
PROPELLER: A FORCE FOR SOCIAL INNOVATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Propeller: A Force for Social Innovation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Propeller: A Force for Social Innovation and its subsidiary (collectively referred to as “the Organization”), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Propeller: A Force for Social Innovation and its subsidiary as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the consolidated financial statements, the Organization may be impacted by disruptions in the economy and business operations associated with the coronavirus (COVID-19) pandemic. The Organization expects this matter to negatively impact its changes in net assets and cash flows. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included on page 16 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Postlethwaite & Netterville
Metairie, Louisiana
August 28, 2020

PROPELLER: A FORCE FOR SOCIAL INNOVATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
<u>ASSETS</u>		
Cash	\$ 351,313	\$ 835,676
Grants receivable	1,001,400	26,339
Other receivables, net	2,406	6,510
Prepaid expenses	4,932	16,703
Property and equipment, net	1,369,278	16,332
Total assets	\$ 2,729,329	\$ 901,560

LIABILITIES AND NET ASSETS

<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 49,647	\$ 89,669
Payroll and related liabilities	27,035	17,778
Deferred revenue	-	8,333
Notes payable	1,209,723	-
Total liabilities	1,286,405	115,780
<u>NET ASSETS</u>		
Without donor restrictions	378,047	376,637
With donor restrictions	1,064,877	409,143
Total net assets	1,442,924	785,780
Total liabilities and net assets	\$ 2,729,329	\$ 901,560

The accompanying notes are an integral part of these consolidated financial statements.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>		<u>Restrictions</u>	<u>Restrictions</u>	
<u>REVENUES AND SUPPORT</u>						
Grants	\$ 319,533	\$ 2,160,791	\$ 2,480,324	\$ 16,667	\$ 1,626,940	\$ 1,643,607
Contributions	100,731	-	100,731	23,554	-	23,554
Special event (net of direct costs of \$13,886 and \$23,338, respectively)	35,911	-	35,911	15,831	-	15,831
Rental income	232,130	-	232,130	-	-	-
Net assets released from restriction	1,505,057	(1,505,057)	-	2,251,963	(2,251,963)	-
	<u>2,193,362</u>	<u>655,734</u>	<u>2,849,096</u>	<u>2,308,015</u>	<u>(625,023)</u>	<u>1,682,992</u>
<u>EXPENSES</u>						
Program services	1,438,334	-	1,438,334	2,050,051	-	2,050,051
Management and general	566,736	-	566,736	294,739	-	294,739
Fundraising	186,882	-	186,882	62,188	-	62,188
	<u>2,191,952</u>	<u>-</u>	<u>2,191,952</u>	<u>2,406,978</u>	<u>-</u>	<u>2,406,978</u>
Change in net assets	1,410	655,734	657,144	(98,963)	(625,023)	(723,986)
<u>NET ASSETS AT BEGINNING OF THE YEAR</u>	<u>376,637</u>	<u>409,143</u>	<u>785,780</u>	<u>475,600</u>	<u>1,034,166</u>	<u>1,509,766</u>
<u>NET ASSETS AT END OF THE YEAR</u>	<u>\$ 378,047</u>	<u>\$ 1,064,877</u>	<u>\$ 1,442,924</u>	<u>\$ 376,637</u>	<u>\$ 409,143</u>	<u>\$ 785,780</u>

The accompanying notes are an integral part of these consolidated financial statements.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

2019

	Program Services							Supporting Services					
	<u>Food</u>	<u>Education</u>	<u>Health</u>	<u>Water</u>	<u>Neighborhood</u>	<u>Impact and Alumni</u>	<u>Social Venture Fund</u>	<u>General Programs and (Accelerator PitchNOLA)</u>	<u>HUB NOLA</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and Benefits	\$ 254,506	\$ 137,092	\$ 190,909	\$ 193,582	\$ 149,737	\$ -	\$ 25,449	\$ -	\$ 26,373	\$ 977,648	\$ 243,968	\$ 150,332	\$ 1,371,948
Marketing	977	591	490	591	390	-	-	15,908	1,080	20,027	1,783	216	22,026
Occupancy	-	-	-	-	-	-	-	-	59,776	59,776	84,759	11,955	156,490
Contractual/Professional Fees	77,819	10,176	1,398	4,040	1,753	83,813	19,116	78,411	17,940	294,466	157,665	25,241	477,372
Supplies	6,162	270	-	186	455	3,268	-	13,236	11,889	35,466	18,404	12,020	65,890
Grants and Prizes	-	-	-	-	-	-	-	36,500	-	36,500	-	-	36,500
Insurance	-	-	-	-	-	-	-	-	1,151	1,151	14,356	230	15,737
Travel	3,844	-	250	190	-	574	-	4,610	-	9,468	-	7	9,475
IT	-	-	-	-	-	-	-	-	-	-	338	-	338
Interest	-	-	-	-	-	-	-	-	1,334	1,334	31,452	267	33,053
Other	-	-	-	-	-	-	-	-	2,498	2,498	14,011	500	17,009
Total expenses for the year ended December 31, 2019	<u>\$ 343,308</u>	<u>\$ 148,129</u>	<u>\$ 193,047</u>	<u>\$ 198,589</u>	<u>\$ 152,335</u>	<u>\$ 87,655</u>	<u>\$ 44,565</u>	<u>\$ 148,665</u>	<u>\$ 122,041</u>	<u>\$ 1,438,334</u>	<u>\$ 566,736</u>	<u>\$ 200,768</u>	<u>\$ 2,205,838</u>
Less expenses netted with revenues on the statements of activities													
Cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(13,886)	(13,886)
Total expenses included in the expense on the statements of activities	<u>\$ 343,308</u>	<u>\$ 148,129</u>	<u>\$ 193,047</u>	<u>\$ 198,589</u>	<u>\$ 152,335</u>	<u>\$ 87,655</u>	<u>\$ 44,565</u>	<u>\$ 148,665</u>	<u>\$ 122,041</u>	<u>\$ 1,438,334</u>	<u>\$ 566,736</u>	<u>\$ 186,882</u>	<u>\$ 2,191,952</u>

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

PROPELLER: A FORCE FOR SOCIAL INNOVATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2018											
	Program Services								Supporting Services			
	<u>Food</u>	<u>Education</u>	<u>Health</u>	<u>Water</u>	<u>Neighborhood</u>	<u>Impact and Alumni</u>	<u>Social Venture Fund</u>	<u>General Programs and (Accelerator PitchNOLA)</u>	<u>Program Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and Benefits	\$ 228,281	\$ 153,661	\$ 154,551	\$ 180,951	\$ 251,604	\$ -	\$ 115,565	\$ 12,741	\$ 1,097,354	\$ 163,590	\$ 58,134	\$ 1,319,078
Marketing	171	5,093	-	1,508	624	1,552	-	29,346	38,294	457	-	38,751
Occupancy	4,247	4,247	4,247	4,247	-	-	-	-	16,988	24,816	-	41,804
Contractual/Professional Fees	18,985	6,729	5,181	7,842	42,460	42,582	22,606	140,908	287,293	44,028	11,454	342,775
Supplies	2,086	1,199	260	103	3,665	12,512	1,099	37,417	58,341	9,156	14,363	81,860
Grants and Prizes	186,747	-	800	-	-	-	300,000	54,000	541,547	-	-	541,547
Insurance	-	-	-	-	-	-	-	-	-	11,372	-	11,372
Travel	6,581	-	95	831	755	545	984	443	10,234	-	139	10,373
IT	-	-	-	-	-	-	-	-	-	960	-	960
Other	-	-	-	-	-	-	-	-	-	40,360	1,436	41,796
Total expenses for the year ended December 31, 2018	<u>\$ 447,098</u>	<u>\$ 170,929</u>	<u>\$ 165,134</u>	<u>\$ 195,482</u>	<u>\$ 299,108</u>	<u>\$ 57,191</u>	<u>\$ 440,254</u>	<u>\$ 274,855</u>	<u>\$ 2,050,051</u>	<u>\$ 294,739</u>	<u>\$ 85,526</u>	<u>\$ 2,430,316</u>
Less expenses netted with revenues on the statements of activities												
Cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(23,338)	(23,338)
Total expenses included in the expense on the statements of activities	<u>\$ 447,098</u>	<u>\$ 170,929</u>	<u>\$ 165,134</u>	<u>\$ 195,482</u>	<u>\$ 299,108</u>	<u>\$ 57,191</u>	<u>\$ 440,254</u>	<u>\$ 274,855</u>	<u>\$ 2,050,051</u>	<u>\$ 294,739</u>	<u>\$ 62,188</u>	<u>\$ 2,406,978</u>

The accompanying notes are an integral part of these consolidated financial statements.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 657,144	\$ (723,986)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	17,514	1,815
Bad debt expense	4,997	-
Changes in operating assets and liabilities:		
Grants receivable	(975,061)	165,610
Other receivables	(893)	38,471
Prepaid expenses	11,771	3,199
Accounts payable and accrued expenses	(40,022)	54,722
Payroll and related liabilities	9,257	(5,477)
Deferred revenue	(8,333)	8,333
Net cash used in operating activities	<u>(323,626)</u>	<u>(457,313)</u>
<u>INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,370,460)	-
Net cash used in investing activities	<u>(1,370,460)</u>	<u>-</u>
<u>FINANCING ACTIVITIES</u>		
Proceeds from notes payable	1,224,000	-
Payments on notes payable	(14,277)	-
Net cash provided by financing activities	<u>1,209,723</u>	<u>-</u>
Net change in cash	(484,363)	(457,313)
Cash, beginning of year	835,676	1,292,989
Cash, end of year	<u>\$ 351,313</u>	<u>\$ 835,676</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 30,385</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

Propeller: A Force for Social Innovation (formerly Social Entrepreneurs of New Orleans, Inc.) (“Propeller”) is a 501 (c) (3) non-profit corporation incorporated on August 26, 2008 under the laws of the State of Louisiana. It is dedicated to supporting social innovation in New Orleans. The Organization’s mission is to grow and support entrepreneurs to tackle social and environmental disparities. Propeller envisions a powerful community of diverse entrepreneurs and stakeholders working together for a more equitable future where everyone can lead healthy, fulfilling lives free of racism, poverty, and other systems of oppression. At the heart of Propeller’s mission lie its Impact Accelerator programs, designed to support social entrepreneurs throughout the business life cycle— from idea, to beta, to growth.

In 2017, the Organization established the Social Venture Fund, a partnership between the Organization and the Foundation for Louisiana (“FFL”) which acts as the fund manager and lender. The Social Venture Fund is a \$1 million loan fund that provides below market-rate loans between \$20,000 and \$100,000 to business and non-profits tackling disparities in the areas of food, water, health, education, and economic justice. The FFL is the sole administrator and fund manager of the Social Venture Fund.

Propeller has a wholly-owned for profit subsidiary, HUB NOLA LLC (“HUB NOLA”). HUB NOLA supports Propeller’s public benefit goals and is responsible for operating and leasing coworking space at the social innovation facility located at 4035 Washington Avenue, New Orleans, Louisiana. See Note 2 for additional information.

Propeller and HUB NOLA are collectively referred to as the “Organization”.

Basis of Presentation of Net Assets

The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with initial maturity of three months or less to be cash equivalents. The Organization held no cash equivalents at December 31, 2019 and 2018.

Contributions and Revenue Recognition

Revenue is recognized when earned.

Revenues from federal grants are recorded when Propeller has a right to reimbursement under the related grant, generally corresponding to the incurring of grant related costs by Propeller, or when otherwise earned under the terms of the grants.

The Organization recognizes non-federal grants and 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 measureable performance or other barriers and right of return (or release) – are not recognized until the conditions on which they depend have been substantially met.

Rental income is recognized as the rent becomes due. Rental payments received in advance are deferred until earned. All leases between the Organization and the tenants of the property are operating leases.

The Organization was awarded cost-reimbursable grants of \$350,000 which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. Revenue recognized in relation to these grants was \$100,354 for the year ended December 31, 2019. As of December 31, 2019, there were no advanced payments made.

At December 31, 2019, contributions approximating \$323,500 have not been recognized in the accompanying consolidated statements of activities because the conditions on which they depend on have not yet been met. The amount of the contributions depends on performance metrics and benchmarks that must be met in future fiscal years in order to receive the contributions.

The Organization provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2019 and 2018, the Organization determined no allowance was required.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment is carried at cost. Depreciation of these assets is provided on the straight-line basis over their estimated useful lives of 5 years for computers, copiers, and furniture, 10 years for equipment, and 27.5 years for the building.

Donated Services

Members of the Organization's board of directors and other volunteers have made significant contributions of their time to assist in the Organization's operations and related charitable programs. The value of this contributed time is not recorded in these consolidated financial statements because it does not meet the requirements to be recorded in accordance with U.S. GAAP.

Income Taxes

Propeller is a not-for-profit corporation organized under the laws of the State of Louisiana. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is also exempt from Louisiana income tax under the authority of R.S. 47: 121(5).

HUB NOLA is a wholly-owned disregarded entity of Propeller for income tax purposes. As such, there is no separate tax return required.

The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

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 among the programs and supporting services benefited. The majority of expenses have been specifically identified with a program or supporting service. Certain costs have been allocated among the programs and supporting services benefited using appropriate methodologies such as time and effort.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Standard

Effective January 1, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this new standard did not have a material impact on the measurement or recognition of revenue.

Accounting Pronouncements Issued but Not Yet in Effect

The Financial Accounting Standards Board (“FASB”) has issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard may be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. On June 3, 2020, the FASB deferred the effective date of this standard for certain entities that had not yet issued their 2019 financial statements. This standard will be effective for the Organization for annual periods beginning after December 15, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet as well as additional disclosures. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, to simplify the lease standard’s implementation. The amended guidance relieves businesses and other organizations of the requirement to present prior comparative years’ results when they adopt the new lease standard. Instead of recasting prior year results using the new accounting when they adopt the guidance, companies can choose to recognize the cumulative effect of applying the new standard to leased assets and liabilities as an adjustment to the opening balance of retained earnings. On June 3, 2020, the FASB deferred the effective date of this standard for certain entities. This standard will be effective for the Organization for annual periods beginning after December 15, 2021.

The Organization is currently assessing the impact of these pronouncements on the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition

On June 6, 2019, Propeller purchased 4035 Washington Avenue for \$1,360,000 from NOLA COMMUNITY DEVELOPMENT II (“NCD II”). Propeller previously leased the facility from HUB NOLA LLC, a joint venture co-owned by Green Coast Enterprises (“GCE”) and Propeller, which served as the building's master tenant. Following the acquisition of the property by Propeller, GCE assigned its interest in HUB NOLA LLC to Propeller for no consideration. HUB NOLA had nominal assets and liabilities at the date of the assignment. HUB NOLA LLC is now wholly-owned by Propeller. The building acquisition was financed through notes payable as described in Note 11.

3. Liquidity and Availability of Resources

The following presents the Organization’s financial assets at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end		
Cash	\$ 351,313	\$ 835,676
Grants and other receivables	<u>1,003,806</u>	<u>32,849</u>
Total financial assets	<u><u>\$ 1,355,119</u></u>	<u><u>\$ 868,525</u></u>
Less amounts not available to be used within one year		
Net assets with donor restrictions	1,064,877	409,143
Less net assets with purpose restrictions to be met in less than a year	<u>(215,308)</u>	<u>(409,143)</u>
	<u>849,569</u>	<u>-</u>
Financial assets available for expenditures within one year	<u><u>\$ 505,550</u></u>	<u><u>\$ 868,525</u></u>

The Organization also has a \$100,000 line of credit available to meet cash flow needs.

4. Grants

Propeller received funding from the following sources for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Corporate	\$ 170,000	\$ 265,000
Foundations	2,109,970	1,153,607
Federal	100,354	125,000
Municipal	<u>100,000</u>	<u>100,000</u>
	<u><u>\$ 2,480,324</u></u>	<u><u>\$ 1,643,607</u></u>

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Economic Dependency

The primary sources of revenues for Propeller are grants and contributions provided through various funding agencies. Continued operations are dependent upon the renewal of grants and contributions from current funding sources as well as obtaining new funding. In 2019, Propeller had four major grantors that accounted for approximately 54% of revenue. In 2018, Propeller had one major grantor that accounted for approximately 25% of revenue.

6. Contingencies

From time to time, the Organization is involved in certain claims and legal actions arising in the normal course of activities. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Organization's financial position.

7. Concentrations of Credit Risk

The Organization has concentrated its credit risk for cash by maintaining deposits in financial institutions in New Orleans, Louisiana, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Organization has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

8. Property and Equipment

Property and equipment is summarized as follows at December 31:

	<u>2019</u>	<u>2018</u>
Building	\$ 885,460	\$ -
Land	485,000	-
Equipment	<u>18,147</u>	<u>18,147</u>
	1,388,607	18,147
Less: accumulated depreciation	<u>(19,329)</u>	<u>(1,815)</u>
Property and equipment, net	<u>\$ 1,369,278</u>	<u>\$ 16,332</u>

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Net Assets with Donor Restrictions

The Organization has the following net assets with donor restrictions as of December 31:

	<u>2019</u>	<u>2018</u>
Public Health and Community Development		
Social Accelerator program	\$ -	\$ 51,551
The Water Challenge program	82,720	7,195
Emerging Industry and Impact Accelerator	24,049	-
Education-related programs and services	177,177	104,292
Propeller Impact Accelerator	122,109	150,037
Buidling renovation project	290,227	-
New Orleans Healthy Cornerstore Initiative	82,304	65,794
Donor-restricted endowment - perpetual in nature	250,000	-
Newman's Own Foundation Fellowship	36,291	24,615
South Broad Business Initiative (Neighborhood Sector)	-	5,659
Total	<u>\$ 1,064,877</u>	<u>\$ 409,143</u>

10. Related Party Lease

Through June 2019, the Organization leased its operating facilities from HUB NOLA, LLC, an affiliate, under a membership agreement which automatically extended on a month-to-month basis subsequent to December 31, 2015. Total lease expense for the years ended December 31, 2019 and 2018 was \$38,793 and \$41,804, respectively. As disclosed in Note 2, on June 6, 2019, Propeller acquired the premises and simultaneously acquired the remaining assets and liabilities of HUB NOLA, LLC.

11. Line of Credit

On October 21, 2014, the Organization established a line of credit with a maximum borrowing amount of \$100,000. The line of credit was renewed in 2019 through November 20, 2020. The interest rate is based on 4.00 percentage points over the Wall Street Journal prime rate which resulted in an interest rate of 8.75% and 8.25% at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the balance on the line of credit was \$0. The line of credit was not used during 2019 or 2018.

PROPELLER: A FORCE FOR SOCIAL INNOVATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Notes Payable

The building acquisition was debt financed by a loan with Liberty Bank for \$1,088,000 and an unsecured note with a related party in the amount of \$136,000. The loan with Liberty Bank is a 25-year maturity/25-year amortization note, with an interest rate of 5.15% fixed for the first five years. The rate will automatically reset at Wall Street Journal Prime index plus 0.75 every five years. Principal payments commenced in July 2019. The loan is collateralized with deposit accounts, pledges of leases and rents, and real (immovable) property and all of Propeller's personal (movable) property rights with the exception of restricted grant revenues. The related party note is repayable over 15 years and bears interest at 3%. Principal payments commenced in June 2019. As of December 31, 2019, the balance outstanding on the related party note was \$132,382.

The notes payable at December 31, 2019 mature as follows:

2020	\$	29,582
2021		31,164
2022		32,654
2023		34,219
2024		34,012
Thereafter		<u>1,048,092</u>
	\$	<u>1,209,723</u>

13. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, August 28, 2020, and determined that the following matters required additional disclosure in the consolidated financial statements. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread throughout the United States. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets and continues subsequent to March 31, 2020. The extent of the impact of the COVID-19 pandemic on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on the Organization's donors, customers, employees and vendors, all of which are uncertain and cannot be predicted.

Subsequent to year-end, the Organization applied for and was approved for a \$238,843 loan under the Paycheck Protection Program and administered by the Small Business Administration as part of the relief efforts related to COVID-19. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized.

SUPPLEMENTAL SCHEDULE

PROPELLER: A FORCE FOR SOCIAL INNOVATION

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY
HEAD OR CHIEF EXECUTIVE OFFICER
DECEMBER 31, 2019**

Agency Head Name: Andrea Chen

R.S. 24:513 (A) (3) requires reporting of the total compensation, reimbursements, and benefits paid to the agency head or chief executive officer. This law was further amended by Act 462 of the 2015 Regular Session which clarified that nongovernmental or not for profit local auditees are required to report only the compensation, reimbursements, and benefits paid to the agency head or chief executive officer paid from public funds.

The Organization is not required to report the total compensation, reimbursements, and benefits paid to the agency head as these costs are not supported by public funds.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Propeller: A Force for Social Innovation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Propeller: A Force for Social Innovation and its subsidiary (collectively, the “Organization”), which comprise the consolidated statement of financial position as of December 31, 2019 and the related consolidated statement of activities, statement of functional expenses, and statement of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
August 28, 2020