

**Lincoln/Lancaster County Habitat for
Humanity, Inc.**

**Financial Statements and
Independent Auditors' Report**

June 30, 2023 and 2022



Lincoln/Lancaster County Habitat for Humanity, Inc.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lincoln/Lancaster County Habitat for Humanity, Inc.
Lincoln, Nebraska

Opinion

We have audited the financial statements of Lincoln/Lancaster County Habitat for Humanity, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2023, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter – Leases

As discussed in Note 1 to the financial statements, effective July 1, 2022, the Organization adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*, issued by the Financial Accounting Standards Board (FASB), related to the accounting treatment for leases. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Organization, as of and for the year ended June 30, 2022, were audited by other auditors, whose report, dated November 28, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management 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.

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 issued or available to be issued.

Auditors' 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 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.

Lutz & Company, P.C.

November 28, 2023

Lincoln/Lancaster County Habitat for Humanity, Inc.

Statements of Financial Position

June 30, 2023 and 2022

ASSETS	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents, Undesignated	\$ 693,021	\$ 746,598
Restricted Cash, Escrow	124,214	117,303
Prepaid Expenses and Other Assets	28,228	36,207
Receivables		
Trade Accounts Receivable	146,555	309,975
Grants Receivable	-	122,179
Notes Receivable	112,859	87,366
Mortgage Loans Receivable, Net of Discount	1,709,057	1,889,466
Inventory, Lots and Homes	812,683	374,059
Inventory, ReStore	227,474	219,671
Property and Equipment, Net	567,658	557,035
Loan Reserves and Security Deposits	10,345	10,345
Operating Lease Right-of-Use Assets	3,656,307	-
TOTAL ASSETS	\$ 8,088,401	\$ 4,470,204
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 70,144	\$ 80,777
Funds Held in Escrow	132,149	115,309
Notes Payable	464,963	502,854
Lots to be Transferred to Homeowners	147,755	173,955
Deferred Grant Revenue	-	46,060
Operating Lease Liabilities	3,815,694	-
Total Liabilities	4,630,705	918,955
NET ASSETS		
Without Donor Restrictions	3,457,696	3,541,249
With Donor Restrictions	-	10,000
Total Net Assets	3,457,696	3,551,249
TOTAL LIABILITIES AND NET ASSETS	\$ 8,088,401	\$ 4,470,204

See Notes to Financial Statements.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
ReStore			
Sale of Purchased and Donated Merchandise	\$ 835,865	\$ -	\$ 835,865
Donated Merchandise	787,659	-	787,659
Cost of Purchased and Donated Merchandise Sold	(839,826)	-	(839,826)
Total ReStore	783,698	-	783,698
Cash Contributions	264,926	-	264,926
In-Kind Contributions	157,239	-	157,239
Grants	602,803	-	602,803
Sales to Homeowners	923,778	-	923,778
Fundraising	45,690	-	45,690
Other Program Revenue	21,621	-	21,621
Mortgage Loan Discount Amortization	167,561	-	167,561
Miscellaneous Revenue	4,407	-	4,407
Interest Income	14,547	-	14,547
Net Assets Released from Restrictions	10,000	(10,000)	-
Total Revenues and Support	2,996,270	(10,000)	2,986,270
EXPENSES			
Program Services	2,530,712	-	2,530,712
Management and General	378,932	-	378,932
Fundraising and Development	170,179	-	170,179
Total Expenses	3,079,823	-	3,079,823
Change in Net Assets	(83,553)	(10,000)	(93,553)
Net Assets, Beginning of Year	3,541,249	10,000	3,551,249
NET ASSETS, END OF YEAR	\$ 3,457,696	\$ -	\$ 3,457,696

See Notes to Financial Statements.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
ReStore			
Sale of Purchased and Donated Merchandise	\$ 506,525	\$ -	\$ 506,525
Donated Merchandise	475,078	-	475,078
Cost of Purchased and Donated Merchandise Sold	(384,196)	-	(384,196)
Total ReStore	597,407		597,407
Cash Contributions	263,576	-	263,576
In-Kind Contributions	6,178	-	6,178
Grants	659,972	10,000	669,972
Sales to Homewoners	629,521	-	629,521
Fundraising	36,705	-	36,705
Other Program Revenue	13,154	-	13,154
Mortgage Loan Discount Amortization	152,327	-	152,327
Miscellaneous Revenue	10,564	-	10,564
Interest Income	1,313	-	1,313
Net Assets Released from Restrictions	26,704	(26,704)	-
Total Revenues and Support	2,397,421	(16,704)	2,380,717
EXPENSES			
Program Services	2,114,784	-	2,114,784
Management and General	235,527	-	235,527
Fundraising and Development	154,396	-	154,396
Total Expenses	2,504,707	-	2,504,707
Change in Net Assets	(107,286)	(16,704)	(123,990)
Net Assets, Beginning of Year	3,648,535	26,704	3,675,239
NET ASSETS, END OF YEAR	\$ 3,541,249	\$ 10,000	\$ 3,551,249

See Notes to Financial Statements.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Statement of Functional Expenses

Year Ended June 30, 2023

	Program Services			Supporting Activities		Total Supporting Activities	Total
	Homeowner Services	ReStore	Total Program Services	Management and General	Fundraising and Development		
Payroll and Benefits	\$ 239,317	\$ 379,070	\$ 618,387	\$ 271,177	\$ 95,713	\$ 366,890	\$ 985,277
Cost of Homes Sold	1,147,317	-	1,147,317	-	-	-	1,147,317
Fundraising	-	-	-	-	18,531	18,531	18,531
Tithe to HFHI	46,800	-	46,800	-	-	-	46,800
Taxes and Insurance	12,640	49,106	61,746	5,528	1,514	7,042	68,788
Occupancy	11,431	297,107	308,538	2,011	5,368	7,379	315,917
Vehicle Expense	11,207	23,020	34,227	-	-	-	34,227
Advertising	6,562	30,613	37,175	1,503	17,346	18,849	56,024
SOSI	-	-	-	15,000	-	15,000	15,000
Depreciation	10,295	37,501	47,796	11,684	-	11,684	59,480
Training, Travel, and Meetings	6,209	478	6,687	346	7,628	7,974	14,661
Telephone	7,442	3,157	10,599	1,277	2,651	3,928	14,527
Supplies	17,732	11,319	29,051	2,654	5,578	8,232	37,283
Printing and Postage	336	2,803	3,139	326	122	448	3,587
Repairs and Maintenance	4,790	52,690	57,480	1,630	2,006	3,636	61,116
Professional Services	38,744	11,272	50,016	50,991	5,352	56,343	106,359
Service Charges	1,278	23,083	24,361	5,543	319	5,862	30,223
Dues and Subscriptions	16,116	3,510	19,626	4,155	5,916	10,071	29,697
Interest Expense	2,231	9,761	11,992	2,680	822	3,502	15,494
Miscellaneous Expenses	6,275	9,500	15,775	2,427	1,313	3,740	19,515
TOTAL FUNCTIONAL EXPENSES	\$ 1,586,722	\$ 943,990	\$ 2,530,712	\$ 378,932	\$ 170,179	\$ 549,111	\$ 3,079,823

See Notes to Financial Statements.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Statement 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 FUNCTIONAL EXPENSES	\$ 1,493,083	\$ 621,701	\$ 2,114,784	\$ 235,527	\$ 154,396	\$ 389,923	\$ 2,504,707

See Notes to Financial Statements.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (93,553)	\$ (123,990)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Depreciation	59,480	44,272
Transfers of Mortgages and Lots to Homeowners, Net of Discount	(26,200)	(91,408)
Mortgage Loan Discount Amortization	(167,561)	(152,327)
Lease Expense	121,493	-
Decrease (Increase) in Assets:		
Prepaid Expenses	7,979	(19,773)
Trade Accounts Receivable	163,420	(309,975)
Grants Receivable	122,179	(95,269)
Notes Receivable	(25,493)	(8,166)
Inventory - Lots and Homes	(438,624)	571,093
Inventory - ReStore	(7,803)	(108,505)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(10,633)	35,314
Funds Held in Escrow	16,840	(38,007)
Deferred Grant Revenue	(8,166)	(6,821)
Net Cash Used in Operating Activities	(286,642)	(303,562)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage Payments Received	347,970	338,680
Purchase of Property and Equipment	(70,103)	(154,003)
Net Cash Provided by Investing Activities	277,867	184,677
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	(37,891)	(37,168)
Net Decrease in Cash and Cash Equivalents and Restricted Cash	(46,666)	(156,053)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	863,901	1,019,954
Cash and Cash Equivalents and Restricted Cash, End of Year	\$ 817,235	\$ 863,901

See Notes to Financial Statements.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Undesignated and restricted cash and cash equivalents are reported within the statements of financial position as follows:		
Cash and Cash Equivalents, Undesignated	\$ 693,021	\$ 746,598
Restricted Cash, Escrow	124,214	117,303
Total Cash and Cash Equivalents	<u>\$ 817,235</u>	<u>\$ 863,901</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 15,494	\$ 16,216
<u>Adoption of ASU 2016-02</u>		
Operating Lease Right of Use Assets Obtained in Exchange For Operating Lease Liabilities	\$ 3,814,533	\$ -
Deferred Grant Revenue Reclassified to Operating Lease Right-of-Use Assets	37,894	-

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

1. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is set forth below.

Nature of Business

Lincoln/Lancaster County Habitat for Humanity, Inc. (the Organization) is a not-for-profit corporation incorporated on February 12, 1988. The Organization 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. The Organization's ReStore is a home improvement and donation center that sells donated or purchased building materials, appliances, furniture and home accessories. The Organization's support comes primarily from contributions and grants.

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

Basis of Presentation

The Organization follows Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or by the passage of time. Net assets restricted by the actions of the Organization and/or the passage of time are temporary in nature. Other donor-imposed stipulations are permanent in nature and require that principal be maintained in perpetuity by the Organization. There are no net assets with donor restrictions permanent in nature at June 30, 2023 and 2022.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions, in which case the revenues are reported as increases in net assets with donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Revenues and expenses are recognized when earned and incurred, respectively. Expirations of net assets with donor restrictions that are temporary in nature (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Restricted Cash

The Organization 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.

Trade Accounts Receivable

Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade accounts receivable previously written off are recorded when received. Based on management's assessment of the credit history and current relationships with customers having outstanding balances at year-end, management has concluded that recording an allowance for doubtful accounts would 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 and current relationships with grantors having outstanding balances at year-end, management has concluded that recording an allowance for doubtful accounts would be immaterial.

Notes Receivable

Notes 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 and current relationships with customers having outstanding balances at year-end, management has concluded that recording an allowance for doubtful accounts would be immaterial.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Notes receivable consists of noninterest-bearing notes which are secured by real estate. Repayment to the Organization 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.

Mortgage Loans Receivable

Mortgage loans receivable consist 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. The Organization considers all mortgage receivables to be fully collectable. Therefore, management has not established an allowance for uncollectable amounts.

The Organization may sell mortgages to financial institutions. When this occurs, the unamortized balance of the loan discount upon the sale of the loan is included in mortgage loan discount amortization on the statements of activities and changes in net assets. The mortgage sold is derecognized from the mortgage loans receivable balance on the statement of financial position.

Contract Balances

Contract assets represent the Organization'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 the Organization transfers goods or services and represents the Organization's obligation to the customers. Contract liabilities are included in the statements of financial position as lots to be transferred to homeowners and totaled \$147,756, \$173,955, and \$265,363 at June 30, 2023, 2022, and 2021, respectively.

Concentration of Credit Risk

The Organization has several types of financial instruments subject to credit risk. The Organization maintains bank accounts in which the balances sometimes exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. At June 30, 2023 and 2022, there were cash balances in excess of FDIC limits at the bank of approximately \$454,000 and \$467,000, respectively.

The Organization's cash equivalents, trade accounts receivable, mortgage loans receivable, and notes receivable are also subject to credit risk.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Inventories

Lots and homes 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 price in the ordinary course of business, less reasonable costs of completion, disposal, and transportation. Cost is determined by the FIFO method.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation, if purchased by the Organization. Expenditures for additions and betterments over \$500 are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. The costs of assets disposed and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses from property disposals are recognized in the year of disposal. Property and equipment received by donation are carried at fair market value at the date of the contribution, less accumulated depreciation.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	39 Years
Leasehold Improvements	14 Years
Construction Equipment and Vehicles	5-7 Years
ReStore Equipment	3-7 Years
Furniture and Equipment	3-7 Years

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the assets is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Management does not believe any impairment existed at June 30, 2023 and 2022.

Functional Expenses

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

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Leases

Effective July 1, 2022, the Organization adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02") using the modified retrospective transition method, which allows for a cumulative-effect adjustment through net assets at the date of initial application. There was no cumulative-effect adjustment recorded as the Organization's adoption of ASU 2016-02 did not have a significant impact on the accompanying statements of activities and changes in net assets.

Upon adoption of ASU 2016-02, the Organization elected the transition relief practical expedient which specifies that an entity does not need to reassess initial direct costs for existing leases, the lease classification for expired or existing leases, and whether any expired or existing contracts contain leases.

The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the accompanying statements of financial position for all leases. The Organization has elected the short-term lease practical expedient to exclude leases with terms of 12 months or less from recognition on the accompanying statements of financial position. The Organization has elected the practical expedient to utilize the risk-free rate in determining the present value of lease payments unless the implicit rate is readily determinable.

Revenue Recognition

The Organization follows ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). Accordingly, the Organization's policy for revenue recognition is detailed below.

ReStore Sales

ReStore is a home improvement and donation center that sells donated or purchases 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. The Organization has not received any conditional contributions.

Government and Other Grants

The Organization is the recipient of federal, state, and local grants to fund its primary programs. Grants are recorded as revenue when the related and approved expenditures are made. Unearned grant revenue represents advances of grant funds received prior to the incurrence of related costs by the Organization. At June 30, 2023 and 2022, conditional reimbursement-basis grants of \$361,875 and \$407,929 were awarded to the Organization in which the related expenditures have not been incurred.

Sales to Homeowners

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

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Fundraising Events

The Organization holds fundraising events to raise money to support program services. Revenue that is received in exchange for a benefit is recognized 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

The Organization discounts mortgage receivable to reflect the value of the zero-interest mortgages more fairly on the statements 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 discount rate. The discount expense is recorded in the first year of the mortgage and is recaptured as revenue over the life of the mortgage.

Silent Recapture

The Organization includes a second promissory note with the sale of a home when the fair market value of the home exceeds 30% of the buyer'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, which creates 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 the Organization 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 statements of activities and changes in net assets under other program revenue.

Repairs Income

The Organization provides repair services to low-income households and finances all or a portion 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 statements of activities and changes in net assets 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 ReStore. 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 the Organization. Many individuals also provide their time and perform a variety of tasks that assist the Organization with its operations. The volunteer hours have not been recorded in the financial statements as those services do not meet the criteria for recognition.

It is the Organization's policy to sell all contributed assets not for sale at ReStore immediately upon receipt at auction or for salvage value unless the asset is restricted for use in a specific program by the donor.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

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 years ended June 30, 2023 and 2022 was \$19,097 and \$17,399, respectively. The Organization's policy is to pay this liability upon termination of employment.

Advertising Costs

The costs of advertising are expensed as incurred. Advertising costs were approximately \$56,000 and \$59,000 for the years ended June 30, 2023 and 2022, respectively.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization applies the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, included in ASC Subtopic 7410-10, *Income Taxes – Overall*. ASC 740-10 provides specific guidance on how to address uncertainty in accounting for income tax assets and liabilities, prescribing recognition thresholds and measurement attributes. At June 30, 2023 and 2022, the Organization had no uncertain tax positions.

The Organization is no longer subject to income tax examinations by federal, state, or local tax authorities for years before June 30, 2020.

Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are available to be issued and may require potential recognition or disclosure in the financial statements. Management has considered such events or transactions through November 28, 2023, noting no items requiring disclosure.

2. Mortgage Loans Receivable

Mortgage loans receivable to the Organization are 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. The Organization determined 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.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Mortgage loans receivable at June 30, consists of the following:

	<u>2023</u>	<u>2022</u>
Mortgage Loans Receivable	\$ 4,552,219	\$ 4,900,189
Mortgage Loans Discount	<u>(2,843,162)</u>	<u>(3,010,723)</u>
	<u>\$ 1,709,057</u>	<u>\$ 1,889,466</u>

In prior years, the Organization sold mortgages with outstanding balances to a third-party financial institution. The Organization retains full recourse on these mortgages and continues to service and guarantee the mortgages. The Organization retains the right to substitute similar mortgages in case of default by the homeowners to pay the mortgage. At June 30, 2023 and 2022, the amount of loans still outstanding subject to the Organization's guarantee was approximately \$363,000 and \$445,000, respectively.

3. Lots to Be Transferred to Homeowners

The Organization 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, the Organization agrees to begin construction of single-family homes within one year from the date the Organization receives title of each lot purchased, and to 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 of Lincoln for the lot purchased is also transferred to the homeowner. Repayment to the City of Lincoln shall occur by homeowners at such time they sell the property or discontinue use of the property as their permanent residence.

At June 30, 2023 and 2022, the Organization held lots purchased with HOME funds with a total value of approximately \$145,000 and \$171,000, respectively.

4. Inventory

Inventory at June 30, consists of the following:

	<u>2023</u>	<u>2022</u>
Lots	\$ 144,874	\$ 171,152
Homes Under Construction	667,809	202,907
ReStore Inventory	<u>227,474</u>	<u>219,671</u>
	<u>\$ 1,040,157</u>	<u>\$ 593,730</u>

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

5. Property and Equipment

Property and equipment at June 30, consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 98,447	\$ 98,447
Buildings and Improvements	274,387	259,387
Leasehold Improvements	107,308	107,308
Construction Equipment	103,157	81,389
Vehicles	101,411	74,242
ReStore Equipment	97,003	97,003
Furniture and Equipment	88,789	82,623
Total Cost	<u>870,502</u>	<u>800,399</u>
Less Accumulated Depreciation	<u>(302,844)</u>	<u>(243,364)</u>
Net Book Value	<u>\$ 567,658</u>	<u>\$ 557,035</u>

6. Notes Payable

Notes payable at June 30, consists of the following:

	<u>2023</u>	<u>2022</u>
Installment note payable to a bank, payable in monthly installments of \$1,000 including interest at 2.25% through March 31, 2030, at which time all unpaid principal and interest is due. The installment note is collateralized by a Deed of Trust on certain buildings, land, inventory, and equipment.	\$ 227,240	\$ 233,412
Installment note payable to Habitat for Humanity International, Inc. due in quarterly installments of \$10,345 which includes interest at 3.75%, maturing on December 31, 2029. The note payable is collateralized by certain mortgages receivable.	<u>237,723</u>	<u>269,442</u>
Total Notes Payable	464,963	502,854
Less Current Portion	<u>39,813</u>	<u>38,466</u>
Notes Payable, Less Current Portion	<u>\$ 425,150</u>	<u>\$ 464,388</u>

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

The aggregate maturities of long-term debt for years ending after June 30, 2023 are as follows:

<u>Year Ending June 30,</u>		
2024	\$	39,813
2025		41,238
2026		42,701
2027		44,217
2028		45,775
Thereafter		251,219
	<u>\$</u>	<u>464,963</u>

7. Line of Credit

The Organization has a \$140,000 demand line of credit, none of which was drawn down as of June 30, 2023 and 2022. The interest rate is 0.5% plus the Prime Rate, which was 8.25% and 4.75%, respectively, at June 30, 2023 and 2022.

8. Restrictions and Limitations on Net Assets Balances

Net assets with donor restrictions that are temporary in nature are available for the following purposes at June 30:

	<u>2023</u>	<u>2022</u>
New Construction and Repairs	<u>\$ -</u>	<u>\$ 10,000</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by occurrence of their specified events for the years ended June 30 as follows:

	<u>2023</u>	<u>2022</u>
Software Program	\$ -	\$ 15,000
New Construction and Repairs	10,000	11,704
	<u>\$ 10,000</u>	<u>\$ 26,704</u>

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

9. Liquidity and Cash Management

The Organization's financial assets available to meet cash needs for general expenditures within one year of June 30 are calculated as follows:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents, Undesignated	\$ 693,021	\$ 746,598
Trade Accounts Receivable	146,555	309,975
Grants Receivable	-	122,179
Total Financial Assets	<u>839,576</u>	<u>1,178,752</u>
Less Amounts Not Available for General Expenditures		
Net Assets with Donor Restrictions	<u>-</u>	<u>(10,000)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>839,576</u></u>	<u><u>1,168,752</u></u>

Trade accounts receivable are subject to implied time restrictions but are expected to be collected within one year.

The Organization manages its liquid resources by structuring its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Organization invests cash in excess of daily requirements in short-term federal investment trusts. Although the Organization does not intend to spend from its investments other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts could be made available, if necessary. Additionally, the Organization could obtain additional funding from its line of credit, if needed.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

10. In-Kind Contributions

Contributed nonfinancial assets recognized as revenue within the statements of activities and changes in net assets consist of the following at June 30:

<u>Nonfinancial Contributions</u>	<u>Valuation</u>	<u>2023</u>	<u>2022</u>
Merchandise	Third party values based on selling prices of like items	\$ 787,659	\$ 475,078
Construction Supplies	Third party values based on selling prices of like items	2,239	2,684
Professional Services	Standard industry pricing for similar services	-	3,494
Homes and Lots	Estimated fair value based on similar valuations	155,000	-
Totals		<u>\$ 944,898</u>	<u>\$ 481,256</u>

Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

11. Defined Contribution Plan

The Organization maintains a 401(k) plan for eligible employees. The plan provides a matching contribution in an amount equal to 3% of the eligible employee's annual contribution. The Organization contributed approximately \$19,000 and \$16,000 to the 401(k) plan for the years ended June 30, 2023 and 2022, respectively.

12. Payments to International Affiliate

The Organization 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, 2023 and 2022, the Organization contributed \$46,800 and \$40,070, respectively.

13. Leases

The Organization leases certain buildings and equipment which are all classified as operating lease agreements. The leases expire on various dates through 2042. The renewal options for the ReStore location was included in the calculation of the operating right-of-use assets and operating lease liabilities as the Organization is reasonably certain to exercise the renewal options. The nonlease components have not been included in the calculation of right -of-use assets and lease liabilities.

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

For the year ended June 30, 2023, total lease cost and other information included in the calculation of the operating right-of-use assets and lease liabilities consisted of the following:

Lease Cost

Operating Lease Expense	\$	285,562
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Other Information

Cash Paid for Amounts Included in the Measurement of Lease Liabilities:

Operating Cash Flows from Operating Leases	\$	164,069
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Operating Lease Right-of-Use Assets Obtained in Exchange for Operating Lease Liabilities		3,814,533
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Weighted-Average Remaining Lease Term (Years) - Operating Leases		19.3
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Weighted-Average Discount Rate - Operating Leases		3.32%
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Future minimum lease payments under these leases, excluding other related operating expenses, for the years ending after June 30, 2023 and their reconciliation to the operating lease liabilities included in the accompanying financial statements are as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2024	\$ 218,651
2025	218,652
2026	228,672
2027	233,679
2028	239,999
Thereafter	<u>4,145,370</u>
Total Future Lease Payments	5,285,023
Less: Discount to Present Value	<u>(1,469,329)</u>
Total Lease Liabilities	<u>\$ 3,815,694</u>

Lincoln/Lancaster County Habitat for Humanity, Inc.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

For the year ended June 30, 2022, the financial statements include rent expense of \$137,567 under FASB ASC 840, pre-adoption of ASU 2016-02. The future minimum lease payments at June 30, 2022 were as follows:

<u>Year Ending June 30,</u>	
2023	\$ 171,522
2024	218,652
2025	218,652
2026	228,672
2027	233,679
Thereafter	<u>1,353,676</u>
Total	<u>\$ 2,424,853</u>

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