



Stephen Center, Inc.

Consolidated Financial Statements
December 31, 2020 and 2019

STEPHEN CENTER, INC.

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December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stephen Center, Inc.
Omaha, Nebraska

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Stephen Center, Inc. as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stephen Center, Inc., as of December 31, 2020 and 2019, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 22, 2021

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 1,434,890	\$ 435,239
Cash designated to reserves	3,410,810	2,815,970
Operating investments	1,390,428	1,461,112
Accounts receivable	483,736	377,935
Promises to give, net	-	10,000
Donated land held for sale	-	374,217
Prepaid expenses	19,667	16,855
Inventory	14,724	11,230
Notes receivable	1,415,614	1,415,614
Cash restricted to facility reserve	724,648	154,163
Investments restricted to facility reserve	1,259,796	2,018,265
Endowment	109,532	-
Property, plant and equipment at cost, net		
Land	\$ 317,649	\$ 301,649
Buildings and improvements	796,686	620,910
Furnishings and equipment	386,150	331,242
Accumulated depreciation	(601,236)	(519,042)
Subtotal property, plant and equipment	<u>\$ 899,249</u>	<u>\$ 734,759</u>
Total assets	<u>\$ 11,163,094</u>	<u>\$ 9,825,359</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 505,230	\$ 386,245
Deferred conditional grant	231,316	314,404
Notes payable	838,000	400,000
Total liabilities	<u>\$ 1,574,546</u>	<u>\$ 1,100,649</u>
NET ASSETS		
Without donor restrictions		
Undesignated	\$ 3,256,849	\$ 2,885,180
Board designated operating reserve	2,600,446	2,383,920
Board designated capital reserve	810,364	432,050
Board designated endowment	109,532	-
Total net assets	<u>\$ 6,777,191</u>	<u>\$ 5,701,150</u>
With donor restrictions	<u>2,811,357</u>	<u>3,023,560</u>
Total net assets	<u>\$ 9,588,548</u>	<u>\$ 8,724,710</u>
Total liabilities and net assets	<u>\$ 11,163,094</u>	<u>\$ 9,825,359</u>

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 1,434,890	\$ 435,239
Cash designated to reserves	3,410,810	2,815,970
Operating investments	1,390,428	1,461,112
Accounts receivable	483,736	377,935
Promises to give, net	-	10,000
Donated land held for sale	-	374,217
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See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2020

	Program Services				Total	Management and General	Fundraising and Development	Total
	Shelter	HERO	Permanent Supportive Housing	Thrift Store				
Salaries and Wages	\$ 583,092	\$ 797,259	\$ 384,697	\$ -	\$ 1,765,048	\$ 172,491	\$ 193,474	\$ 2,131,013
Payroll Taxes	44,989	64,275	28,270	-	137,534	12,172	14,939	164,645
Employee Benefits	72,388	149,081	66,876	-	288,345	15,979	18,575	322,899
Food	131,436	136,040	160,360	-	427,836	155	-	427,991
Training and Development	1,599	3,576	1,886	-	7,061	3,323	1,769	12,153
Professional Services	19,343	29,352	12,087	-	60,782	21,993	19,737	102,512
Rents	62,056	7,582	111,180	-	180,818	10,327	868	192,013
Utilities	32,786	11,566	56,226	-	100,578	7,038	1,397	109,013
Insurance	439	8,062	625	-	9,126	3,653	1,884	14,663
Maintenance and Equipment	65,160	36,664	82,666	-	184,490	12,321	1,840	198,651
Vehicle and Fuel	2,886	3,060	3,435	-	9,381	128	1,392	10,901
Depreciation	23,049	28,018	23,549	-	74,616	8,437	2,038	85,091
Direct Client Assistance	14,296	8,288	3,212	-	25,796	-	-	25,796
Supplies	19,427	38,695	19,358	-	77,480	7,332	7,125	91,937
Marketing and Advertising	-	-	-	-	-	-	37,316	37,316
Telephone and Internet	2,295	1,559	3,551	-	7,405	2,920	511	10,836
Other	969	1,378	1,289	-	3,636	2,452	8,671	14,759
	<u>\$ 1,076,210</u>	<u>\$ 1,324,455</u>	<u>\$ 959,267</u>	<u>\$ -</u>	<u>\$ 3,359,932</u>	<u>\$ 280,721</u>	<u>\$ 311,536</u>	<u>\$ 3,952,189</u>

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	Program Services					Management and General	Fundraising and Development	Total
	Shelter	HERO	Permanent Supportive Housing	Thrift Store	Total			
Salaries and Wages	\$ 537,610	\$ 840,852	\$ 358,631	\$ 136,299	\$ 1,873,392	\$ 56,527	\$ 214,935	\$ 2,144,854
Payroll Taxes	42,127	67,907	26,613	11,233	147,880	4,137	16,387	168,404
Employee Benefits	84,189	177,357	70,806	21,338	353,690	10,018	29,737	393,445
Food	144,865	123,528	134,704	-	403,097	658	88	403,843
Training and Development	1,239	5,556	437	-	7,232	1,258	4,444	12,934
Professional Services	16,787	34,708	24,213	2,732	78,440	15,159	8,856	102,455
Rents	62,984	9,323	109,052	52,800	234,159	10,034	621	244,814
Utilities	35,105	13,019	58,326	15,299	121,749	7,288	872	129,909
Insurance	-	7,520	86	2,289	9,895	1,793	909	12,597
Maintenance and Equipment	53,847	22,376	62,101	2,824	141,148	5,049	1,388	147,585
Vehicle and Fuel	3,076	3,539	3,391	7,323	17,329	742	3,430	21,501
Depreciation	22,032	26,679	21,229	2,723	72,663	7,678	2,817	83,158
Direct Client Assistance	29,760	17,718	10,810	-	58,288	-	-	58,288
Supplies	21,955	44,604	15,463	1,450	83,472	4,257	14,483	102,212
Marketing and Advertising	563	3,676	64	276	4,579	227	32,863	37,669
Telephone and Internet	5,300	1,143	3,988	2,893	13,324	1,834	941	16,099
Other	3,003	1,831	1,496	2,328	8,658	3,186	10,903	22,747
	<u>\$ 1,064,442</u>	<u>\$ 1,401,336</u>	<u>\$ 901,410</u>	<u>\$ 261,807</u>	<u>\$ 3,628,995</u>	<u>\$ 129,845</u>	<u>\$ 343,674</u>	<u>\$ 4,102,514</u>

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 1,434,890	\$ 435,239
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Total liabilities and net assets	<u>\$ 11,163,094</u>	<u>\$ 9,825,359</u>

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

1. Principal Activities and Significant Accounting Policies

Organization

Stephen Center, Inc. ("Stephen Center") is organized under the Nebraska Nonprofit Corporation Act and qualifies for exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. The mission of Stephen Center is to partner with the community, families, and individuals to overcome homelessness, addiction and poverty primarily through the following programs:

Pettigrew Emergency Shelter

Pettigrew Emergency Shelter is a substance-free facility featuring a men's dorm, women's dorm and family shelter units. Meals are available to residents three times per day, seven days per week. Within 72 hours of arrival, every shelter client is required to meet with a case manager to develop a plan for success to overcome barriers and emerge from homelessness.

HERO

Stephen Center's HERO program provides substance abuse and mental health treatment for low-income and homeless individuals. Multiple levels of care include, long term residential care, short term residential care, non-residential intensive outpatient treatment, non-residential outpatient treatment, and substance abuse and mental health evaluations.

Permanent Supportive Housing

Permanent Supportive Housing apartments provide housing and supportive services to individuals and families moving from homelessness to independent, supportive living. Apartments comply with HUD Housing Quality Standards. There are 61 PSH units for rent to those who meet income and disability standards, including 40 single room occupancy units, 15 one-bedroom, 4 two-bedroom, and 2 three-bedroom units.

Thrift Store

Stephen Center operated a Thrift Store which provided jobs and job training for our clients as well as clothing and furnishings at no cost to our clients. All proceeds from the resale of donated items supported the operations of the Stephen Center. In the year ended December 31, 2019, the thrift store was closed.

5217 South 28th Street LLC ("5217 LLC") is a separate limited liability corporation which owns the building housing Stephen Center's HERO residential care program. Stephen Center acquired 100% ownership of 5217 LLC on December 31, 2020. Before the acquisition, Stephen Center was the managing member of 5217 LLC, owning a .01% interest in its profits and losses. Stephen Center would also assign a portion of its HERO program services fees as rent and pay them to 5217 LLC in order for 5217 LLC to pay its administrative, utility, maintenance, taxes, insurance and other operating and compliance expenses. Revenues assigned as rent to 5217 LLC were \$220,961 and \$232,620 for the years ended December 31, 2020 and 2019, respectively. Since Stephen Center acquired 100% ownership as of December 31, 2020, the assigned revenues and 5217 LLC's expenses are not reflected in these consolidated financial statements. Only the acquired assets and liabilities are reflected as of December 31, 2020. 5217 LLC produces its own financial statements, together with independent auditors' reports. Effective January 1, 2021, all previous operational activity of 5217 LLC will cease, all financial assets and any current and future liabilities will be transferred to Stephen Center, and 5217 LLC's only activity going forward will be to hold title to real property.

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

1. Principal Activities and Significant Accounting Policies (continued)

Organization (continued)

In 2013 Stephen Center became the managing member of 2723 Q Street LLC ("2723 LLC"), holding a .01% interest in its profits and losses. 2723 LLC owns the building housing Stephen Center's shelter and permanent supportive housing programs. Stephen Center has executed a master lease agreement with 2723 LLC and pays monthly rents to 2723 LLC in order for it to pay its taxes, insurance, and other operating and compliance expenses (see Note 13). 2723 LLC's rental revenue and expenses are not reflected in these consolidated financial statements. 2723 LLC produces its own financial statements, together with independent auditors' reports. Stephen Center has the option of purchasing the sole interest in 2723 LLC fifteen years from its inception from the non-managing members at a price stipulated in 2723 LLC's operating agreement.

Principles of Consolidation

The consolidated financial statements include the accounts of Stephen Center and 5217 LLC because Stephen Center owns 100% of 5217 LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as "Stephen Center."

Use of Estimates

In preparing the accompanying consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Stephen Center considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to reserves or designated for other long-term purposes, and the assumption of non-cash assets and liabilities from the acquisition of 5217 LLC and its real property are excluded from this definition.

Accounts Receivable and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for program services and housing. Accounts receivable are written off when deemed uncollectable.

Promises to Give

Stephen Center records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The allowance for uncollectable promises to give is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2020 and 2019, Stephen Center made no allowance for uncollectible promises to give.

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

1. Principal Activities and Significant Accounting Policies (continued)

Inventory

Inventory for the Stephen Center consists primarily of purchased and donated equipment, food, supplies, and personal items for clients. Donated inventory is based on a high-level estimate of market value. A physical inventory is taken of purchased food and kitchen supplies.

Land, Buildings, and Equipment

Stephen Center records property and equipment additions at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Investments

Stephen Center records securities purchases at cost, or if donated, at fair value on the date of donation. Thereafter, securities investments are reported at their fair values in the statements of financial position.

Other investments consist of brokered certificates of deposits intended to be held to maturity, and equity investments in LLC's. Purchases of certificate of deposits are recorded at cost. Thereafter, they are reported at cost, plus any earnings to date. Investments in LLC's are accounted for by the equity method of accounting and recorded initially at cost, thereafter being adjusted for Stephen Center's share of income or losses and reduced by distributions received.

Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

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:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and a capital reserve.

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain 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.

Stephen Center reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue Recognition

Stephen Center recognizes revenue from program services when services or housing is provided. Special event revenues, which are nonrefundable, are comprised of an exchange element based on the benefits received, and a contribution element for the difference. Stephen Center recognizes the exchange portion of event revenue at the time of each event, and the contribution portion immediately.

Stephen Center recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. 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.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to Stephen Center's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Stephen Center records donated professional services at the respective fair values of the services received.

Income Taxes

Stephen Center has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Stephen Center is subject to federal income tax on any unrelated business taxable income.

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Stephen Center accounts for uncertainties in accounting for income tax assets and liabilities using the guidance included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. There are no uncertainties that are reflected in the consolidated financial statements, and with few exceptions, Stephen Center is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2017.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated reasonably and consistently among the programs and supporting services benefited. The expenses that are allocated include rents, depreciation, utilities, food, professional services, insurance, maintenance, vehicle, supplies, and telephone and internet which are allocated on a square footage or program impact basis, as well as salaries and wages, benefits, payroll taxes, training, and travel, which are allocated on the basis of estimates of time and effort.

Risks and Uncertainties

Stephen Center maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Stephen Center has not experienced any losses in such accounts. Stephen Center believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2020, deposits exceeded the FDIC insured limit of \$250,000 by a total of \$5,020,138.

As managing member of 2723 LLC, Stephen Center has executed a guarantee providing reliance on its obligations. Failure to perform could result in monetary sanctions.

Revenues from one fee for service third party payer accounted for approximately 31% of Stephen Center's total revenues in the year ended December 31, 2020.

On March 11, 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included, amongst other things, forced closure and quarantine restrictions for certain types of public places and business. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economy of the geographic area in which the Stephen Center operates. While it is unknown how long these conditions will last and what the complete financial effect will be on the Stephen Center, to date, the Stephen Center has not been significantly impacted financially due to the situation.

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Change in Accounting Principles

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021.

Subsequent Events

Subsequent events have been evaluated through April 22, 2021 which is the date the consolidated financial statements were available to be issued.

2. Acquisition of 5217 South 28th Street LLC

As previously noted, on December 31, 2020 Stephen Center acquired 100% ownership of 5217 LLC, a separate corporation that owns the building housing Stephen Center's HERO residential program. The acquisition will allow Stephen Center to gain complete control over the HERO program's building and continue to provide substance abuse and mental health treatment for low-income and homeless individuals. The consideration paid by Stephen Center, in what is accounted for in substance as a real estate transaction, was a nominal fee and the assumption of 5217 LLC's liabilities, including its mortgages and notes payable.

The assets acquired and the liabilities assumed or incurred were:

Estimated fair value of assets acquired:	
Cash	\$ 283,550
Land	16,000
Building	175,776
Other assets	<u>7,461</u>
	\$ 482,787
Estimated fair value of liabilities assumed or incurred:	
Accounts payable and accrued liabilities	\$ 15,322
Mortgages and notes payable	438,000
Accumulated managing member losses	<u>27,955</u>
	\$ 481,277
Net cash paid	<u>\$ 1,510</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

2. Acquisition of 5217 South 28th Street LLC (continued)

The pro forma program service fee revenue and change in net assets for the years ended December 31, 2020 and 2019, giving effect to the acquired 5217 LLC, as if it had occurred at the beginning of the periods presented were:

	<u>2020</u>	<u>2019</u>
Pro forma program service fee revenue	\$ 2,180,975	\$ 2,382,395
Pro forma change in net assets	\$ 890,143	\$ 168,930

3. Liquidity and Availability

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,203,574	\$ 435,239
Program fees, grants and other receivables	483,736	377,935
Capital reserve	810,364	432,050
Operating reserve	<u>2,600,446</u>	<u>2,383,920</u>
	\$ 5,098,120	\$ 3,629,144

Stephen Center considers program fees and income, investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated reserves, contributions without donor restrictions and contributions and grants with restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and program commitments expected to be paid in the subsequent year.

Stephen Center's board-designated endowment totaled \$109,532 and \$0 at December 31, 2020 and 2019, respectively. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation pursuant to the Endowment's spending policy), these amounts could be made available if necessary.

Stephen Center manages its cash available to meet general expenditures following three guiding principles: (1) operating within a prudent range of financial soundness and stability, (2) maintaining adequate liquid assets, and (3) maintaining sufficient reserves to provide reasonable assurance that long term program commitments will continue to be met, ensuring the sustainability of the Stephen Center.

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

3. Liquidity and Availability (continued)

In order to ensure the long term sustainability of the Stephen Center, the following reserves have been established:

Capital Reserve

The Board has designated a capital reserve for the purpose of building and maintaining an adequate level of unrestricted net assets to support the organization's strategic long-term capital and infrastructure needs of its current and planned operations and programs.

Operating Reserve

The Board has designated an operating reserve for the purpose of building and maintaining an adequate level of unrestricted net assets to support the organization's day to day operations in the event of unforeseen shortfalls. The target for the Operating Reserve is equal to six to nine months of average recurring operating costs, excluding non-cash expenses.

4. Facility Reserve

As part of its agreement as Managing Member of 2723 Q Street LLC, Stephen Center was required to reserve excess capital campaign funds as of the project stabilization date to be used for expenses associated with the Permanent Supportive Housing program, emergency shelter and community support portion of the project. Stephen Center has set aside this restricted reserve as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$ 724,648	\$ 154,163
Other Investments	1,259,796	2,018,265
	<u>\$ 1,984,444</u>	<u>\$ 2,172,428</u>

5. Investments and Fair Value Measurements

Stephen Center reports certain assets at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

5. Investments and Fair Value Measurements (continued)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

All of Stephen Center's investment assets, reported at fair value, are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values. Stephen Center invests in CDs and U.S. government obligations traded in the financial markets, however Stephen Center intends to hold those CDs and U.S. government obligations to maturity and are therefore they are not reported at fair value. Instead, CDs and U.S. government obligations are reported at cost plus any earnings to date. Stephen Center has investments in both 5217 South 28th Street LLC and 2723 Q Street LLC as the Managing Member in each. The investing member of each of the LLCs retain significant control over the LLCs, therefore Stephen Center's investment in the LLCs is accounted for by the equity method of accounting and recorded at cost, adjusted for the share of income or losses, and reduced by distributions received.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, at December 31, 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Cost, Adjusted for Earnings and Shares of Income or Losses
<u>Operating Investments:</u>		
Global bond mutual fund	\$ --	\$ --
Equity investment in 5217 South 28 th Street LLC	--	--
Equity investment in 2723 Q Street LLC	--	1,390,428
	<u>\$ --</u>	<u>\$ 1,390,428</u>
<u>Investments Restricted to Facility Reserve:</u>		
Certificates of deposit	\$ --	\$ 1,259,796
<u>Endowment Investments:</u>		
Global bond mutual fund	\$ 44,696	\$ --
	<u>\$ 44,696</u>	<u>\$ 2,650,224</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

5. Investments and Fair Value Measurements (continued)

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, at December 31, 2019:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Cost, Adjusted for Earnings and Shares of Income or Losses
<u>Operating Investments:</u>		
Global bond mutual fund	\$ 42,683	\$ --
Equity investment in 5217 South 28 th Street LLC	--	27,969
Equity investment in 2723 Q Street LLC	--	1,390,460
	<u>\$ 42,683</u>	<u>\$ 1,418,429</u>
<u>Investments Restricted to Facility Reserve:</u>		
Certificates of deposits	\$ --	\$ 2,018,265
<u>Endowment Investments:</u>		
Global bond mutual fund	\$ --	\$ --
	<u>\$ 42,683</u>	<u>\$ 3,436,694</u>

6. Promises to Give

Unconditional promises to give, consisting of one promise, are estimated to be collected as follows at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Within one year	\$ --	\$ 10,000
In one to five years	--	--
	--	10,000
Less discount to net present value at 3%	--	--
	<u>\$ --</u>	<u>\$ 10,000</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

7. Notes Receivable

Notes receivable consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
HOME Investment Partnership funds (1)	\$ 500,000	\$ 500,000
Affordable Housing Program (2)	400,000	400,000
Loan to 2723 Q Street LLC (3)	<u>300,000</u>	<u>300,000</u>
Accrued interest to date	<u>215,614</u>	<u>215,614</u>
	<u>\$ 1,415,614</u>	<u>\$ 1,415,614</u>

- (1) During 2013 Stephen Center received a restricted grant of HOME Investment Partnership funds from the State of Nebraska Department of Economic Development (NDED) in the amount of \$500,000. These funds were subsequently loaned to 2723 Q Street LLC to fund its construction. The note is secured by real estate, bears interest at 5% to accrue cumulatively, and all outstanding interest and principal is due in full in 2029. The original grant requires 2723 Q Street LLC to operate as a low-income housing through 2029, and as such, the note is restricted until the satisfaction of that requirement.
- (2) During 2014 Stephen Center received a loan from the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP) to finance the construction of 2723 Q Street which is to operate as low-income housing for fifteen years (compliance period). The amount of the loan received was \$400,000 and does not bear interest, except upon an event of default. The loan will be forgiven upon successful completion of the requirements of the AHP. During 2014, Stephen Center loaned the \$400,000 to 2723 Q Street LLC with an interest rate of 4.75%, to accrue cumulatively, secured by real estate, which is due and payable at the end of the compliance period or upon an event of default.
- (3) Stephen Center loaned \$300,000 to 2723 Q Street LLC to fund its construction. Principal and interest payments are due from annual excess cash flows as dictated by the LLC's Operating Agreement with all outstanding principal and interest due in full in December 2029. The note bears interest at 5%, which accrues cumulatively, and is secured by real estate.

All notes receivable are currently in non-accrual status due to the uncertainty of future interest payments.

8. Notes Payable

Notes payable consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Affordable Housing Program (1)	\$ 400,000	\$ 400,000
Affordable Housing Program (2)	190,000	--
City of Omaha (3)	100,000	--
Federal Home Loan Bank (4)	<u>148,000</u>	<u>--</u>
	<u>\$ 838,000</u>	<u>\$ 400,000</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

8. Notes Payable (continued)

- (1) During 2014 Stephen Center received a loan from the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP) for the purpose of helping to finance the construction of 2723 Q Street which is to operate as low-income housing for fifteen years (compliance period). The amount of the loan received was \$400,000 and does not bear interest, except upon an event of default. The loan will be forgiven upon successful completion of the requirements of the AHP. During 2014, Stephen Center loaned the \$400,000 to 2723 Q Street LLC with an interest rate of 4.75% which is due and payable at the end of the compliance period or upon an event of default.
- (2) Note payable from Nebraska Affordable Housing Trust Funds. The note was assumed by Stephen Center during its acquisition of 5217 South 28th Street LLC. The note is due in full December 21, 2025, but may become due sooner if the low income rental requirements of the building owned by 5217 South 28th Street LLC are not maintained through the notes due date. The note bears no interest, requires no payment until its due date and is secured by real estate.
- (3) Note payable from the City of Omaha. The note was assumed by Stephen Center upon its acquisition of 5217 South 28th Street LLC. The note bears no interest and principal payments are deferred until January 2023, at which time monthly payments of \$278 are required to amortize the principal repayments over the following 360 months. The note is collateralized by real estate.
- (4) Note payable from the Federal Home Loan Bank of Topeka. The note was assumed by Stephen Center upon its acquisition of 5217 South 28th Street LLC. The loan bears no interest and requires no principal payments until its due date of July 2021, providing Stephen Center abides by the low income rental requirements of the building owned by 5217 South 28th Street LLC. The note is secured by real estate.

Future maturities of notes payable are as follows:

2021	\$	148,000
2022		- -
2023		3,336
2024		3,336
2025		193,336
Thereafter		489,992
	\$	<u>838,000</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

9. Endowment

Stephen Center's endowment (the Endowment) consists of certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

While the Stephen Center currently does not have any donor-restricted endowment funds, the Stephen Center's Board of Directors has adopted policy for any future donor-restricted endowment funds, which has interpreted the Nebraska Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, Stephen Center will retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Future donor-restricted amounts not retained in perpetuity will be subject to appropriation for expenditure by Stephen Center in a manner consistent with the standard of prudence prescribed by UPMIFA. Stephen Center will consider the following factors in making a determination to appropriate or accumulate any future donor-restricted endowment funds:

- (1) The duration and preservation of the donor-restricted fund
- (2) The purposes of the Stephen Center and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected net return from income and the appreciation of investments
- (6) Other resources of the Stephen Center
- (7) The investment policies of the Stephen Center
- (8) The historical 3 year rate of return of the donor-restricted fund

At December 31, 2020 and 2019, Stephen Center had the following endowment net asset composition by type of fund:

<u>December 31, 2020</u>	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 109,532	\$ --	\$ 109,532
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to maintained in perpetuity by donor	--	--	--
Accumulated investment gains	--	--	--
	<u>\$ 109,532</u>	<u>\$ --</u>	<u>\$ 109,532</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

9. Endowment (continued)

<u>December 31, 2019</u>	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ --	\$ --	\$ --
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to maintained in perpetuity by donor	--	--	--
Accumulated investment gains	--	--	--
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

From time to time, donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). Stephen Center has interpreted UPMIFA to permit spending from future underwater donor-restricted endowments in accordance with prudent measures required under law.

Stephen Center has adopted spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments.

Stephen Center will use an endowment spending-rate formula to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. The rate, to be determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the Endowment investments for the prior 12 quarters at June 30th of each year to determine the spending amount for the upcoming year. In establishing this policy, Stephen Center considered the long-term expected return on the Endowment and will set the rate with the objective of maintaining the purchasing power of the Endowment over time. The Endowment was established in the year ending December 31, 2020, therefore no spending rate has been set for the year ending December 31, 2021.

Changes in Endowment net assets for the years ended December 31, 2020 and 2019 are as follows:

<u>December 31, 2020</u>	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ --	\$ --	\$ --
Investment return, net	--	--	--
Contributions	109,532	--	109,532
Appropriation of endowment assets pursuant to spending-rate policies	--	--	--
Endowment net assets, end of year	<u>\$ 109,532</u>	<u>\$ --</u>	<u>\$ 109,532</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

9. Endowment (continued)

<u>December 31, 2019</u>	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ --	\$ --	\$ --
Investment return, net			
Contributions	--	--	--
Appropriation of endowment assets pursuant to spending-rate policies	--	--	--
Endowment net assets, end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

10. Net Assets with Donor Restrictions

In 2014 Stephen Center was awarded a restricted grant from HUD in the amount of \$300,809 to assist in the construction and operation of the new 2723 Q Street LLC. This property must operate for a period of twenty years as supportive or low-income housing starting when the property is put into use or occupied. These funds have been invested in 2723 Q Street LLC and are restricted until the satisfaction of the grant requirement.

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
HOME grant lent into 2723 Q St. LLC	\$ 500,000	\$ 500,000
HUD grant invested into 2723 Q St. LLC	300,809	300,809
Shelter and Permanent Supportive Housing programs	26,104	25,323
Facility reserve	1,984,444	2,172,428
Subject to the passage of time:		
Foundation support for 2020 operations	--	25,000
	<u>\$ 2,811,357</u>	<u>\$ 3,023,560</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Permanent supportive housing programs	\$ --	\$ 1,150
Shelter programs	201,121	208,213
Subject to the passage of time:	25,000	9,625
	<u>\$ 226,121</u>	<u>\$ 218,988</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

11. Donated Goods and Materials

Stephen Center received donated goods and materials as follows during the years ended December 31, 2020 and 2019:

<u>December 31, 2020</u>	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Food	\$ 299,929	\$ 109	\$ 300,038
<u>December 31, 2019</u>			
Food	\$ 305,389	\$ 518	\$ 305,907

12. Retirement Plan

Stephen Center established a Simple IRA Plan for employees earning at least \$5,000 annually. A participating employee may elect to have his or her compensation reduced by an amount to be contributed to the plan. The amount of the Stephen Center's contribution is discretionary and is determined annually by the Board of Directors. Contributions are placed in an Individual Retirement Account in the employee's name. These accounts are in the individual employee's control and available for withdrawal at their discretion, subject to the laws and regulations regarding an Individual Retirement Account. The current contribution match is 3%. The Stephen Center made contributions of \$22,204 and \$22,012 for the years ended December 31, 2020 and 2019, respectively.

13. Lease Commitments

Stephen Center leased space for the thrift store under a month-to-month operating lease. Lease expenditures for the operating lease was \$0 and \$50,000 for the years ended December 31, 2020 and 2019, respectively.

Stephen Center leases copier equipment under a capital lease expiring in 2023. Future minimum capital lease payments are as follows:

2021	\$ 7,240
2022	7,240
2023	<u>6,033</u>
Total minimum lease payments	20,513
Less amounts representing interest	<u>(1,369)</u>
Capital lease obligation	<u>\$ 19,144</u>

Leased property under capital leases at December 31, 2020 and 2019 includes the following:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 33,962	\$ 33,962
Less accumulated amortization	<u>(16,981)</u>	<u>(10,188)</u>
	<u>\$ 16,981</u>	<u>\$ 23,774</u>

STEPHEN CENTER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2020 and 2019

13. Lease Commitments (continued)

Stephen Center entered into a master lease with 2723 Q Street, LLC, in which the Stephen Center pays rent for the use of the building, improvements, furniture and fixtures. The lease has a term of 17 years which commenced January 1, 2015, and calls for an initial annual rental amount of \$150,000 with 3% cumulative increase each subsequent year. The annual rental expense recorded by the Center using the straight-line method is \$192,014. At December 31, 2020, future lease payments under the master lease are as follows:

2021	\$	179,108
2022		184,481
2023		190,016
2024		195,716
2025		201,587
Thereafter		<u>1,343,068</u>
Total	\$	<u>2,293,976</u>

14. Related Party Rental Revenues

The Stephen Center has executed ground leases with 2723 Q Street, LLC for which it is the Managing Member. The LLC pays rent to Stephen Center for land and use of a parking lot. These leases run for a period of 64 years and carry total annual rental amounts of \$22,500 through the term of the leases.