Houses	104,956	305,334
Total Inventory	\$ 105,942	\$ 328,201

Property and Equipment

Property and equipment additions over \$1,000 are recorded at cost except those involving donations. Donated items are recorded at their estimated fair market value at the time of donation. Maintenance and repairs are charged to expense. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. Depreciation expense for the years ended June 30, 2018 and 2017 was \$34,548 and \$28,258, 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 2018.

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Escrow Funds

Escrow funds include amounts set aside at a house closing until the house has passed final inspection. The Organization anticipates fully collecting these funds, therefore no allowance has been recorded.

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, 2018 AND 2017

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 3.

Contributions

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

Line of Credit

The Organization has an unsecured \$200,000 line of credit at a local bank with an interest rate of 6%, which matures on January 11, 2019. The Organization had no outstanding balances on the line of credit as of June 30, 2018 and 2017.

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, 2018 and 2017.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services

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

	2018			2017		
	Affordable Housing	Management and General	Total	Affordable Housing	Management and General	Total
Professional Services	\$ -	\$ 17,826	\$ 17,826	\$ -	\$ 17,892	\$ 17,892
Construction Costs	29,510	-	29,510	22,955	-	22,955
Total	<u>\$ 29,510</u>	<u>\$ 17,826</u>	<u>\$ 47,336</u>	<u>\$ 22,955</u>	<u>\$ 17,892</u>	<u>\$ 40,847</u>

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 19, 2018, the date the financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

Pledges Receivable were due as follows:

	2018	2017
Unconditional Promise to Give Expected to be Collected in:		
Less Than One Year	\$ 23,475	\$ 20,938
One to Five Years	6,000	12,000
Total Unconditional Promises to Give	<u>\$ 29,475</u>	<u>\$ 32,938</u>

NOTE 3 MORTGAGES RECEIVABLE

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

HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 MORTGAGES RECEIVABLE (CONTINUED)

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

	<u>2018</u>	<u>2017</u>
Noninterest Bearing Mortgages Receivable	\$ 1,393,941	\$ 1,693,302
Less: Current Portion of Mortgages Receivable	(110,286)	(117,512)
Less: Unamortized Mortgage Discount	(807,219)	(974,870)
Adjust for Current Portion of Unamortized Mortgage Discount	<u>53,688</u>	<u>53,688</u>
Mortgages Receivable, Net of Current Portion and Discount	<u><u>\$ 530,124</u></u>	<u><u>\$ 654,608</u></u>

As of June 30, 2018 and 2017, mortgages receivable (net of discount) of \$234,452 and \$346,894, 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 4 LONG-TERM DEBT

As of June 30, 2018 and 2017, long-term debt consists of the following:

<u>Description</u>	<u>2018</u>	<u>2017</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%- 8%; Secured by mortgages receivable.	\$ 544,007	\$ 662,659
Mortgage payable - bank, 59 monthly installments of \$1,117 with interest calculated on the unpaid principal balances at 3.125% beginning January 1, 2018 and a balloon payment of \$115,822 due December 1, 2022; Secured by real estate.	154,892	262,471
Contract for deed - bank, five yearly payments of \$6,000 with interest calculated on the unpaid principal balance at 1.68% beginning January 1, 2016; Secured by 1.12 acres of land.	<u>12,000</u>	<u>18,000</u>
Total Long-Term Debt	710,899	943,130
Less: Current Portion of Long-Term Debt	(46,391)	(308,250)
Less: Unamortized Loan Discount	(216,606)	(258,365)
Adjust for Current Portion of Unamortized Loan Discount	<u>16,764</u>	<u>19,008</u>
Long-Term Debt, Net of Current Portion and Discount	<u><u>\$ 464,666</u></u>	<u><u>\$ 395,523</u></u>

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 LONG-TERM DEBT (CONTINUED)

Future principal payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 46,391
2020	44,922
2021	39,287
2022	40,311
2023	149,799
Thereafter	390,189
Total	<u>\$ 710,899</u>

NOTE 5 CONDITIONAL PROMISES TO GIVE

On January 27, 2017, the Organization received a promise to give totaling \$71,500 that contained donor conditions. Since this is a conditional promise to give, it is not recorded as contribution revenue until the donor conditions are met. During 2017, some of the conditions were met and payment of \$35,750 was received and recognized as revenue. As of June 30, 2018, the remaining conditions were met and the final payment of \$35,750, was received and recognized as revenue.

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

NOTE 6 RELATED PARTY TRANSACTIONS

As summarized in Note 3, the Organization has notes payable due to Habitat for Humanity of Minnesota, Inc., an affiliate, of \$544,007 and \$662,656 for the years ended June 30, 2018 and 2017, 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 2018 and 2017 was \$400 and \$300, respectively.

The Organization contributes 10% of its unrestricted contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. for their international housing programs. Contributions for the years ended June 30, 2018 and 2017 were \$20,911 and \$22,181, respectively. The Organization also pays an annual fee of \$1,500 to Habitat for Humanity International, Inc.

**HFH OF DOUGLAS COUNTY, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 NET ASSETS RELEASED FROM RESTRICTION

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:

	<u>2018</u>	<u>2017</u>
Purpose Restrictions	\$ 142,180	\$ 140,293
Total Released Temporarily Restricted Net Assets	<u>\$ 142,180</u>	<u>\$ 140,293</u>

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Purpose Restrictions:		
Restore Expansion	\$ -	\$ 25,000
Aging in Place	7,203	-
Women's Build and Other Programs	286	-
Brandon House	30,000	-
Total Temporarily Restricted Net Assets	<u>\$ 37,489</u>	<u>\$ 25,000</u>

NOTE 9 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.

As of June 30, 2018, the Organization had construction in progress related to the expansion of the ReStore of which \$58,713 of the contract was not completed by year-end.