Stephen Center, Inc.

Consolidated Financial Statements
December 31, 2022 and 2021

STEPHEN CENTER, INC.

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bland
& associates
beyond accounting

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Stephen Center, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Notes 1 and 7 to the financial statements, the Organization adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management of the Consolidated Financial Statements

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

Independent Member
BKR
INTERNATIONAL

In preparing the consolidated 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 for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated 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 consolidated 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 consolidated 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 consolidated 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.

BLAND & ASSOCIATES, P.C.

Bland + Associates, P.C.

Omaha, Nebraska
April 17, 2023

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 2,163,530	$ 1,758,350
Cash designated to reserves	3,539,272	3,599,885
Accounts receivable, net	296,832	436,668
Prepaid expenses	15,429	20,364
Inventory	19,218	14,459
Operating investments	1,390,365	1,390,396
Notes receivable	1,415,614	1,415,614
Cash restricted to facility reserve	615,622	1,545,135
Investments restricted to facility reserve	1,000,000	251,829
Right-of-use assets	1,224,554	-
Endowment	2,595,908	2,002,936
Property, plant and equipment at cost, net		
Land	$ 319,949	$ 319,949
Buildings and improvements	954,958	819,824
Furnishings and equipment	408,780	423,187
Accumulated depreciation	(749,681)	(665,646)
Subtotal property, plant and equipment	$ 934,006	$ 897,314
Total assets	$ 15,210,350	$ 13,332,950
LIABILITIES		
Accounts payable and accrued expenses	$ 346,178	$ 419,916
Deferred conditional grants	224,649	221,058
Lease liabilities	1,421,422	-
Notes payable	590,000	590,000
Total liabilities	$ 2,582,249	$ 1,230,974
NET ASSETS		
Without donor restrictions		
Undesignated	$ 3,976,131	$ 3,786,271
Board designated operating reserve	2,624,046	2,607,215
Board designated capital reserve	915,226	992,670
Board designated endowment	2,595,908	2,002,936
	$ 10,111,311	$ 9,389,092
With donor restrictions	2,516,790	2,712,884
Total net assets	$ 12,628,101	$ 12,101,976
Total liabilities and net assets	$ 15,210,350	$ 13,332,950

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues, other support and reclassifications		
Program service fees		
HERO	$ 1,951,738	$ 1,887,914
Permanent supportive housing	419,693	433,629
Total program service fees	2,371,431	2,321,543
Federal and state contracts and grants	333,477	347,891
Foundation support and other grants	604,445	871,574
Contributions of cash and other financial assets	1,508,683	2,353,678
In-kind contributions	474,853	362,601
Other revenue	63,281	296,757
Net investment revenue	(20,967)	26,105
Gross special events revenue	145,968	15,509
Less cost of direct benefits provided to donors	(120,193)	(17,264)
	25,775	(1,755)
Gain/(loss) on sales/disposals of equipment	-	300
Net assets released from restriction	231,464	191,991
Total revenues, other support and reclassifications	$ 5,592,442	$ 6,770,685
Expenses and losses		
Program services	$ 4,090,471	$ 3,418,527
Management and general	508,888	434,524
Fundraising and development	270,864	305,733
Total expenses and losses	$ 4,870,223	$ 4,158,784
Increase in net assets without donor restrictions	$ 722,219	$ 2,611,901
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Foundation support and other grants	$ 15,011	$ 1,618
Contributions	20,359	91,900
Net assets released from restrictions	(231,464)	(191,991)
Decrease in net assets with donor restrictions	$ (196,094)	$ (98,473)
Increase in net assets	$ 526,125	$ 2,513,428
Net assets at beginning of year:	12,101,976	9,588,548
Net assets at end of year	$ 12,628,101	$ 12,101,976

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022

	Program Services						
	Emergency Shelter	Substance Abuse Treatment	Permanent Supportive Housing	Total	Management and General	Fundraising and Development	Total
Salaries and Wages	$ 709,705	$ 915,536	$ 383,284	$ 2,008,525	$ 328,523	$ 155,897	$ 2,492,945
Payroll Taxes	53,443	70,060	28,627	152,130	23,440	11,779	187,349
Employee Benefits	84,173	126,094	39,592	249,859	40,117	26,343	316,319
Food	216,922	129,840	237,954	584,716	-	-	584,716
Training and Development	4,927	5,788	2,606	13,321	6,787	2,189	22,297
Professional Services	27,844	52,143	13,921	93,908	41,462	2,103	137,473
Rents	70,657	11,212	117,994	199,863	9,878	977	210,718
Utilities	39,046	56,161	68,839	164,046	7,878	627	172,551
Insurance	2,895	16,951	3,428	23,274	7,677	1,097	32,048
Maintenance and Equipment	95,194	92,565	115,944	303,703	11,727	1,080	316,510
Vehicle and Fuel	2,282	1,362	2,499	6,143	-	-	6,143
Depreciation	21,629	32,095	23,446	77,170	6,742	124	84,036
Direct Client Assistance	33,183	24,508	23,638	81,329	-	-	81,329
Supplies	31,954	53,857	24,750	110,561	12,520	11,069	134,150
Marketing and Advertising	-	-	-	-	-	47,483	47,483
Telephone and Internet	3,601	6,599	6,177	16,377	2,735	446	19,558
Other	683	1,570	3,293	5,546	9,402	9,650	24,598
	$ 1,398,138	$ 1,596,341	$ 1,095,992	$ 4,090,471	$ 508,888	$ 270,864	$ 4,870,223

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	Program Services						
	Emergency Shelter	Substance Abuse Treatment	Permanent Supportive Housing	Total	Management and General	Fundraising and Development	Total
Salaries and Wages	$ 569,039	$ 731,778	$ 326,052	$ 1,626,869	$ 288,684	$ 183,689	$ 2,099,242
Payroll Taxes	44,173	56,227	25,289	125,689	20,987	14,136	160,812
Employee Benefits	74,398	127,952	45,275	247,625	38,812	19,627	306,064
Food	153,191	137,326	179,187	469,704	-	-	469,704
Training and Development	3,370	7,269	2,445	13,084	3,057	3,894	20,035
Professional Services	20,268	25,490	12,798	58,556	23,703	4,604	86,863
Rents	69,733	12,725	120,535	202,993	10,484	1,037	214,514
Utilities	33,130	53,538	58,837	145,505	7,089	534	153,128
Insurance	1,525	16,487	1,979	19,991	7,671	1,796	29,458
Maintenance and Equipment	46,608	102,400	73,715	222,723	10,491	3,162	236,376
Vehicle and Fuel	2,797	2,663	3,415	8,875	265	152	9,292
Depreciation	22,860	33,260	24,481	80,601	7,187	134	87,922
Direct Client Assistance	30,465	12,285	6,843	49,593	-	-	49,593
Supplies	25,671	68,097	32,044	125,812	10,793	13,368	149,973
Marketing and Advertising	-	-	-	-	-	46,917	46,917
Telephone and Internet	2,993	6,960	5,183	15,136	2,609	349	18,094
Other	1,755	2,279	1,737	5,771	2,692	12,334	20,797
	$ 1,101,976	$ 1,396,736	$ 919,815	$ 3,418,527	$ 434,524	$ 305,733	$ 4,158,784

See Notes to Consolidated Financial Statements

STEPHEN CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	$ 526,125	$ 2,513,428
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	84,036	87,922
Loss (gain) on disposition of assets	-	(300)
Unrealized (gain) loss on investments	31	32
Endowment net investment (return) loss	57,210	-
Debt forgiveness	-	(248,000)
Changes in assets and liabilities:		
(Increase) decrease in prepaid expenses and receivables	144,771	46,371
(Increase) decrease in inventory	(4,759)	265
Increase (decrease) in accounts payable and accrued expenses	(102,231)	(85,314)
Increase (decrease) in lease assets and liabilities	203,647	
Increase (decrease) in deferred conditional grants	3,591	(10,258)
Net cash provided by operating activities	$ 912,421	$ 2,304,146
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	$ 251,829	$ 1,007,967
Purchase of investments	(1,000,000)	-
Sale of property and equipment	-	300
Additions to endowment	(650,182)	(1,893,404)
Purchase of property and equipment	(92,235)	(85,987)
Net cash used in investing activities	$ (1,490,588)	$ (971,124)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on financing leases	$ (6,779)	$ -
Net cash used in financing activities	$ (6,779)	$ -
Increase in cash, cash equivalents, and restricted cash	$ (584,946)	$ 1,333,022
Cash, cash equivalents, and restricted cash:		
Beginning of year	6,903,370	5,570,348
End of year	$ 6,318,424	$ 6,903,370
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	$ 2,163,530	$ 1,758,350
Cash designated to reserves	3,539,272	3,599,885
Cash restricted to facility reserve	615,622	1,545,135
	$ 6,318,424	$ 6,903,370
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY		
Accounts payable and accrued expenses for property and equipment	$ 28,493	$ -

See Notes to Consolidated Financial Statements

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:

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.

Substance Abuse Treatment

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.

5217 South 28^{th} 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.

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 12). 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."

1. Principal Activities and Significant Accounting Policies (continued)

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 are excluded from this definition.

Accounts Receivable and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for program services and housing. Stephen Center determines an allowance for uncollectable accounts receivable, if needed, based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2022 and 2021, allowances for uncollectible accounts totaled $120,306 and $71,869, respectively. Accounts receivable net of allowances for uncollectible accounts at January 1, 2022 and 2021 was $436,668 and $483,736, respectively.

Inventory

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

Land, Buildings, and Equipment

Stephen Center records property and equipment additions over $5,000 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 40 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.

1. Principal Activities and Significant Accounting Policies (continued)

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, a capital reserve, and an endowment.

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.

1. Principal Activities and Significant Accounting Policies (continued)

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.

In-Kind Contributions

Contributed nonfinancial assets include donated food, donated personal items, and other in-kind contributions which are recorded at the respective fair values of the goods or services received. In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to 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.

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 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 2019.

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.

1. Principal Activities and Significant Accounting Policies (continued)

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, 2021, deposits exceeded the FDIC insured limit of $250,000 by a total of $5,966,545.

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 27% of Stephen Center's total revenues in the year ended December 31, 2022.

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. Stephen Center adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, Stephen Center has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with Stephen Center's historical accounting treatment under ASC Topic 840, Leases.

Stephen Center made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, Stephen Center made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Stephen Center has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to Stephen Center, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

1. Principal Activities and Significant Accounting Policies (continued)

Change in Accounting Principles (continued)

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to Stephen Center's operating leases of approximately $1,412,326 and $1,607,055 respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

In September 2020, the FASB issued ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organization. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires enhanced disclosures by category of gifts-in-kind. The new standard was adopted effective January 1, 2021 and had no effects on previously reported results of activities, cash flows, or net assets.

Subsequent Events

Subsequent events have been evaluated through April 17, 2023 which is the date the consolidated financial statements were available to be issued.

2. 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:

	2022	2021
Cash and cash equivalents	$ 1,938,881	$ 1,537,292
Program fees, grants and other receivables	296,832	436,668
Infrastructure reserve	915,226	992,670
Operating reserve	2,624,046	2,607,215
	$ 5,774,985	$ 5,573,845

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.

2. Liquidity and Availability (continued)

Stephen Center's board-designated endowment totaled $2,595,908 and $2,002,936 at December 31, 2022 and 2021, respectively. Although Stephen Center does 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.

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

Infrastructure Reserve

The Board has designated an infrastructure 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.

3. Facility Reserve

As part of its agreement as Managing Member of 2723 Q Street LLC, Stephen Center was required to restrict 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:

	2022	2021
Cash	$ 615,622	$ 1,545,135
Other Investments	1,000,000	251,829
	$ 1,615,622	$ 1,796,964

4. 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.

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 since they comprise highly liquid individual equities, exchange traded funds, and open ended mutual funds with readily determinable fair values based on daily redemption values. Stephen Center invests in CDs traded in the financial markets, however Stephen Center intends to hold those CDs to maturity and therefore they are not reported at fair value. Instead, CDs are reported at cost plus any earnings to date. Stephen Center has an investment in 2723 Q Street LLC and is its Managing Member. The investing member of the LLC retains significant control over the LLC, therefore Stephen Center's investment in the LLC 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.

4. 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, 2022:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Cost, Adjusted for Earnings and Shares of Income or Losses	Total
Operating Investments:			
Equity investment in 2723 Q Street LLC	$ - -	$ 1,390,365	$ 1,390,365
Investments Restricted to Facility Reserve:			
Certificates of deposit	$ - -	$ 1,000,000	$ 1,000,000
Endowment Investments:			
Cash and money market funds (at cost)	$ - -	$ 405,782	$ 405,782
Short term bond exchange traded funds	510,330	- -	510,330
Intermediate term bond exchange traded funds	495,100	- -	495,100
Global equities	623,571	- -	623,571
Global equity mutual funds	561,125	- -	561,125
	$ 2,190,126	$ 405,782	$ 2,595,908
	$ 2,190,126	$ 2,796,147	$ 4,986,273

4. 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, 2021:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Cost, Adjusted for Earnings and Shares of Income or Losses	Total
Operating Investments:			
Equity investment in 2723 Q Street LLC	$ - -	$ 1,390,396	$ 1,390,396
Investments Restricted to Facility Reserve:			
Certificates of deposit	$ - -	$ 251,829	$ 251,829
Endowment Investments:			
Cash and money market funds (at cost)	$ - -	$ 2,002,936	$ 2,002,936
	$ - -	$ 3,645,161	$ 3,645,161

5. Notes Receivable

Notes receivable consisted of the following at December 31, 2022 and 2021:

	2022	2021
HOME Investment Partnership funds (1)	$ 500,000	$ 500,000
Affordable Housing Program (2)	400,000	400,000
Loan to 2723 Q Street LLC (3)	300,000	300,000
Accrued interest to date	215,614	215,614
	$ 1,415,614	$ 1,415,614

(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.

5. Notes Receivable (continued)

(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.

6. Notes Payable

Notes payable consisted of the following at December 31, 2022 and 2021:

	2022	2021
Affordable Housing Program (1)	$ 400,000	$ 400,000
Affordable Housing Program (2)	190,000	190,000
	$ 590,000	$ 590,000

(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.

6. Notes Payable (continued)

Future maturities of notes payable are as follows:

2023	$	- -
2024		- -
2025		190,000
2026		- -
2027		- -
Thereafter		400,000
	$	590,000

7. Leases

Stephen Center leases certain facilities at various terms under long-term non-cancelable operating lease agreements. The leases expire at various dates through 2029. Certain operating leases contain termination options, where the rights to terminate are held by either Stephen Center, the lessor or both parties. These options to terminate a lease are included in the lease terms when it is reasonably certain that Stephen Center will exercise that option. An operating lease for a certain facility provides for increases in future minimum annual rental payments. Stephen Center's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Stephen Center also leases certain equipment under a finance lease agreement with a term ending in 2023 with an interest rate of 4.80%. Stephen Center's finance leases generally do not contain any material restrictive covenants or residual value guarantees.

Statement of Financial Position classification of total right-of-use assets and lease liabilities at December 31, 2022 are as follows:

Lease Assets		
Operating right-of-use assets – Other assets	$	1,224,554
Finance right-of-use assets – Property and equipment, net		3,396
	$	1,227,950
Lease Liabilities		
Operating lease liabilities	$	1,415,519
Finance lease liabilities		5,903
	$	1,421,422

7. Leases (continued)

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the right-of-use assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	$ 210,718
Finance lease cost	
Interest expense	461
Amortization of right-of-use assets	6,793
	$ 217,972

Total rent expense for operating leases was $214,514 for the year ended December 31, 2021.

Supplemental information related to leases is as follows for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows from payments on operating leases	$ 214,481
Operating cash outflows from payments on finance leases	$ 461
Finance cash outflows from payments on finance leases	$ 6,779
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	$ 1,412,326
Weighted-average remaining lease term in years:	
Operating leases	6.85
Finance leases	0.83
Weighted-average discount rate:	
Operating leases	1.51%
Finance leases	4.80%

7. Leases (continued)

The future minimum lease payments under operating and finance leases are as follows as of December 31, 2022:

	Operating	Finance
2023	$ 220,015	$ 6,033
2024	203,216	- -
2025	201,587	- -
2026	207,635	- -
2027	213,864	- -
Thereafter	447,168	- -
Total lease payments	1,493,485	6,033
Less imputed interest	(77,966)	(130)
Present value of lease liabilities	$ 1,415,519	$ 5,903

8. 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

8. Endowment (continued)

At December 31, 2022 and 2021, Stephen Center had the following endowment net asset composition by type of fund:

December 31, 2022	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	$ 2,595,908	$ - -	$ 2,595,908
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to maintained in perpetuity by donor	- -	- -	- -
Accumulated investment gains	- -	- -	- -
	$ 2,595,908	$ - -	$ 2,595,908

December 31, 2021	Without Donor Restriction	With Donor Restrictions	Total
Board-designated endowment funds	$ 2,002,936	$ - -	$ 2,002,936
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to maintained in perpetuity by donor	- -	- -	- -
Accumulated investment gains	- -	- -	- -
	$ 2,002,936	$ - -	$ 2,002,936

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 investment and 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. The target minimum rate of return is the rate of inflation plus 4 percent on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

8. Endowment (continued)

Stephen Center uses 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 spending rate was 0% for the board-designated endowment for the years ended December 31, 2022 and 2021, respectively.

Changes in Endowment net assets for the years ended December 31, 2022 and 2021 are as follows:

December 31, 2021	Without Donor Restriction	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 2,002,936	$ - -	$ 2,002,936
Investment return, net	(62,450)	- -	(62,450)
Contributions	655,422	- -	655,422
Appropriation of endowment assets pursuant to spending-rate policies	- -	- -	- -
Endowment net assets, end of year	$ 2,595,908	$ - -	$ 2,595,908

December 31, 2020	Without Donor Restriction	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 109,532	$ - -	$ 109,532
Investment return, net	346		346
Contributions	1,893,058	- -	1,893,058
Appropriation of endowment assets pursuant to spending-rate policies	- -	- -	- -
Endowment net assets, end of year	$ 2,002,936	$ - -	$ 2,002,936

9. 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.

9. Net Assets with Donor Restrictions (continued)

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

	2022	2021
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 programs	15,648	27,511
HERO programs	75,555	87,600
Training and programming improvements	9,156	- -
Facility reserve	1,615,622	1,796,964
	$ 2,516,790	$ 2,712,884

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, 2022 and 2021:

	2022	2021
Satisfaction of purpose restrictions:		
Shelter programs	$ 199,460	$ 191,991
HERO Programs	32,004	- -
Subject to the passage of time:	- -	- -
	$ 231,464	$ 191,991

10. In-kind Contributions

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the Consolidated Statements of Activities included the following:

	2022	2021
Food	$ 424,289	$ 340,554
Personal items	27,536	11,854
Furnishings	23,028	10,193
	$ 474,853	$ 362,601

Donated food, personal items, and furnishings are used by clients in each of Stephen Center's major program services. Donated food is valued based on pounds received and the fair value of donated food as established and published by Feeding America. The value per pound of donated food used by Stephen Center was $1.74 for the years ended December 31, 2022 and 2021. Donated personal items are valued based on pounds received and the current market rates for scrap clothing items. The value per pound of personal items used by Stephen Center was $.15 for the years ended December 31, 2022 and 2021. Donated furnishings are valued based on the number of items received and the Salvation Army's average rate for donated furniture published in their donation value guide. The value per item of furniture used by Stephen Center was $68.92 for the years ended December 31, 2022 and 2021.

10. In-kind Contributions (continued)

During the year ended December 31, 2021, Stephen Center received a donation of land to be used as financial support for our major program services. The land was immediately liquidated in accordance with the Stephen Center's gift acceptance policy and recorded as $370,848 of contributed cash in accordance with the donor's intent.

11. 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 $25,383 and $21,262 for the years ended December 31, 2022 and 2021, respectively.

12. 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.