



HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS

YEARS ENDED DECEMBER 31, 2023 AND 2022
(WITH UNAUDITED INFORMATION FOR 2021)

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Habitat Omaha Affordable Mortgage Solutions, Inc.
Omaha, Nebraska

Opinion

We have audited the accompanying financial statements of Habitat Omaha Affordable Mortgage Solutions, Inc. (the Organization), a Nebraska non-profit corporation, which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

Other Matter

The accompanying statement of financial position of the Organization as of December 31, 2021, and the related statements of activities, functional expenses, and changes in net assets, and cash flows for the period then ended were not audited, reviewed, or compiled by us, and, accordingly, we do not express an opinion or any other form of assurance on them.

Responsibilities of Management for the Financial Statements

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

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

BLAND + ASSOCIATES, P.C.

Omaha, Nebraska
October 4, 2024

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
(WITH UNAUDITED FINANCIAL INFORMATION FOR 2021)

ASSETS	Audited		Unaudited
	December 31,		
	2023	2022	2021
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 324,123	\$ -	\$ -
Restricted Cash:			
Restricted for Lending Program	180,500	-	-
Restricted for Loan Loss Reserves (Note G)	794,108	490,111	-
Total Restricted Cash	974,608	490,111	-
Current Portion of Unconditional Promises to Give	45,000	-	-
Current Portion of Mortgage Loans	1,530,377	281,640	112,305
Other Assets	1,100	6,100	1,423
Total Current Assets	2,875,208	777,851	113,728
NONCURRENT ASSETS			
Unconditional Promises to Give, Net of Current Portion	152,813	-	-
Mortgage Loans, Net of Current Portion	22,165,449	11,185,396	4,918,631
Mortgage Loan Allowance for Credit Losses	(322,000)	-	-
Total Noncurrent Assets	21,996,262	11,185,396	4,918,631
TOTAL ASSETS	\$ 24,871,470	\$ 11,963,247	\$ 5,032,359
December 31,			
LIABILITIES AND NET ASSETS	2023	2022	2021
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 117,000	\$ -	\$ -
Current Portion of Long-Term Debt	446,808	247,058	98,867
Current Portion of Intercompany Payables	3,924,764	812,475	661,924
Total Current Liabilities	4,488,572	1,059,533	760,791
LONG-TERM LIABILITIES			
Long-Term Debt, Net of Current Portion	18,623,593	9,691,584	4,271,568
Intercompany Payables, Net of Current Portion	1,564,244	1,212,130	-
Total Long-Term Liabilities	20,187,837	10,903,714	4,271,568
Total Liabilities	24,676,409	11,963,247	5,032,359
NET ASSETS			
Without Donor/Grantor Restrictions	(204,939)	-	-
With Donor/Grantor Restrictions			
Purpose Restrictions	400,000	-	-
Total Net Assets	195,061	-	-
TOTAL LIABILITIES AND NET ASSETS	\$ 24,871,470	\$ 11,963,247	\$ 5,032,359

The accompanying notes to financial statements
are an integral part of these statements

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
STATEMENTS OF ACTIVITIES, FUNCTIONAL EXPENSES AND CHANGES IN NET ASSETS
(WITH UNAUDITED FINANCIAL INFORMATION FOR 2021)

	Audited				Unaudited			
	2023		2022		Inception (June 2021) Through December 31, 2021			
	Without Donor/Grantor Restrictions	With Donor/Grantor Restrictions	Without Donor/Grantor Restrictions	With Donor/Grantor Restrictions	Without Donor/Grantor Restrictions	With Donor/Grantor Restrictions	Without Donor/Grantor Restrictions	With Donor/Grantor Restrictions
OPERATING REVENUES AND SUPPORT:								
Contributions	\$ 11,000	\$ 400,000	\$ -	\$ -	\$ 11,000	\$ -	\$ -	\$ -
Grants	125,000	-	-	-	-	-	-	-
Mortgage Origination Service Fees	646,565	-	382,694	-	168,272	-	-	168,272
In-kind Contributions	28,373	-	13,311	-	32,746	-	-	32,746
Interest Income	390,820	-	212,341	-	37,239	-	-	37,239
Total Operating Revenues and Support	1,201,758	400,000	608,346	-	249,257	-	-	249,257
OPERATING EXPENSES:								
Program Services:								
Salaries and Benefits	417,084	-	313,657	-	136,598	-	-	136,598
Interest Expense	271,736	-	161,373	-	27,827	-	-	27,827
Allowance for Credit Losses	234,000	-	-	-	-	-	-	-
Information Technology	66,150	-	35,302	-	11,078	-	-	11,078
Professional Services	86,081	-	12,405	-	32,799	-	-	32,799
All Other Expense	66,646	-	25,609	-	8,955	-	-	8,955
Total Program Services	1,141,697	-	548,346	-	217,257	-	-	217,257
Supporting Services:								
Management and General	60,000	-	60,000	-	32,000	-	-	32,000
Total Operating Expenses	1,201,697	-	608,346	-	249,257	-	-	249,257
CHANGES IN NET ASSETS (Note C)	61	400,000	-	-	-	-	-	-
NET ASSETS - BEGINNING OF YEAR AND PERIOD	-	-	-	-	-	-	-	-
ADOPTION OF TOPIC 326 (Note B)	(205,000)	-	-	-	-	-	-	-
NET ASSETS - END OF YEAR	\$ (204,939)	\$ 400,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The accompanying notes to financial statements
are an integral part of these statements

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
STATEMENTS OF CASH FLOWS
(WITH UNAUDITED FINANCIAL INFORMATION FOR 2021)

	Audited		Unaudited
	Years Ended December 31,		Inception (June 2021) Through December 31, 2021
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Changes in Net Assets	\$ 400,061	\$ -	\$ -
Adjustments to Reconcile Changes in Net Assets to Cash Used in Operating Activities:			
Increase in Allowance for Credit Losses (ACL)	234,000	-	-
Discounts on Unconditional Promises to Give	22,187	-	-
(Increase) Decrease in Assets:			
Unconditional Promises to Give	(220,000)	-	-
Other Assets	5,000	(4,677)	(1,423)
Decrease in Liabilities:			
Intercompany Payables	(766,515)	(165,713)	-
Net Cash Flows Used in Operating Activities	<u>(325,267)</u>	<u>(170,390)</u>	<u>(1,423)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Houses Financed	(12,579,707)	(7,009,395)	(2,548,892)
Mortgage Loans Sold	4,163,210	1,944,459	901,717
Principal Payments on Mortgage Loans and Other Items	306,677	157,230	36,332
Net Cash Flows Used In Investing Activities	<u>(8,109,820)</u>	<u>(4,907,706)</u>	<u>(1,610,843)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on Long-Term Debt	(309,294)	(157,230)	(36,332)
Proceeds from Issuance of Long-Term Debt	9,553,001	5,725,437	1,648,598
Net Cash Flows from Financing Activities	<u>9,243,707</u>	<u>5,568,207</u>	<u>1,612,266</u>
Net Increase in Cash, Cash Equivalents, and Restricted Cash	808,620	490,111	-
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:			
Beginning of Year/Period	490,111	-	-
End of Year	<u>\$ 1,298,731</u>	<u>\$ 490,111</u>	<u>\$ -</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH COMPONENTS:			
Cash and Cash Equivalents	\$ 324,123	\$ -	\$ -
Restricted Cash	974,608	490,111	-
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 1,298,731</u>	<u>\$ 490,111</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Recognition of ACL upon adoption of Topic 326 (Note B)	\$ 205,000	\$ -	\$ -
Houses Financed Through Intercompany Payables	\$ 4,230,918	\$ 1,528,394	\$ 661,924
Mortgage Loans and Long-Term Debt Transferred from HFHO (Note A)	\$ -	\$ -	\$ 2,758,169
Interest Paid	<u>\$ 271,736</u>	<u>\$ 161,373</u>	<u>\$ 37,319</u>

The accompanying notes to financial statements
are an integral part of these statements

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE A – BASIS OF PRESENTATION

Controlled Organizations

Habitat Omaha Affordable Mortgage Solutions, Inc. (HOAMS), a Nebraska non-profit corporation, was incorporated in June 2021, and began operations effective August 1, 2021. HOAMS is one of several legal entities controlled by Habitat for Humanity of Omaha, Inc. (HFHO), through the respective organizational and ownership structures of the entities. HFHO and its other controlled entities are summarized as follows:

- HFHO, a Nebraska non-profit corporation, was incorporated in 1984, and operates as an affiliate under the guidelines of Habitat for Humanity International, Inc. (HFHI). HFHI's primary activities, mission, and vision are summarized as follows:
 - HFHI is a global nonprofit housing organization working in local communities across all 50 states in the U.S. and in approximately 70 countries.
 - HFHI's vision is a world where everyone has a decent place to live, and works toward this vision by building strength, stability, and self-reliance in partnership with families in need of decent and affordable housing.
 - HFHI's homeowners help build their own homes alongside volunteers and pay an affordable mortgage.
 - HFHI's advocacy efforts focus on policy reform to remove systemic barriers preventing low-income and historically underserved families from accessing adequate, affordable shelter.

Although HFHI assists with information resources, training, publications, prayer support, and in other ways, HFHO is primarily and directly responsible for its own (and its wholly-controlled entities) operations.

- 1701, LLC, a wholly-owned subsidiary of HFHO, was incorporated in 2012. 1701, LLC was organized to purchase the main warehouse and office facilities and aid HFHO in completing Tax Increment Financing arrangements.
- HFHO Real Estate Holdings, Inc. (HFHO REH), a Nebraska non-profit corporation, was incorporated in 2013. HFHO REH was organized to acquire and operate certain assets previously owned by HFHO, for the purpose of qualifying for the benefits of the New Market Tax Credit (NMTC) transaction that occurred in 2013. As part of the 2013 NMTC transaction, HFHO REH purchased HFHO's ReStore retail stores and HFHO's main warehouse and office facilities, which are being leased back to HFHO.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE A – BASIS OF PRESENTATION (Continued)

Controlled Organizations (Continued)

- Habitat for Humanity of Sarpy County, Inc. (Habitat Sarpy), a Nebraska non-profit corporation, was incorporated in 1994. Habitat Sarpy operated as an independent affiliate of HFHI through June 30, 2020, in Sarpy County, Nebraska, which is the county adjacent to HFHO's geographic service area. Effective July 1, 2020, the Habitat Sarpy operations merged into HFHO through a restructuring agreement in which Habitat Sarpy's operations came under control of HFHO. As a result, Habitat Sarpy's assets, liabilities, net assets, and results of operations subsequent to the merger are included in HFHO's consolidated financial statements.

The consolidated financial statements prepared annually by HFHO include the accounts of HFHO and the controlled entities described above, including HOAMS. The financial statements and notes prepared herein represents the financial statements of the HOAMS legal entity only. HOAMS' intercompany transactions and accounts that are eliminated in the HFHO consolidated financial statements are reflected in the HOAMS stand-alone financial statements as intercompany transactions and accounts with HFHO and its controlled entities (Note C). Hereafter, reference to HFHO in these footnotes includes the accounts and activities of HFHO and its other controlled entities, excluding HOAMS, as outlined above.

Audited and Unaudited HOAMS Financial Statements and Footnotes

The HOAMS financial statements and notes presented herein as of, and for the years ended December 31, 2023 and 2022, have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP), and are covered by the accompanying Independent Auditor's report. The accompanying HOAMS financial statements and all footnote disclosures to follow hereafter for all periods prior to January 1, 2022, are considered "unaudited", and therefore, are not covered by the accompanying Independent Auditors' report. In management's opinion, these unaudited HOAMS financial statements and disclosures have been prepared in all material respects, in accordance with GAAP, and are comparable in presentation, to the audited HOAMS' financial statements and related footnotes. The unaudited financial statements are presented for the sole benefit of assisting financial statement readers in understanding HOAMS' business activities prior to January 1, 2022, and not to gain any audit assurances due solely to their inclusion in this report with the 2023 and 2022 audited HOAMS financial statements.

The unaudited HOAMS' financial statements and notes include HOAMS' financial position as of December 31, 2021, and the result of its operating activities and cash flows from the period from its inception of June 29, 2021 (HOAMS' Inception) through December 31, 2021. The results of operating activities and changes in net assets, and cash flows, for the period from HOAMS' inception through December 31, 2021, are hereafter referred to in these notes as 2021 operating activities for HOAMS, unless specified differently.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE A – BASIS OF PRESENTATION (Continued)

Formation of HOAMS

HOAMS was organized by HFHO in June 2021 to provide affordable home mortgages to low- and moderate-income families who lack access to capital, with the purpose of providing services that expand homeownership opportunities to underserved individuals and families. HOAMS was formed as a “spin off” of HFHO’s previous mortgage lending activities. The spin off included the legal assignment and transfer of HFHO’s mortgage assets, debt obligations, and certain operating contracts transacted during 2021 from HFHO to HOAMS, effective August 1, 2021. The amount of mortgage loans and corresponding debt obligations transferred from HFHO to HOAMS at that time was \$2.8 million (consisting of 22 mortgage loans), along with a contingent-recourse obligation (i.e., a guarantee) of \$0.6 million related to five (5) mortgage loans sold by HFHO prior to August 1, 2021 (see Note F for additional discussion). Effective August 1, 2021, HOAMS began its mortgage lending practices as a separate legal entity, and all mortgage lending activities of the HFHO controlled entities subsequent to that date have been conducted by HOAMS.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

This summary of significant accounting policies of HOAMS is presented to assist in understanding HOAMS’ financial statements. The financial statements and notes are representations of HOAMS’ management, who are responsible for the integrity and objectivity of the financial statements. These accounting policies conform to GAAP and have been consistently applied in the preparation of the financial statements.

HOAMS is required to provide financial statements, which are prepared to focus on the organization as a whole and to present balances and transactions, according to the existence or absence of donor-imposed restrictions.

HOAMS maintains its accounts on the accrual basis of accounting.

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

Net Assets Without Donor/Grantor Restrictions:

- Net assets which are not subject to any donor/grantor-imposed restrictions.
- Income that is limited to specific uses by donor/grantor restrictions is reported as increases in net assets without donor/grantor restrictions if the restrictions are met in the same reporting period as the income is recognized.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Net Assets With Donor/Grantor Restrictions:

- Net assets subject to donor/grantor-imposed restrictions that may or will be met by actions of HOAMS for a specific purpose and/or the passage of time.

Summary of Operations

Mortgage Lending and Related Operations. Since its formation in 2021 (including the 27 loans and related obligations transferred from HFHO effective August 1, 2021, as discussed above), HOAMS' activities include 197 closed mortgage loans, totaling approximately \$32 million. HOAMS' geographic service area for its various mortgage lending services includes communities within the following counties in Nebraska: Burt, Cass, Douglas, Sarpy, and Washington. In addition, HOAMS provides its mortgage lending services to other HFHI affiliates in a broader geographic service area to include several counties in and around Lincoln, Nebraska, and Council Bluffs, Iowa (collectively, HFHI Affiliates). HOAMS primary borrower target-market for its lending services is first-time home buyer, low-income families (i.e., 30-80% of Area Median Income, or AMI), but it also provides financing on a limited basis to first-time home buyer, moderate-income families (i.e., 80-120% AMI).

Eligible households typically use the HOAMS mortgage loan to purchase a home built or rehabilitated by HFHO, or by an approved HFHO partner affiliate in the region (including HFHI Affiliates), but a HOAMS loan can also be used to purchase any other eligible home in the Omaha, Lincoln, and Council Bluffs metropolitan areas on the open market. Through its partnership with HFHO, HOAMS also provides various ancillary programs and services to assist homeowners in both obtaining and maintaining the benefits of homeownership, such as the following: (i) mortgage readiness program (referred to as the "Home Journey" program), (ii) home maintenance programs, and (iii) financial literacy programs.

Consistent with industry practices and the needs of its borrowers, HOAMS evaluates the viability of mortgage applicants based on four general measures as follows: (i) financial means to take on a mortgage (e.g., income, employment history, savings, and monthly debt payments); (ii) workable cash flows reserved to manage their finances; (iii) credit and payment history; and (iv) mortgage loan collateral.

HOAMS' current terms of its first mortgage loans are as follows: (i) a 30-year term, fully amortizing loan with monthly payments, (ii) a 2.625% fixed interest rate, and (iii) are fully collateralized by the underlying property being financed.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary of Operations (Continued)

All first mortgage loans are sized so monthly payments (includes principal, interest, taxes, and insurance) are no greater than 30% of a household gross income, or total monthly debt payments (including monthly mortgage payments) are no greater than 42% of household gross income. Mortgage loans are also set with a maximum 105% Loan to Value (LTV). See Note F for additional discussion of HOAMS' home mortgage loans.

CDFI Certification. In January 2023, HOAMS received its designation as a certified Community Development Financial Institution (CDFI) from the U.S. Department of Treasury (USDT). The CDFI certification status further enhances HOAMS' affordable financing offerings to the communities it serves. During 2023, the USDT announced that all previously certified CDFIs must reapply for certification as part of the USDT's plan to improve the overall quality of its CDFI program. In December 2023, the USDT's Community Development Financial Institutions Fund (CDFI Fund) released the final revised CDFI Certification Application. In addition, the Certification Application deadline was revised in June 2024, requiring HOAMS to reapply during the latter part of 2025.

Until their submission due date, currently certified CDFIs (such as HOAMS) will: (i) retain their status as certified CDFIs; and (ii) remain eligible to apply for all CDFI Fund programs where CDFI certification is an eligibility requirement, provided they abide by all required CDFI reporting requirements and have no material event affecting their CDFI certification status. After submitting their revised CDFI Certification Application, CDFIs will still retain their certified status unless notified otherwise by the CDFI Fund. Management believes HOAMS will be successful in its CDFI recertification process in 2025.

Measure of Operations

In the statements of activities, functional expenses and changes in net assets, HOAMS includes in its definition of operations all revenues and functional expenses that are an integral part of its programs and supporting activities. Investment income, including any net realized and unrealized gains and losses, are recognized as operating support, revenues, gains, and losses.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make a number of estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, HOAMS considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents in the statements of cash flows.

Restricted Cash

HOAMS has classified certain cash that is restricted for specific purposes as restricted cash. Certain cash amounts are required to be held in separate bank accounts under contractual arrangements with third parties.

Allowance for Credit Losses

On January 1, 2023, HOAMS adopted Accounting Standards Codification (ASC) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended. The newly adopted Allowance for Credit Losses (ACL) accounting model addresses perceived shortcomings of the previous accounting methodology (incurred loss impairment methodology) by taking into consideration historical and now future economic changes, which is more commonly referred to as the current expected credit loss (CECL) methodology under Topic 326 (i.e., the new approach requires losses to be recognized earlier than under the previous method). Accordingly, ACL accounting and disclosure for 2023 are not necessarily comparable to prior periods. Upon adoption, HOAMS recorded an increase in its ACL amounts, and a corresponding decrease to net assets of \$0.2 million, reflecting the cumulative effect on net assets in 2023. See Note F for additional details of HOAMS' ACL recorded upon the adoption of Topic 326.

HOAMS records its ACL as follows:

- For credit loss exposure related to financial assets measured at amortized cost and for applicable contract assets, the ACL is a valuation account deducted from the amortized cost basis of the related asset to present the net amount expected to be realized.
- For credit loss exposure related to certain mortgage loans for which HOAMS has provided a guarantee of performance, and which are not recorded on HOAMS' statements of financial position (hereafter referred to as "off-balance sheet" credit loss exposures for HOAMS), the ACL is reflected as a liability within accrued expenses.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses (Continued)

HOAMS' policy approach to determine its ACL under the CECL methodology is summarized as follows:

- The ACL is estimated over the contractual term of the underlying financial assets.
- The estimate of the respective ACL amounts includes expected recoveries from any collateral, and/or recoveries of amounts previously written off, as well as amounts currently expected to be written off.
- The estimate of ACL amounts is based on HOAMS' historical loss experience, adjusted for current, reasonable, and supportable forecasts of economic conditions and other pertinent factors affecting HOAMS' customers, grantors, and borrowers, such as known credit risk or industry trends. This approach includes incorporating relevant forward-looking information through the use of a macroeconomic scenario applied over the entire contractual term of the financial asset. This macroeconomic scenario is based on various factors, including gross domestic product levels, employment rates and changes in wages, inflation levels, the interest rate market, and real estate market trends, as these have historically been a key driver of credit-loss risk for HOAMS. HOAMS' estimate is based on the single economic scenario that it considers most likely.
- HOAMS' approach for determining its ACL amounts also considers the imprecision inherent with forward-looking credit risk assessments of this nature. As a result, amounts determined under the approach described above are adjusted by management to consider the potential impact of other qualitative factors not captured in the quantitative model adjustments which include, but are not limited to, the following: (i) model imprecision, (ii) imprecision in economic scenario assumptions, and (iii) emerging risks related to changes in the environment that may affect HOAMS' credit loss exposure. In order to take these uncertainties into consideration, as part of its determination of the required ACL amounts, HOAMS performs a sensitivity analysis on certain key variables to determine a reasonable range of its ACL estimates.

Fair Value of Homeowner Loans

Home mortgage loans that are originated, closed, and held by HOAMS are carried at their estimated fair value using a discounted cash flow method, determined at the inception date of the loan, net of any ACLs. The interest rate used to calculate the discounted cash flow value for each loan is determined based on various business and market factors, including the holding period of the loan, credit risk, market factors, and liquidity plans for the loans.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2023 and 2022
(With Unaudited Supplemental Information for 2021)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Homeowner Loans (Continued)

Any initial discount amount necessary to record an individual loan to its fair value is amortized over the life of the loan, utilizing a straight-line basis. From time to time, HOAMS will sell home mortgage loans to financial institutions. If a loan is sold, any unamortized balance of the loan discount recorded at the inception of the loan is recorded as income in the financial statements as discount recovery on the sale of mortgage loans.

As of December 31, 2023, 2022, and 2021 (unaudited), HOAMS did not have any mortgage loans that were discounted.

Compensated Absences

HOAMS' staff are entitled to certain amounts of paid personal time off. In the event of termination, a staff member is reimbursed for accumulated unused paid time off.

Revenue Recognition

Under *Revenue from Contracts with Customers* (Topic 606), HOAMS recognizes revenue when a customer obtains control of promised goods or services, in an amount that reflects the consideration which HOAMS expects to receive in exchange for those goods or services. To determine proper revenue recognition for arrangements, HOAMS performs the following five steps: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) HOAMS satisfies the performance obligation.

HOAMS only applies the five-step model to contracts when it is probable that it will collect the consideration it is entitled to in exchange for the goods and services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, HOAMS assesses the goods or services promised within each contract and determines those that are performance obligations. HOAMS then assesses whether each promised good or service is distinct and recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Other Revenue Recognition Policies.

- Unconditional promises to give are recognized as revenues or gains in the period received, or when a notification of a beneficial interest is received, and as assets, decreases of liabilities, or expenses depending on the form of the consideration or benefits received.
- Receipts of unconditional promises to give with payments due in future periods are reported as donor-restricted support unless donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the period received. At December 31, 2023, HOAMS considered its unconditional promises to give to be 100% collectible; therefore, no allowance for credit losses has been established.
- Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donor/Grantor Restrictions. All support and revenues are considered net assets without donor/grantor restrictions unless stipulated by the grantor.

Net assets are released from donor/grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donor/grantors. When the net assets are released, such net assets are reclassified within the applicable classes of net assets.

Contributions received and investment income with donor/grantor restrictions that are met in the same reporting period are reported as revenue and an increase in net assets without donor/grantor restrictions.

In-Kind Contributions and Donated Services

During 2022, HOAMS adopted Accounting Standards Update (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 organizations. 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 amendments in this ASU were applied retrospectively. The adoption of this ASU in fiscal 2022, and 2021 retroactive requirements, did not have a material impact on HOAMS' financial statements.

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions and Donated Services (Continued)

Contributions of gifts in-kind that can be used by HOAMS are recorded at the estimated fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by an individual possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

Functional Expenses/Allocation of Expenses

The costs of providing HOAMS mortgage lending program activities have been summarized on a functional basis in the statements of activities, functional expenses and changes in net assets. HOAMS has not incurred any fundraising expenses for the periods presented. The financial statements may report certain expenses that are attributable to more than one category of functional expenses. In such cases, expenses will be allocated on a reasonable basis that is consistently applied.

Program Services

Program services consist primarily of mortgage lending and servicing activities, and related borrower education programs.

Income Taxes

HOAMS has received an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and is not classified as a private foundation. As such, no provision for income taxes is reflected in the financial statements.

HOAMS is required to file a separate Form 990, *Return of Organization Exempt from Income Tax*. HOAMS' returns are subject to review and examination by federal authorities.

As of December 31, 2023, HOAMS is not aware of any uncertain tax positions that would qualify for either recognition or disclosure in the financial statements. All tax years since HOAMS' inception in 2021 remain subject to examination by major tax jurisdictions. HOAMS has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

Subsequent Events

Management has evaluated subsequent events through October 4, 2024, which is the date the financial statements were available to be issued, and any material subsequent events have been disclosed within these footnotes.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE C – INTERCOMPANY/PARTNER AFFILIATE TRANSACTIONS AND ACCOUNTS

Effective August 1, 2021, HOAMS and HFHO entered into a Shared Services Agreement (SSA), to assist both entities in the most efficient and cost-effective manner in pursuit of their respective mission and business. The key services between HOAMS and HFHO are as follows:

Operational Support Activities. HFHO provides the following operational support services to HOAMS as part of HOAMS' normal business operations:

- *Mortgage Services Staff Personnel Costs.* HOAMS' mortgage lending staff are maintained as employees of HFHO to optimize Human Resource functions, and minimize payroll and benefits costs, across the combined HFHO controlled organizations. The actual payroll and benefits costs incurred for HOAMS' staff are charged directly to HOAMS by HFHO through the use of the intercompany payable account (Intercompany Payables). Such amounts are reflected as salaries and benefits expense in the accompanying HOAMS' financial statements.
- *Revenues/Direct Operating and Capital Expenditures.* As a means to minimize overhead costs for HOAMS' benefit, HFHO provides various revenue management and procurement functions for HOAMS. For any revenues collected on behalf of HOAMS, and for any direct operating costs and capital expenditures attributable to HOAMS, the actual amount of the transaction activities are recorded through the use of Intercompany Payables. These amounts are recorded in the appropriate HOAMS revenue captions, and within the various functional expense captions within program services, in the accompanying HOAMS financial statements.
- *Homeowner Educational and Related Support.* HFHO and HOAMS work together in delivering various homeowner educational programs (e.g., family financial planning, etc.) and mortgage preparedness education and counseling. Both parties are responsible for their own costs incurred in performing such services, and therefore, there are no Intercompany transactions recorded for such activities.
- *General Management and Administrative Support.* To maximize overhead efficiencies across the combined HFHO controlled organizations, HFHO provides various general management and administrative functions for HOAMS (e.g., Human Resources, Accounting and Finance, general management, etc.) for a monthly fixed charge determined annually. During 2023, 2022, and 2021 (unaudited), respectively, HFHO charged HOAMS \$60,000, \$60,000, and \$25,000 for such services through the use of Intercompany Payables.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
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**NOTE C – INTERCOMPANY/PARTNER AFFILIATE TRANSACTIONS AND ACCOUNTS
(Continued)**

- *Cash Management Services.* As noted above, the various operating transactions between HFHO and HOAMS are generally recorded through their respective Intercompany Receivable/Payables accounts, with the settlement of such Intercompany operating amounts to be made when HFHO and HOAMS mutually agree to any cash settlements. During 2023, HFHO paid HOAMS \$0.5 million for settlement of certain Intercompany Receivable/Payables account operating transactions.

Mortgage Lending Activities. HOAMS provides the following mortgage lending services to HFHO under the SSA, and to other partner affiliates, as part of HOAMS' normal business operations:

- *HFHO Intercompany Activities.* HOAMS originates and closes mortgage loans as part of its services provided under the SSA for HFHO. The amount due from HOAMS to HFHO for the home being financed is payable to HFHO as the mortgage funds are available through HOAMS' various mortgage monetization strategies with third party financial institutions (as discussed in greater detail in Notes D and F), or from other sources of available HOAMS mortgage capital (such as government grants, etc.). For any mortgages closed for which HOAMS has not provided the mortgage funding, the amounts are included in Intercompany Payables until such mortgage funds are paid to HOAMS. As of December 31, 2023, 2022, and 2021 (unaudited), there were \$3.9 million, \$0.8 million, and \$0.7 million, respectively, of mortgages closed, that were pending payment from HOAMS to HFHO pending HOAMS' receipt of the corresponding mortgage capital from its lending partners. These amounts were reflected in the current portion of Intercompany Payables in the accompanying financials statements, and were paid by HOAMS in the first quarter of the year following the respective December 31 year-end as the funds became available.
- *HFHI Affiliates and Other Partners.* HOAMS originates and closes mortgage loans for other HFHI Affiliates, and other nonprofit partners, which are not part of the HFHO controlled group of legal entities (collectively referred to hereafter as Partner Affiliates). This includes mortgage activities with Lincoln/Lancaster County Habitat for Humanity, Inc. in Lincoln, Nebraska, and Habitat for Humanity of Council Bluffs in Council Bluffs, Iowa. The amount due from HOAMS to the Partner Affiliates for the home being financed is payable only when the mortgage funds are available through HOAMS' various mortgage monetization strategies with third party financial institutions (as discussed in greater detail in Notes D and F), or from other sources of HOAMS mortgage capital (such as government grants, etc.). As of December 31, 2023, 2022, or 2021 (unaudited), there were no unpaid amounts due to Partner Affiliates for closed mortgage loans.

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE C – INTERCOMPANY/PARTNER AFFILIATE TRANSACTIONS AND ACCOUNTS
(Continued)

- *Mortgage Origination Service Revenues.* Under the SSA, mortgage origination service fees HOAMS charged HFHO were set at a level to deliver a break-even operating level for HOAMS during its start-up phase in 2022 and 2021. As a result, operating revenues and expenses are equal in 2022 and 2021 (unaudited), and consequently, HOAMS had no net assets as of December 31, 2022, and 2021 (unaudited). The 2023 mortgage origination service fees were set at a level to cover HOAMS's cost of delivering its 2023 mortgage lending service. The amount of mortgage origination service revenues recognized by HOAMS (which consisted almost entirely of fees from HFHO) for 2023, 2022, and 2021 (unaudited), respectively, were \$0.6 million, \$0.4 million, and \$0.2 million.
- *Summary of Mortgage Funding Activities.* A summary of the mortgage funding activities for 2023, 2022, and 2021 (unaudited), including a breakout of these activities for HFHO and Partner Affiliates, are shown in the table below. The 2021 amounts do not include the 27 loans closed by HFHO prior to August 1, 2021 (as discussed under Note A above), as these transactions are not included in HOAMS' operating activities for 2021.

	2023	2022	Unaudited 2021
Loans Closed:			
Number of Loans:			
HFHO	69	56	22
Partner Affiliates	15	6	2
Total Loans Closed	<u>84</u>	<u>62</u>	<u>24</u>
Total Amount of Loans:			
HFHO	\$ 13,957,047	\$ 7,836,494	\$ 3,004,533
Partner Affiliates	2,853,578	701,295	206,283
Total Loans Closed	<u>16,810,625</u>	<u>8,537,789</u>	<u>3,210,816</u>
Funding Sources Of Loans:			
HFHO:			
Cash Settled	\$ 9,726,129	\$ 6,308,100	\$ 2,342,609
Intercompany Payables	4,230,918	1,528,394	661,924
Total HFHO Loans	<u>13,957,047</u>	<u>7,836,494</u>	<u>3,004,533</u>
Partner Affiliates:			
Cash Settled	2,853,578	701,295	206,283
Accounts Payable	-	-	-
Total Partner Affiliate Loans	<u>2,853,578</u>	<u>701,295</u>	<u>206,283</u>
Total Loans:			
Cash Settled	12,579,707	7,009,395	2,548,892
Intercompany Payables	4,230,918	1,528,394	661,924
Total Loans	<u>\$ 16,810,625</u>	<u>\$ 8,537,789</u>	<u>\$ 3,210,816</u>

HABITAT OMAHA AFFORDABLE MORTGAGE SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE D – CONCENTRATION RISKS

HOAMS has the following key concentration risks:

Credit Risk. HOAMS' financial instruments with credit risk exposure consist of cash equivalents, accounts receivables, home mortgage loans, and unconditional promises to give.

HOAMS maintains cash balances in financial institutions in which balances may sometimes exceed the federally insured limits. HOAMS utilizes a distributed money-market sweep account to mitigate its exposure for certain deposits that would exceed federally insured limits without the use of the sweep account. HOAMS' credit risk related to its home mortgage loans, and related lending activities, including various recourse obligations, as described in Note F, are concentrated with low-income borrowers for homes financed principally within the greater Omaha, NE metro area, and in particular, within the Northeast section of the City of Omaha. The historically strong economic environment in the greater Omaha metro area, including a strong real estate market, has limited HOAMS credit losses related to home mortgage loans. See Note F for additional discussion of HOAMS' credit loss risk related to its mortgage lending business.

Mortgage Capital Concentration Risk. Historically, HOAMS has relied entirely on mortgage capital from various financial institutions, either through its Loan Pool Participation Agreements, or through direct mortgage loan purchase agreements (see Notes F and G). During 2023, of the \$16.8 million of mortgage loans closed, \$16.5 million was ultimately funded with mortgage capital from 28 of HOAMS' financial partners. For 2024, HOAMS' current expected mortgage closings are anticipated to be approximately \$22 million, of which HOAMS anticipates utilizing \$17.5 million of committed mortgage capital from its 28 financial partners, with the remaining amount expected to be funded with other funding sources, including but not limited to, available unrestricted cash, generated net interest income, and a new mortgage funding grant (discussed below).

HOAMS' mortgage capital commitments from its financial partners, and the cost of this capital, are renewed on an annual basis, generally in the fourth quarter of the year. The loss of a significant portion of these third-party financial commitments, and/or renewals at a substantially higher cost of capital due to interest rate market pressures, would have a significant negative impact on HOAMS' ability to continue to close and fund its annual mortgage lending activities at its current levels. HOAMS' strategy to mitigate this risk is to continue to expand the sources of its mortgage capital, to include finding additional financial investors, and to increase funding opportunities from both private donors and government grants (see additional discussion on this topic directly below).

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NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE D – CONCENTRATION RISKS (Continued)

Revenue Concentration Risks. HOAMS has the following revenue concentration risks:

- As discussed in Note C, HOAMS relies on HFHO for mortgage origination service fees as the primary revenue source to fund its annual operating costs related to its mortgage lending services. There is minimal near-term risk on this revenue source as HFHO has a strong financial profile, and is critically dependent on HOAMS to continue to conduct its mortgage lending activities in order to deliver on HFHO's primary mission of providing affordable housing solutions.
- Prior to 2023, HOAMS did not receive any significant donor or grant revenues. Beginning in 2023, HOAMS increased its focus on generating revenue from new donor and grant sources as an additional source of mortgage capital. In particular, in late 2023, HOAMS applied for a \$5 million mortgage capital grant from a State of Nebraska housing agency, which required \$2.5 million of matching donations from HOAMS as a condition of award. Four (4) donors provided \$0.4 million of unconditional commitments toward these matching funds as of December 31, 2023, of which \$0.2 million was included in unconditional promises to give.

In early 2024, HOAMS was notified of a successful grant award, and secured additional donations from several donors to more than meet the required \$2.5 million matching requirement, of which \$1.4 million was received as a contribution to HOAMS from HFHO. The total \$7.5 million of this mortgage capital has been deposited into a separate bank account, and can only be used for certain types of home financing transactions specific to the grant. At this time, HOAMS anticipates utilizing approximately \$2.5 million of these funds to finance mortgages expected to be closed in 2024.

In addition, during the first quarter of 2024, HOAMS applied for a \$1.4 million grant from the CDFI Fund, which if received, would also provide a source of mortgage capital to fund closed home mortgage loans in the future. HOAMS anticipates receiving a final decision on this award in the fall of 2024.

NOTE E – PROMISES TO GIVE

Unconditional promises to give that have scheduled payments beyond one year are carried at their present value using an estimated fair market interest rate. The discount rate used for 2023 was 4.01% (the 3-year Treasury Bill rate). Unconditional promises to give as of December 31, 2023, consist of individual donor pledges totaling \$220,000, which have a net discounted carrying value of \$197,813. The maturities of unconditional promises to give as of December 31, 2023, consisted of the following: (i) \$45,000 in receivables due in less than one year, and (ii) \$175,000 in receivables due in one to five years.

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NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE E – PROMISES TO GIVE (Continued)

HOAMS has also received \$0.4 million in conditional pledges that it has not recognized as revenue because the conditions have not been met as of December 31, 2023. The conditional pledges are matching grant funds due upon the successful receipt of a mortgage lending grant application that was pending as of December 31, 2023 (see Note D).

Under Topic 326, unconditional promises to give for nonprofits such as HOAMS, are specifically excluded from the CECL ACL requirements.

NOTE F – MORTGAGE LOANS

Mortgage Loan Structure and Lending Activities

Structure. Since 2021, HOAMS and HFHO have relied on various mortgage monetization programs (discussed below and in Note D) through various loan and purchase agreements with third-party financial institutions to provide the necessary liquidity to pay for the houses being financed shortly after closing. Because of this immediate committed source of liquidity at 100% of the face amount of these mortgage loans held, management believes these mortgage loans carry “at-market” interest rates for similar type loans pursued by certain investors, and therefore, it is not necessary to record any discount on the loans at the origination date.

The information in the following tables for HOAMS (Note F only) for 2021 includes the lending activities for 27 mortgage loans closed by HFHO that were assigned to HOAMS effective August 1, 2021 (as discussed in Note A), such that 2021 reflects the entire lending activities impacting HOAMS’ financial statements during 2021 (hereafter in this Note F reflected as 2021 Proforma). Note the December 31, 2021, amounts in the following tables in Note F reflect the actual amounts for HOAMS, and do not include proforma adjustments.

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NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE F – MORTGAGE LOANS (Continued)

Mortgage Loan Structure and Lending Activities (Continued)

Composition. During 2023, 2022, and 2021 (unaudited Proforma), HOAMS had the following home mortgage loan lending activities:

	<u>2023</u>	<u>2022</u>	<u>Unaudited 2021 Proforma</u>
Loan Profile:			
Number of Loans Originated	84	62	51
Total Value of Loans	\$ 16,810,625	\$ 8,537,789	\$ 6,574,929
Average Size of Loan	\$ 200,126	\$ 137,706	\$ 128,920
Weighted Average Loan to Value	90%	84%	88%
Borrower's Profile:			
Average Area Median Income (AMI)	60%	63%	52%
Average Credit Score	690	688	675
Borrowers Without a Credit Score	6	8	3
Percentage of Minority Borrowers	95%	81%	90%

Home Mortgage Loans (HML) Held

Composition. The HML lending activity during 2023, 2022, and 2021 (unaudited Proforma), the total number of the HMLs, and the net carrying value of these loans, as of December 31, 2023, 2022, and 2021 (unaudited Proforma), were as follows:

	<u>2023</u>	<u>2022</u>	<u>Unaudited 2021 Proforma</u>
Lending Activities for HMLs Held During the Period:			
Number of Loans Closed/Held For Year	64	48	39
Total Value of Loans	\$ 12,964,643	\$ 6,593,330	\$ 5,067,268
Average Size of Loan	\$ 202,573	\$ 137,361	\$ 129,930
Number of HMLs Held at December 31:			
Number of Loans	148	87	39
Carrying Value of HMLs Held at December 31:			
Balance of Loans	\$ 23,695,826	\$ 11,467,036	\$ 5,030,936
Allowance for Credit Losses	(322,000)	-	-
Net Carrying Value	\$ 23,373,826	\$ 11,467,036	\$ 5,030,936
Current Portion	(1,530,377)	(281,640)	(112,305)
Long-Term Portion	\$ 21,843,449	\$ 11,185,396	\$ 4,918,631
Average Size of HMLs Held At December 31:			
Average Balance of Loans	\$ 160,107	\$ 131,805	\$ 128,998

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NOTE F – MORTGAGE LOANS (Continued)

Off-Balance Sheet Home Mortgage Loans (Off-BS HMLs) With Credit Loss Risk

Off-BS HMLs Related to Sold Loans. HOAMS typically sells some of its loan portfolio to financial institutions as a source of liquidity on an annual basis. There are no carrying amounts on HOAMS' statements of financial position for mortgage loans sold. However, HOAMS has a contingent recourse obligation (i.e., a loan guarantee) to the purchaser for the remaining unpaid mortgage balance for any Off-BS HML that ends up in default, which is contractually defined, and currently ranges from 90-150 days of payment delinquency. Upon payment of a defaulted Off-BS HML, HOAMS receives full ownership rights to the loan for loss recovery purposes, which helps mitigate HOAMS' financial exposure related to these transactions. This guarantee arrangement with the purchasers of HOAMS' loans represents an "off-balance sheet" credit loss exposure subject to quantification under Topic 326.

In connection with the sale of certain of these loans, HOAMS and/or HFHO are contractually required to pledge certain investments to the purchaser as security for the recourse obligations. The amount of pledged investments subject to these security rights was approximately \$0.9 million and \$0.8 million as of December 31, 2023, and 2022, respectively, and such pledged securities have been provided by HFHO, and therefore, are not reflected in these HOAMS financial statements.

Composition. During 2023, 2022, and 2021 (unaudited Proforma), HOAMS sold the following mortgage loans to third parties at 100% of the then current outstanding balance, and the total number of the Off-BS HMLs subject to credit loss exposure quantification under Topic 326, and the outstanding balances of these loans, as of December 31, 2023, 2022, and 2021 (unaudited Proforma), were as follows:

	<u>2023</u>	<u>2022</u>	<u>Unaudited 2021 Proforma</u>
Sold Loan Activities During the Year:			
Number Closed/Sold: Current Year	20	14	12
Number Closed/Sold: Previous Year	2	-	-
Total Sold Loans	<u>22</u>	<u>14</u>	<u>12</u>
Total Amount of Sold Loans	\$ 4,163,210	\$ 1,944,459	\$ 1,507,661
Average Size of Loan	\$ 208,161	\$ 138,890	\$ 125,638
Number of Off-BS HMLs at December 31:			
Total Sold Loans	48	26	12
Outstanding Balance of Off-BS HMLs at December 31:			
Total Balance	\$ 7,393,167	\$ 3,395,086	\$ 1,500,243
Average Size of Sold Loans	\$ 154,024	\$ 130,580	\$ 125,020

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NOTE F – MORTGAGE LOANS (Continued)

Off-Balance Sheet Home Mortgage Loans (Off-BS HMLs) With Credit Loss Risk (Continued)

As of December 31, 2023, there were four (4) mortgage loans held by HOAMS for a total of \$1 million, in which HOAMS had initiated the process to sell such loans under an existing purchase agreement with a third party. The sale and funding of these loans was completed in February 2024. These loans are included in the current portion of HMLs as of December 31, 2023, and will be reflected as sold loans in 2024.

As of December 31, 2022, there were two (2) mortgage loans held by HOAMS for a total of \$0.3 million. The sale and funding of these loans was completed in the first quarter of 2023. These loans are included in HMLs as of December 31, 2022 and are reflected as sold loans in 2023.

ACL for Home Mortgage Loans

Scope. HOAMS evaluates its credit loss exposure for both its HMLs held and Off-BS HMLs under Topic 326 with its adoption effective January 1, 2023. Because business processes and credit risks associated with HMLs and Off-BS HMLs are the same, HOAMS utilizes similar processes to estimate the respective credit loss exposure. HMLs and Off-BS HMLs are referred to collectively hereafter as “Home Mortgage Loans”.

Collection Management and Credit Quality. The following summarizes HOAMS’ key collection management practices, credit quality assessment process, and the determination of its ACL under Topic 326 for its Home Mortgage Loans:

- *Delinquency Aging:* HOAMS monitors collections on its Home Mortgage Loans on a monthly basis as its primary credit quality indicator, which includes categorization of delinquent loans into different aging categories. Home Mortgage Loans are considered delinquent based on the number of days past the scheduled mortgage payment due date.

As its primary default risk mitigator, HOAMS has a borrower outreach program when loans age past 29 days delinquent, which includes various stages of credit discussion and counseling if the loan’s delinquency situation continues to age, which generally includes a plan to bring the loan payments current if the aging continues to significantly deteriorate. If unsuccessful and the delinquency aging goes beyond 90+ days, HOAMS will initiate foreclosure proceedings if it is determined there is no other viable path for the borrower to service the loan going forward.

Because of the low-income nature of its borrower’s, it is not unusual for HOAMS to experience delinquency rates on its Home Mortgage Loans in excess of 10% of the respective total portfolio balance. However, because of the success of this outreach program with its borrowers as noted above, HOAMS’ historical default rate on its Home Mortgage Loans has been minimal.

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NOTE F – MORTGAGE LOANS (Continued)

ACL for Home Mortgage Loans (Continued)

- *Foreclosure/Buyback*: HOAMS' typical foreclosure practice includes buying back the collateral house from the borrower at a fair value price, or for certain Home Mortgage Loans, at a predetermined appreciated value from the origination date, and settling the mortgage and any related unpaid interest or fees. The buyback transaction is typically structured to allow for the timely resell of the house to another family through HFHO's homeownership program, typically structured such that HOAMS does not incur a loss on the overall buyback and resell transaction (including any required repair or sales costs needed by HFHO to complete the resell transaction). As a result, HOAMS considers its loans as "collateral-dependent", with practical expedience being followed in the determination of potential credit loss exposure as repayment is expected to be provided substantially through the sale of the collateral property. Therefore, expected credit losses are based primarily on the estimated fair value of the collateral at the point of buyback, adjusted for any repair or sales costs.
- *Portfolio Risk Pools*. HOAMS maintains a single credit risk pool for its HMLs, and a single credit risk pool for its Off-BS HMLs. The aggregation into these single pools is based primarily on the similar risk characteristics shared within each pool, with these key risk factor considerations summarized as follows:
 - *Borrower Profile*. The following are the key common characteristics of the borrowers for HOAMS' Home Mortgage Loans: (i) all borrowers must successfully complete HOAMS' mortgage preparedness and homeownership program before they are eligible for a loan, (ii) borrowers are generally low-income families, with AMIs between 30-80%, (iii) total monthly mortgage payments (principal, interest, and escrow amounts), and any other debt payments (e.g., car loan payment, etc.), are structured as a consistent percentage of the borrower's gross monthly income to target affordability both initially at origination and on a sustained basis over the term of the loan (i.e., mortgage loans are sized based mainly on the borrower's "capacity to pay"), and (iv) loan terms (including the 2.625% mortgage interest rate) are consistent amongst all borrowers, regardless of their individual credit risk profile.
 - *Collateral Profile*. The following are the key common characteristics of the collateral for HOAMS' Home Mortgage Loans: (i) consists almost entirely of single-family residences of similar size and value, (ii) located in similar types of neighborhoods, and (iii) have similar LTV ratios. During 2023, the weighted average LTVs for Home Mortgage Loans originated was 90%, compared to 84% for 2022, and 88% for 2021 (unaudited). LTVs are typically less than 100% mainly due to the use of down payment assistance funds available for the house purchase transaction.

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NOTE F – MORTGAGE LOANS (Continued)

ACL for Home Mortgage Loans (Continued)

- *Economic/Geographic Profile.* Almost all homes financed by HOAMS are within the Greater Omaha, Nebraska area, subjecting all borrowers to similar economic factors that could influence their ability to service their loan, and retain the value of their home over time (e.g., job markets and wages, living expenses, home insurance cost and availability, inflation impacts, real estate taxes, real estate values, etc.)

For these reasons, HOAMS believes the use of the single risk pools noted above to assess their credit loss exposure for HMLs and Off-BS HMLs is appropriate. Within the individual pools, HOAMS does stratify the loans into the years of origination as part of its evaluation process, as some of the default and collateral recovery risk factors can vary downward slightly as the loan matures through its term. By policy, if HOAMS was to identify loans that do not share these risk characteristics, such loans would be evaluated on an individual basis, and would not be included in the collective pool evaluation.

The following table summarizes the two loan pools for HMLs and Off-BS HMLs, with selected information by year of loan origination, as of December 31, 2023:

2023 HMLs Held (in \$ 000s)					
	Number of Loans	Net Amortized Cost Amount	Average Net Amortized Cost Per Loan	Weighted Average Life Remaining (Years)	
Originated in 2023	64	\$ 12,937	\$ 202	29.8	
Originated in 2022	46	6,081	132	28.6	
Originated in 2021	38	4,677	123	27.6	
Total	148	\$ 23,696	\$ 160	29.0	
2023 Off-BS HMLs (in \$ 000s)					
	Number of Loans	Amortized Cost Amount	Average Amortized Cost Per Loan	Weighted Average Life Remaining (Years)	
Originated in 2023	20	\$ 3,802	\$ 190	29.4	
Originated in 2022	16	2,198	137	28.7	
Originated in 2021	12	1,392	116	27.7	
Total	48	\$ 7,393	\$ 154	28.9	

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NOTE F – MORTGAGE LOANS (Continued)

ACL for Home Mortgage Loans (Continued)

During 2023, there was one (1) HML that was originally closed in 2021 that was repurchased by HOAMS and retired upon the return of the house. HFHO successfully resold the house to another family without any economic loss to the organization.

ACL Reserve Estimation. HOAMS' ACL for its Home Mortgage Loans is based on historical loss experience, current borrower risk characteristics, current economic conditions, reasonable forward-looking expectations of future conditions and other relevant factors. HOAMS utilizes a probability of default approach in calculating its credit loss exposures for its Home Mortgage Loans, using an estimate of loan default rates, and an estimate of the credit loss given a default (considering collateral recovery benefits), applied against portfolio exposure (with each of these three components varying by the year of loan origination), to yield an estimated credit loss exposure.

Historically, the default rate and loss given default rate have been minimal, attributed primarily to HOAMS': (i) affordability sizing of monthly payments for borrowers, (ii) a successful credit counseling process for delinquent borrowers, and (iii) a successful foreclosure/buyback process mitigating loss upon a default. In addition to historical information, the ACL recorded considers forward-looking risk factors that may affect lifetime credit losses. These factors include, but are not limited to:

- Macroeconomic variables, such as unemployment rates, real estate values, real estate taxes, inflation, and the interest rate market. In particular during 2023, HOAMS considered the economic uncertainty and recession risk related to the sustained level of inflation since beginning in 2022, and the lagged impact of an elevated interest rate market on borrower's earning potential;
- Loan and borrower characteristics, such as delinquency status and trending observations; and
- Information regarding expected recovery from collateral if a default was to occur, such as available valuation information for collateral, and the supply and demand of qualified home buyers within HFHO's homeownership program to purchase homes timely in the event of a foreclosure/buyback situation.

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NOTE F – MORTGAGE LOANS (Continued)

ACL for Home Mortgage Loans (Continued)

The activity related to HOAMS' ACL for HMLs, and its Off-BS HMLs portfolio are as follows:

	<u>2023</u>	<u>2022</u>	<u>Unaudited 2021</u>
<u>HMLs:</u>			
ACL Balance: Beginning of Period	\$ -	\$ -	\$ -
Change in accounting principle	160,000	-	-
Provision for credit losses	162,000	-	-
Charge-offs	-	-	-
Recoveries	-	-	-
ACL Balance: December 31	\$ 322,000	\$ -	\$ -
ACL Ratio:			
Total Portfolio Risk	\$ 23,695,826	\$ 11,467,036	\$ 5,030,936
Ratio of ACL to Portfolio Risk	1.4%	0.0%	0.0%
<u>Off-BS HMLs:</u>			
ACL Balance: Beginning of Period	\$ -	\$ -	\$ -
Change in accounting principle	45,000	-	-
Provision for credit losses	72,000	-	-
Charge-offs	-	-	-
Recoveries	-	-	-
ACL Balance: December 31	\$ 117,000	\$ -	\$ -
ACL Ratio:			
Total Portfolio Risk	\$ 7,393,167	\$ 3,395,086	\$ 1,500,243
Ratio of ACL to Portfolio Risk	1.6%	0.0%	0.0%

Following the adoption of Topic 326, the increase in the ACL balance is primarily attributable to an increase in the amount of the respective portfolio balances related to 2023 lending activities, as noted above.

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NOTE G – LONG-TERM DEBT

Loan Pool Purchase Agreements (LPPAs) Structure. As a means to provide mortgage capital for closed loans, HOAMS has leveraged certain HMLs bearing 2.625% interest to obtain debt from a consortium of financial institutions equal to 100% of the total loan values under two (2) separate LPPAs, each with a corresponding Loan Servicing Agreement (LSA). The LPPA and corresponding LSA are hereafter referred to collectively as the LPPA. The monthly cash flows from the underlying loans are used to service the monthly principal and interest payments of the associated debt. Both LPPAs have a 2% interest rate payable to the various lender participants, for a 30-year period coterminous with the underlying mortgage loans. While cash flows from the mortgage loans are used to service the underlying LPPA debt, LPPA debt is not secured by any individual loan. HOAMS retains the real estate collateral position underlying the mortgage loans.

Habitat for Humanity of Omaha, Inc.: Habitat Loan Pool Account (Omaha LPPA). HFHO entered into the Omaha LPPA with a consortium of banks effective January 1, 2021. Effective August 1, 2021, the Omaha LPPA was amended, and HFHO then assigned, and HOAMS assumed, all rights and obligations under the LPPA. The Omaha LPPA has a 40-year term and participants elect their participation level each calendar year. For the years ended December 31, 2023, 2022, and 2021 (unaudited), respectively, HOAMS secured lending commitments for up to \$10.5 million, \$8.8 million, and \$5.8 million, from the participant banks.

For any of these loans that end up in default (defined contractually as delinquent by 120 days), HOAMS is required to pay off the corresponding debt obligation upon such default. HOAMS includes these loans in the determination of its ACL mentioned below, as the debt repayment obligation is tied directly to the performance of the underlying loan. In addition, HOAMS is contractually required to maintain restricted cash for potential losses on the bank debt due to defaulted mortgage loans. As of December 31, 2023, and 2022, respectively, HOAMS had such reserves included in restricted cash of approximately \$0.8 million and \$0.5 million.

HOAMS: Lincoln/Lancaster County; Habitat Lincoln Loan Pool Account (Lincoln LPPA). HOAMS entered into the Lincoln LPPA with a consortium of banks effective September 1, 2021. The Lincoln LPPA has a 40-year term, and participants elect their participation level each fiscal year ended June 30. The Lincoln LPPA is utilized only for homes financed with Lincoln/Lancaster County Habitat for Humanity, Inc. (Habitat Lincoln). For the fiscal years ending June 30, 2024, 2023, and 2022, respectively, HOAMS and Habitat Lincoln had secured lending commitments of up to \$1 million, \$1 million, and \$0.8 million, from the participant banks.

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NOTE G – LONG-TERM DEBT (Continued)

HOAMS: Lincoln/Lancaster County; Lincoln LPPA (Continued)

For any of the mortgage loans tied to the debt that end up in default (defined contractually as delinquent by 120 days), Habitat Lincoln is required to pay off the corresponding debt obligation upon such default. HOAMS would be responsible for such payment in the case Habitat Lincoln is unable to pay off the debt. While the risk of recourse responsibility falling upon HOAMS is low, HOAMS includes these loans in the determination of its ACL mentioned above, as the debt repayment obligation is ultimately tied directly to the performance of the underlying mortgage loan.

Funding Mechanics of the LPPAs. The debt funding, and the corresponding payment for the property financed to the seller, is completed one month in arrears after the month a mortgage loan is closed under both LPPAs (e.g., December mortgage closings are funded the following January). As of December 31, 2023, 2022, and 2021 (unaudited), respectively, there were no funding amounts pending under the Lincoln LPPA. The debt funding amounts pending under the Omaha LPPA (i.e., due to HFHO) as of December 31, 2023, 2022, and 2021 (unaudited), respectively, were \$2.9 million, \$0.8 million, and \$0.7 million, all of which were reflected in the current portion of Intercompany Payables account as of the respective December 31 statement of financial position. These unpaid amounts are reflected as noncash transactions in the corresponding statements of cash flows in the year the mortgages closed. Then, in the following year, as the payments to the seller for the houses financed are made, and the proceeds from issuance of the long-term debt are received, these amounts are reflected as investing and financing activities, respectively, in the corresponding statement of cash flows. For the years ended December 31, 2023, and 2022, and for the period ended December 31, 2021 (unaudited), respectively, HOAMS received debt funding of \$8.4 million, \$5.1 million, and \$1.4 million from the Omaha LPPA, and received debt funding of \$1.2 million, \$0.6 million, and \$0.2 million from the Lincoln LPPA.

Amounts Due Under the LPPAs. The total amounts due under each LPPA as of December 31, were as follows:

	2023	2022	Unaudited 2021
HOAMS Omaha LPPA	\$ 17,105,674	\$ 9,151,882	\$ 4,164,152
HOAMS & Lincoln LPPA	1,964,727	786,760	206,283
Total LPPAs Balance	19,070,401	9,938,642	4,370,435
Current Portion	(446,808)	(247,058)	(98,867)
Long-term Portion	<u>\$ 18,623,593</u>	<u>\$ 9,691,584</u>	<u>\$ 4,271,568</u>

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NOTE G – LONG-TERM DEBT (Continued)

Amounts Due Under the LPPAs (Continued)

Monthly principal payments total \$0.2 million for 2024, and increase through the scheduled amortization of the debt due through its final maturity in 2054, reaching the highest annual payment level of \$0.4 million in 2052. The aggregate maturities of long-term debt for the years ending after December 31, 2023 are as follows:

	Years Ending December 31
2024	\$ 446,808
2025	459,625
2026	471,836
2027	484,372
2028	497,241
Thereafter	16,710,517
Total	\$ 19,070,401

NOTE H – COMMITMENTS AND CONTINGENCIES

HOAMS is subject to possible monitoring reviews by federal and state authorities that determine compliance with terms, conditions, laws, and regulations governing financing activities and grants given to HOAMS in the current and prior years. HOAMS believes the risk of any disallowed transactions and/or unexpended claims, which could require return of grant funds to the grantor agency, is remote. In addition, HOAMS' management believes it is in compliance with all applicable lending rules and regulations.

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NOTE I – LIQUIDITY AND AVAILABILITY

Key Sources and Uses of Operating Liquidity. HOAMS manages its liquidity needs to pay its obligations as they become due from its normal, annual operating cycle. HOAMS' annual operating liquidity uses relate primarily to its program activities, with the largest need related to its mortgage lending activities consisting of payments to the sellers of the houses being financed. The source of funds comes from a combination of the following key sources:

- Existing cash and cash equivalents;
- Current year revenue sources related to its operating activities, consisting primarily of mortgage origination service fees, net interest income, donations, and grants.
- HOAMS' ability to access mortgage capital shortly after mortgages close is a critical source of current year liquidity for HOAMS related to its lending activities. Through the following sources, HOAMS believes it will be able to substantially monetize all of its 2024 Home Mortgage Loans shortly after they are closed as follows:
 - HOAMS has commitments from its third-party financial partners to purchase up to approximately \$6 million of its Home Mortgage Loans closed in 2024, which compares to \$5 million for 2023, and HOAMS has lending commitments under its two LPPAs for up to approximately \$11.5 million for its HMLs closed in 2024, which compares to a similar amount for 2023 (See Note D for additional discussion); and
 - During the first quarter of 2024, HOAMS was awarded a \$5 million grant to be used for mortgage capital, for which HOAMS matched this award with \$2.5 million in donations, for a total of \$7.5 million of program funds. This mortgage capital can only be used for certain types of home financing transactions specific to the grant, of which HOAMS anticipates utilizing \$2.5 million to fund closed mortgages in 2024 (See Note D for additional discussion).
- To help manage unanticipated liquidity needs, HOAMS has the ability to obtain operating support from HFHO pursuant to its SSA with HFHO, which has a strong financial profile to provide such funding resources to HOAMS in the near-term as needed.

The current restrictions imposed by donors and grantors with time or purpose restrictions are, in all material respects, for normal annual operating purposes related to its lending activities. Therefore, those restricted funds are effectively expected to be used for normal operating purposes in HOAMS' annual operating cycle.

While HOAMS has total financed debt of approximately \$19 million at December 31, 2023, this debt has a direct funding source funded from the cash flows from the corresponding mortgage loans underlying the debt (see Note G).

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NOTE I – LIQUIDITY AND AVAILABILITY (Continued)

Detailed Sources and Uses Table. The following table reflects HOAMS' financial assets as of December 31, 2023, 2022, and 2021 (unaudited), reduced by amounts not available for general use within one year of those dates because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for contractual loan loss reserves related to HOAMS' LPPAs

HOAMS considers cash with restrictions for use in current programs which are ongoing, major, and central to its annual operations (such as mortgage lending activities) to be available to meet cash needs for general expenditures. As a result, for purposes of these disclosures, general expenditures include administrative and general expenses, fundraising expenses, and financing-related expenses.

	2023	2022	Unaudited 2021
Financial Assets Available Within One Year:			
Cash and Cash Equivalents	\$ 324,123	\$ -	\$ -
Restricted Cash	974,608	490,111	-
Current Portion of Unconditional Promises to Give	45,000	-	-
Current Portion of Mortgage Loans	1,530,377	281,640	112,305
Other Assets	1,100	6,100	1,423
Total Financial Assets	<u>2,875,208</u>	<u>777,851</u>	<u>113,728</u>
Less Those Unavailable for General Expenditures Within One Year:			
Cash Restricted by Contract	(794,108)	(490,111)	-
Donor Contributions With Purpose Restrictions	(225,500)	-	-
Current Portion of Mortgage Loans Designated to be Sold and Settled	(994,766)	-	-
Current Portion of Mortgage Loans Contractually Tied to Long-Term Debt Service	(446,808)	(247,058)	(98,867)
Total Less Amounts Available	<u>(2,461,182)</u>	<u>(737,169)</u>	<u>(98,867)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 414,026</u>	<u>\$ 40,682</u>	<u>\$ 14,861</u>

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of \$0.4 million as of December 31, 2023, relate to restrictions tied to the use of such amounts as matching funds for a mortgage lending grant pending as of December 31, 2023 (see Note D).