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December 2, 2022

PRIVATE AND CONFIDENTIAL

Josh Hanshaw
Lincoln/Lancaster County Habitat for Humanity
4615 Orchard St
Lincoln, NE 68503

Dear Josh:

Enclosed are six copies of the audited financial statements of Lincoln/Lancaster County Habitat for Humanity as of June 30, 2022 and 2021.

It was our pleasure to provide services to Lincoln/Lancaster County Habitat for Humanity and we appreciate your assistance while conducting the audit.

If we can be of further assistance, please do not hesitate to contact our office.

Very truly yours,

HBE LLP

Kiley A. Wiechman, CPA,
Partner

KAW/sas

Enclosure

*Lincoln/Lancaster County Habitat for Humanity
Lincoln, Nebraska*

June 30, 2022 and 2021

*Financial Statements
and
Independent Auditor's Report*



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Lincoln/Lancaster County Habitat for Humanity

Years ended June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Lincoln/Lancaster County Habitat for Humanity
Lincoln, NE

Opinion

We have audited the financial statements of Lincoln/Lancaster County Habitat for Humanity, 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 accompanying financial statements present fairly, in all material respects, the financial position of Lincoln/Lancaster County Habitat for Humanity 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 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lincoln/Lancaster County Habitat for Humanity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note P to the financial statements, in 2022, the entity adopted new accounting guidance ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

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 Lincoln/Lancaster County Habitat for Humanity's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities 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 auditor's 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 Lincoln/Lancaster County Habitat for Humanity'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 Lincoln/Lancaster County Habitat for Humanity'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.



Lincoln, Nebraska
November 28, 2022

Lincoln/Lancaster County Habitat for Humanity

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents (notes A and J)	\$ 746,598	\$ 1,011,954
Restricted cash, escrow (note A)	117,303	8,000
Prepaid expenses and other assets	36,207	16,434
Accounts receivable (notes A and J)	309,975	-
Grants receivable (notes A and J)	122,179	26,910
Notes receivable (note A)	87,366	79,200
Mortgage loans receivable, net of discount (notes A and B)	1,889,466	2,075,819
Inventory, lots and homes (notes A and C)	374,059	945,152
Inventory, ReStore (notes A and C)	219,671	111,166
Property and equipment, net (notes A and D)	557,035	447,304
Other assets	<u>10,345</u>	<u>10,345</u>
Total assets	<u>\$ 4,470,204</u>	<u>\$ 4,732,284</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 80,777	\$ 45,463
Funds held in escrow	115,309	153,316
Notes payable (note F)	502,854	540,022
Lots to be transferred to homeowners (note G)	173,955	265,363
Deferred grant revenue	<u>46,060</u>	<u>52,881</u>
Total liabilities	<u>918,955</u>	<u>1,057,045</u>
NET ASSETS (note A)		
Without donor restrictions	3,541,249	3,648,535
With donor restrictions (notes I and J)	<u>10,000</u>	<u>26,704</u>
Total net assets	<u>3,551,249</u>	<u>3,675,239</u>
Total liabilities and net assets	<u>\$ 4,470,204</u>	<u>\$ 4,732,284</u>

See accompanying notes to the financial statements.

Lincoln/Lancaster County Habitat for Humanity

STATEMENTS OF ACTIVITIES

Years ended June 30,

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
ReStore						
Sale of purchased and donated merchandise	\$ 506,525	\$ -	\$ 506,525	\$ 428,283	\$ -	\$ 428,283
Donated merchandise	475,078	-	475,078	388,578	-	388,578
Cost of purchased and donated merchandise sold	(384,196)	-	(384,196)	(424,125)	-	(424,125)
	597,407	-	597,407	392,736	-	392,736
Cash contributions	263,576	-	263,576	178,307	-	178,307
In-kind contributions - materials and services	6,178	-	6,178	15,847	-	15,847
Grants	659,972	10,000	669,972	288,340	26,704	315,044
Sales to homeowners	629,521	-	629,521	427,629	-	427,629
Fundraising	36,705	-	36,705	7,200	-	7,200
Other program revenue	13,154	-	13,154	108,377	-	108,377
Mortgage loan discount amortization	152,327	-	152,327	361,338	-	361,338
Miscellaneous revenue	10,564	-	10,564	28,406	-	28,406
Interest income	1,313	-	1,313	257	-	257
Net assets released from restrictions	26,704	(26,704)	-	64,663	(64,663)	-
Total revenue and support	2,397,421	(16,704)	2,380,717	1,873,100	(37,959)	1,835,141
EXPENSES						
Program services	2,114,784	-	2,114,784	1,506,546	-	1,506,546
Management and general	235,527	-	235,527	203,005	-	203,005
Fundraising and development	154,396	-	154,396	127,342	-	127,342
Total expenses	2,504,707	-	2,504,707	1,836,893	-	1,836,893
INCREASE (DECREASE) IN NET ASSETS	(107,286)	(16,704)	(123,990)	36,207	(37,959)	(1,752)
Net assets, beginning of year	3,648,535	26,704	3,675,239	3,612,328	64,663	3,676,991
Net assets, end of year	\$ 3,541,249	\$ 10,000	\$ 3,551,249	\$ 3,648,535	\$ 26,704	\$ 3,675,239

See accompanying notes to the financial statements.

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Lincoln/Lancaster County Habitat for Humanity
STATEMENTS OF FUNCTIONAL EXPENSES
Year ended June 30, 2022

	Program Services			Supporting Activities			Total
	Homeowner Services	ReStore	Total Program Services	Management and General	Fundraising and Development	Total Supporting Activities	
Payroll and benefits	\$ 222,301	\$ 306,015	\$ 528,316	\$ 140,119	\$ 114,052	\$ 254,171	\$ 782,487
Cost of homes sold	1,099,493	-	1,099,493	-	-	-	1,099,493
Fundraising	-	385	385	39	9,359	9,398	9,783
Tithe to HFHI	40,070	-	40,070	-	-	-	40,070
Taxes and insurance	6,750	24,293	31,043	8,354	1,534	9,888	40,931
Occupancy	8,118	161,893	170,011	5,272	4,306	9,578	179,589
Vehicle expense	6,877	12,083	18,960	-	-	-	18,960
Advertising	9,976	37,466	47,442	6,479	5,292	11,771	59,213
SOSI	-	-	-	15,000	-	15,000	15,000
Depreciation	6,310	19,785	26,095	18,177	-	18,177	44,272
Training, travel, and meetings	5,458	1,987	7,445	3,545	2,896	6,441	13,886
Telephone	3,647	5,664	9,311	2,368	1,934	4,302	13,613
Supplies	9,550	15,328	24,878	4,180	3,415	7,595	32,473
Printing and postage	566	13	579	367	300	667	1,246
Repairs and maintenance	3,199	5,961	9,160	2,077	1,697	3,774	12,934
Professional services	57,346	-	57,346	8,799	3,833	12,632	69,978
Service charges	-	15,412	15,412	3,759	4	3,763	19,175
Dues and subscriptions	10,242	2,919	13,161	6,651	5,433	12,084	25,245
Interest expense	-	10,807	10,807	5,409	-	5,409	16,216
Miscellaneous expenses	3,180	1,690	4,870	4,932	341	5,273	10,143
Total expenses	\$ 1,493,083	\$ 621,701	\$ 2,114,784	\$ 235,527	\$ 154,396	\$ 389,923	\$ 2,504,707

See accompanying notes to the financial statements.

Lincoln/Lancaster County Habitat for Humanity
STATEMENTS OF FUNCTIONAL EXPENSES

Year ended June 30, 2021

	Program Services			Supporting Activities			Total
	Homeowner Services	ReStore	Total Program Services	Management and General	Fundraising and Development	Total Supporting Activities	
Payroll and benefits	\$ 202,443	\$ 213,594	\$ 416,037	\$ 129,970	\$ 101,239	\$ 231,209	\$ 647,246
Cost of homes sold	481,395	-	481,395	-	-	-	481,395
Mortgage discount	249,821	-	249,821	-	-	-	249,821
Fundraising	-	-	-	-	658	658	658
Tithe to HFHI	34,000	1,000	35,000	-	-	-	35,000
Taxes and insurance	15,605	16,158	31,763	1,941	1,503	3,444	35,207
Occupancy	11,435	112,636	124,071	7,566	2,536	10,102	134,173
Vehicle expense	4,717	8,257	12,974	-	-	-	12,974
Advertising	10,175	30,872	41,047	7,010	5,517	12,527	53,574
SOSI	-	-	-	15,000	-	15,000	15,000
Depreciation	13,825	13,792	27,617	21,049	-	21,049	48,666
Training, travel, and meetings	38	-	38	641	678	1,319	1,357
Telephone	4,240	5,003	9,243	2,045	1,582	3,627	12,870
Supplies	6,145	5,430	11,575	4,233	3,278	7,511	19,086
Printing and postage	580	49	629	398	309	707	1,336
Repairs and maintenance	1,218	1,111	2,329	839	649	1,488	3,817
Professional services	22,861	6,101	28,962	3,753	2,766	6,519	35,481
Service charges	434	17,639	18,073	299	231	530	18,603
Dues and subscriptions	7,898	2,776	10,674	5,299	4,102	9,401	20,075
Interest expense	2,508	156	2,664	1,728	1,338	3,066	5,730
Miscellaneous expenses	2,086	548	2,634	1,234	956	2,190	4,824
Total expenses	<u>\$ 1,071,424</u>	<u>\$ 435,122</u>	<u>\$ 1,506,546</u>	<u>\$ 203,005</u>	<u>\$ 127,342</u>	<u>\$ 330,347</u>	<u>\$ 1,836,893</u>

See accompanying notes to the financial statements.

Lincoln/Lancaster County Habitat for Humanity

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Decrease in net assets	\$ (123,990)	\$ (1,752)
Adjustments to reconcile increase (decrease) in net assets		
Depreciation	44,272	48,666
Transfers of mortgages and lots to homeowners, net of discount	(91,408)	(223,640)
Mortgage loan discount amortization	(152,327)	(361,338)
(Increase) decrease in assets		
Prepaid expenses and other assets	(19,773)	(2,607)
Accounts receivable	(309,975)	-
Grants receivable	(95,269)	53,512
Notes receivable	(8,166)	6,823
Inventory, lots and homes	571,093	(260,302)
Inventory, ReStore	(108,505)	11,814
Other assets	-	(10,345)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	35,314	(11,047)
Funds held in escrow	(38,007)	(3,207)
Deferred grant revenue	(6,821)	52,881
Total adjustments	<u>(179,572)</u>	<u>(698,790)</u>
Net cash used by operating activities	<u>(303,562)</u>	<u>(700,542)</u>
Cash flows from investing activities		
Mortgage payments received	338,680	537,082
Payments on mortgage loans sold	-	(4,533)
Purchase of property and equipment	<u>(154,003)</u>	<u>-</u>
Net cash provided by investing activities	<u>184,677</u>	<u>532,549</u>
Cash flows from financing activities		
Proceeds from HOME Program for lots	-	92,381
Proceeds from notes payable	-	300,000
Payments on notes payable	(37,168)	(6,431)
Annuity payments	<u>-</u>	<u>(907)</u>
Net cash provided (used) by financing activities	<u>(37,168)</u>	<u>385,043</u>
Net increase (decrease) in undesignated and restricted cash and cash equivalents	(156,053)	217,050
Undesignated and restricted cash and cash equivalents, beginning of year	<u>1,019,954</u>	<u>802,904</u>
Undesignated and restricted cash and cash equivalents, end of year	<u>\$ 863,901</u>	<u>\$ 1,019,954</u>
Undesignated and restricted cash and cash equivalents are reported within the statements of financial position as follows:		
Cash and cash equivalents, undesignated	\$ 746,598	\$ 1,011,954
Cash and cash equivalents, restricted	<u>117,303</u>	<u>8,000</u>
	<u>\$ 863,901</u>	<u>\$ 1,019,954</u>

See accompanying notes to the financial statements.

Lincoln/Lancaster County Habitat for Humanity

NOTES TO THE FINANCIAL STATEMENTS

Lincoln/Lancaster County Habitat for Humanity (Habitat) is a not-for-profit corporation incorporated on February 12, 1988. Habitat is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian not-for-profit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Habitat's Restore is a home improvement and donation center that sells donated or purchased building materials, appliances, furniture and home accessories. Habitat's support comes primarily from donations and grants.

In the year ended June 30, 2019, Habitat moved to accept the transfer of asset from Seward County Habitat for Humanity, which is another affiliate of Habitat for Humanity International, Inc.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting. The accompanying financial statements of Habitat have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents. For purposes of the statements of cash flows, Habitat considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Restricted Cash. Habitat currently services the mortgages on the homes it sells. Included in restricted cash and funds held in escrow are amounts received for insurance and property taxes on such homes.

Accounts Receivable. Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Grants Receivable. Grants receivable are reported at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history of grantors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Notes Receivable. Notes receivable are reported at the amount management expects to collect from outstanding balances at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Notes receivable consists of noninterest-bearing notes which are secured by real estate. Repayment to Habitat shall occur by the homeowner at such time the resident sells the property or discontinues use of the property as their permanent residence.

Notes receivable also consists of unsecured noninterest-bearing notes which are payable in monthly installments over the life of the note. The discount on such notes is not material to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Mortgage Loans Receivable. Mortgage loans receivable consists of noninterest-bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Noninterest-bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as income over the term of the mortgage. Habitat considers all mortgage receivables to be fully collectible. Therefore, no allowance for uncollectible amounts has been established.

From time to time, Habitat will sell mortgages to financial institutions. If the loan is sold, the unamortized balance of the loan discount upon sale of the loan is included in mortgage loan discount amortization on the consolidating financial statements and the mortgages are derecognize from the mortgage loans receivable balance.

Contract Balances. Contract assets represent Habitat's right to consideration in exchange for goods or services that have been transferred to the customer before payment is due. Contract liabilities include consideration due or paid by a customer prior to when Habitat transfers goods or services and represents Habitat's obligation to the customers. Contract assets are included in the statement of financial position as notes receivable and mortgage loan receivable. Contract liabilities are included in the statement of financial position as lots to be transferred to homeowners.

Inventories. Inventory includes land and building materials used in construction of houses to be sold. Inventory is valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method.

ReStore inventory consists of purchased and donated building materials and household items. Purchased inventory items are valued at the lesser of cost or net realizable value. Donated items are stated at their estimated net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. Cost is determined by the first-in, first-out (FIFO) method.

Property and Equipment and Depreciation. Property and equipment are carried at cost, if purchased, and at fair market value at the date of contribution, if received by donation, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed primarily on the straight-line method. Property and equipment is depreciated over estimated useful lives from 3 to 39 years. It is Habitat's policy to capitalize property and equipment over \$500. Lesser amounts are expensed.

Accrued Vacation. Full-time, year-round employees are entitled to paid vacation depending on the length of service and other factors. Accrued vacation for the year ended June 30, 2022 and 2021 was \$17,399 and \$12,759. Habitat's policy is to pay this liability upon termination of employment.

Net Asset Classification. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions. Net assets available for use in general operations and not subject to donor or grantor restrictions.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

With donor restrictions. Net assets subject to donor- or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, and are reported in the statements of activities as net assets released from restrictions.

Contributions restricted by donors received in the same period when the associated stipulated time or purpose restriction is accomplished are reported as increases in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

Revenue Recognition. The following is a description of Habitat's principal sources of revenue:

ReStore Sales. ReStore is a home improvement and donation center that sells donated or purchased building materials, appliances, furniture and home accessories. Revenue is recognized at the point of sale.

Contributions. Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Habitat has not received any conditional contributions.

Government and Other Grants. Habitat is the recipient of federal, state, and local grants to fund its primary programs. Grants are recorded as revenue when the related approved expenditures are made. Unearned grant revenue represents advances of grant funds received prior to the incurrence of related costs by Habitat. At June 30, 2022 and 2021, conditional reimbursement-basis grants of \$407,929 and \$70,033 were awarded to Habitat, for which Habitat has not yet incurred related expenditures.

Sales to Homeowners. Home sales are recognized as revenue at a point in time upon the closing of the sale.

Fundraising Events. Habitat holds fundraising events to raise money to support program services. Revenue that is received in exchange for a benefit is recognized at the at the fair value of the benefit received at a point in time when the event takes place. Payments received in excess of the amount received in exchange for a benefit is recognized as contribution revenue.

Mortgage Loan Discount Amortization. Habitat discounts mortgage receivable to more fairly reflect the value of the zero interest mortgages on the statement of financial position. The discount is the difference between the face value of the mortgage and the current value of the mortgage, calculated using the term of the mortgage and the appropriate rate. The discount expense is recorded in the first year of the mortgage and is recaptured as revenue over the life of the mortgage.

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Silent Recapture. Habitat includes a second promissory note with the sale of a home when the fair market value of the home exceeds 30% of the buying household's gross income. This note is not included as an asset or income when it originates since it is forgivable by written terms of the note and mortgage creating significant uncertainty regarding collectability. Events triggering the borrower's obligation to pay include abandonment, conveyance, or default in payment of the first loan if the default continues after Habitat gives the borrower notice of default and the time within which it must be cured. Silent recapture income is recognized at a point in time when a related home is sold or refinanced by the homeowner and is included in the statement of activities under other program revenue.

Repairs Income. Habitat provides repair services to low-income households and finances all or part of the price of the repair. Revenue for repairs is recognized at a point in time when the repair is completed and is included in the statement of activities under other program revenue.

Donated Materials and Services. Donated materials are recorded as contributions at their estimated fair value at the date of donation, which is determined by the resale value of the goods that are donated to the ReStore store. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by Habitat. Many individuals also provide their time and perform a variety of tasks that assist Habitat with its operations. The volunteer hours have not been recorded in the financial statements since those services do not meet the criteria for recognition.

It is Habitat's policy to sell all contributed assets immediately upon receipt at auction or for salvage unless the asset is restricted for use in a specific program by the donor.

Advertising. Advertising costs of Habitat are expensed as incurred. Advertising expense was \$59,213 and \$53,574 for the years ended June 30, 2022, and 2021, respectively.

Expense Allocation. The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, payroll and benefits have been allocated on the basis of each job function and an estimate of time and effort.

Income Taxes. Habitat is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, income earned in the performance of its exempt purpose is not subject to income tax. Any income earned through unrelated business activities is subject to income tax at normal corporate rates. Habitat believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Habitat's federal Exempt Organization Business Income Tax Returns (Form 990) for June 30, 2022, 2021, and 2020 are subject to examination by the IRS, generally for three years after they were filed.

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. Accordingly, actual results could differ from those estimates.

Lincoln/Lancaster County Habitat for Humanity

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - MORTGAGE LOANS RECEIVABLE

Mortgage loans receivables are payable to Habitat and are shown on the statements of financial position discounted from their stated rates to various rates ranging from 7.23% to 8.53% at the inception of the mortgages, as dictated by Habitat International. Habitat feels no provision for loan losses is required because the fair market value of the homes is typically in excess of the related mortgage loan balance.

Mortgage loans receivable consists of:

	<u>2022</u>	<u>2021</u>
Mortgage loans receivable	\$ 4,900,189	\$ 5,238,869
Mortgage loans discount	<u>(3,010,723)</u>	<u>(3,163,050)</u>
	<u>\$ 1,889,466</u>	<u>\$ 2,075,819</u>

In prior years, Habitat has sold mortgages with outstanding balances to third-party financial institutions. Habitat retains full recourse on these mortgages and continues to service and guarantee the mortgages. Habitat retains the right to substitute similar mortgages in case of default by the homeowners to pay the mortgage. At June 30, 2022 and 2021 the amount of loans subject to Habitat's guarantee still outstanding was approximately \$445,104 and \$485,979, respectively.

NOTE C - INVENTORY

Inventory consists of:

Lots	\$ 171,152	\$ 263,163
Homes under construction	202,907	380,899
Homes purchased for recycle/remodel	-	301,090
ReStore inventory	<u>219,671</u>	<u>111,166</u>
	<u>\$ 593,730</u>	<u>\$ 1,056,318</u>

Lincoln/Lancaster County Habitat for Humanity

NOTES TO THE FINANCIAL STATEMENTS

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of:

	<u>2022</u>	<u>2021</u>
Land	\$ 98,447	\$ 98,447
Buildings and improvements	259,387	259,387
Leasehold improvements	107,308	34,734
Construction equipment	81,389	81,589
Vehicles	74,242	74,242
ReStore equipment	97,003	23,149
Furniture and equipment	<u>82,623</u>	<u>77,210</u>
	800,399	648,758
Less accumulated depreciation	<u>(243,364)</u>	<u>(201,454)</u>
	<u>\$ 557,035</u>	<u>\$ 447,304</u>

The financial statements include depreciation expense of \$44,272 and \$48,666 for the years ended June 30, 2022 and 2021, respectively.

NOTE E - LINE OF CREDIT

Habitat has a \$140,000 demand line of credit, none of which was drawn down as of June 30, 2022 and 2021. The interest rate is 0.5% plus the prime rate, which was 3.25% at June 30, 2022 and 2021.

NOTE F - NOTES PAYABLE

Notes payable consists of:

a) Note payable, bank	\$ 233,412	\$ 240,022
b) Note payable, Habitat for Humanity International	<u>269,442</u>	<u>300,000</u>
	502,854	540,022
Less current maturities	<u>(38,466)</u>	<u>(37,151)</u>
	<u>\$ 464,388</u>	<u>\$ 502,871</u>

- a) Note payable, bank, dated March 31, 2020. Original amount, \$248,169, payable in monthly installments of \$1,000 including interest at 2.25% per annum. The final payment is due March 31, 2030. The note is secured by commercial security agreement dated March 31, 2020.
- b) Note payable, Habitat for Humanity International dated June 21, 2021. Original amount, \$300,000, payable in quarterly installments of \$10,345 including interest at 3.75% per annum. The final payment is due December 31, 2029. The note is secured by mortgages receivable.

Lincoln/Lancaster County Habitat for Humanity

NOTES TO THE FINANCIAL STATEMENTS

NOTE F - NOTES PAYABLE - CONTINUED

Aggregate maturities on long-term obligations for the years following June 30, 2022 are as follows:

<u>Years ending June 30,</u>	
2022	\$ 38,466
2023	39,813
2024	41,238
2025	42,701
2026	44,217
Thereafter	<u>296,419</u>
	<u>\$ 502,854</u>

NOTE G - LOTS TO BE TRANSFERRED TO HOMEOWNERS

Habitat receives funds from the City of Lincoln Housing Development Loan Program (HOME) to purchase lots for the purpose of constructing homes for low-income families.

Under the HOME Program, Habitat agrees to begin construction of single-family homes within one year from the date Habitat takes title to each lot, and complete construction within one year from the start of construction. Each home must then be transferred to a low-income family, at which time the obligation to repay the loan to the city for the lot purchased is also transferred to the homeowner. Repayment to the City shall occur by homeowners at such time they sell the property or discontinue use of the property as their permanent residence.

At June 30, 2022 and 2021, Habitat held lots purchased with HOME funds with a total value of \$173,955 and \$265,363, respectively.

NOTE H – CONTRACT BALANCES

The following tables provide information about the changes in the contract assets and liabilities for the years ended June 30, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Contract assets, beginning of year	\$ 2,155,019	\$ 2,165,407
Contract assets transferred to accounts receivable	(186,878)	(433,971)
Contract assets recorded on contracts	<u>8,691</u>	<u>423,583</u>
Contract assets, end of year	<u>\$ 1,976,832</u>	<u>\$ 2,155,019</u>
Contract liabilities, beginning of year	\$ 265,363	\$ 224,443
Recognition of revenue included in beginning balance	(91,408)	(51,461)
Collection of customer payments	<u>-</u>	<u>92,381</u>
Contract liabilities, end of year	<u>\$ 173,955</u>	<u>\$ 265,363</u>

Lincoln/Lancaster County Habitat for Humanity

NOTES TO THE FINANCIAL STATEMENTS

NOTE I - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purpose or periods:

	<u>2022</u>	<u>2021</u>
Subject to purpose and time restrictions		
Software program	\$ -	\$ 15,000
New construction and repairs	<u>10,000</u>	<u>7,500</u>
	10,000	22,500
Subject to time restrictions	<u>-</u>	<u>4,204</u>
	<u>\$ 10,000</u>	<u>\$ 26,704</u>

NOTE J - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 746,598	\$ 1,011,954
Accounts receivable	309,975	-
Grants receivable	122,179	26,910
Less restricted grants	<u>(10,000)</u>	<u>(26,704)</u>
	<u>\$ 1,168,752</u>	<u>\$ 1,012,160</u>

Habitat has a demand line of credit with the bank for borrowing not to exceed \$140,000 in the aggregate available to meet cash needs.

As part of Habitat's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Habitat invests cash in excess of daily requirements in short-term federal investment trusts. Although Habitat does not intend to spend from its investments other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts could be made available, if necessary.

Lincoln/Lancaster County Habitat for Humanity

NOTES TO THE FINANCIAL STATEMENTS

NOTE K – IN-KIND CONTRIBUTIONS

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized as revenue within the statement of activities consist of the following:

	<u>2022</u>	<u>2021</u>
Merchandise	\$ 475,078	\$ 388,578
Construction supplies	2,684	8,372
Professional services	3,494	4,325
Accounting services	<u>-</u>	<u>3,150</u>
	<u>\$ 481,256</u>	<u>\$ 404,425</u>

Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. See note A for the valuation of in-kind contributions.

NOTE L - OPERATING LEASES

On April 7, 2014, Habitat entered into a 36-month operating lease for the ReStore location. On May 30, 2019, Habitat extended the lease for an additional 36-months. Under the terms of the lease, monthly rent payments are \$7,024 per month from September 15, 2019 to September 14, 2020, \$7,235 per month from September 15, 2020 to September 14, 2021 and \$7,452 per month from September 15, 2021 to September 15, 2022.

On February 19, 2020, Habitat entered into a 36-month operating lease for telephones. Under the terms of the lease, monthly rent payments are \$299.

On October 27, 2020, Habitat entered into a 60-month operating lease for a copier. Under the terms of the lease, monthly rent payments are \$326.

On July 6, 2021, Habitat entered into a 126-month operating lease for a new ReStore location. Under the terms of the lease, monthly rent payments start at \$17,895 and increase periodically until the end of the lease.

The financial statements include rent expense of \$137,567 and \$91,771 for the years ended June 30, 2022 and 2021, respectively.

Lincoln/Lancaster County Habitat for Humanity

NOTES TO THE FINANCIAL STATEMENTS

NOTE L - OPERATING LEASES - CONTINUED

Future minimum lease payments are as follows:

<u>Years ending June 30,</u>	
2023	\$ 171,522
2024	218,652
2025	218,652
2025	228,672
2026	233,679
Thereafter	<u>1,353,676</u>
	<u>\$ 2,424,853</u>

NOTE M - RETIREMENT

Habitat maintained a SIMPLE IRA plan for all eligible employees who have met the service requirements. On January 1, 2020, Habitat converted the SIMPLE IRA plan to a 401(k) plan covering eligible employees. The plan provides for matching contributions in an amount equal to 3% of the eligible employee's contribution under both plans. Habitat contributed \$15,858 and \$14,748 for the years ended June 30, 2022 and 2021, respectively.

NOTE N - PAYMENTS TO INTERNATIONAL AFFILIATE

Habitat annually remits a portion of its cash contributions to Habitat for Humanity International, Inc. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2022 and 2021, Habitat contributed \$40,070 and \$35,000, respectively.

NOTE O - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject Habitat to concentrations of credit risk consist principally of checking accounts and STIFIT accounts at financial institutions. Accounts at each institution are insured by the FDIC up to \$250,000. At June 30, 2022 and 2021, the bank accounts exceeded federally insured limits by \$467,434 and \$636,735, respectively. Habitat has not experienced any losses on such accounts.

NOTES TO THE FINANCIAL STATEMENTS

NOTE P – NEW ACCOUNTING STANDARD

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update clarifies the presentation and disclosure of contributed nonfinancial assets, such as land, buildings, equipment, the use of fixed assets or utilities, materials and supplies, intangible assets, certain services, and unconditional promises of those assets; however, the ASU does not change the existing recognition and measurement requirements for contributed nonfinancial assets. Contributions may be disclosed using varying terms such as gifts, donations, or gifts in-kind. The standard is required to be applied retrospectively to all periods presented and is effective for reporting periods commencing after June 15, 2021.

Habitat adopted the standard, effective for the year ended June 30, 2022, using a retrospective application method for all periods presented. The in-kind donation policies disclosed in Note A reflect the impact of the adoption of the standard. See note K for further disclosure of the Habitat's in-kind activities.

NOTE Q - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the audit report date, the date the financial statements were available to be issued.

