
NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Orleans Area Habitat for Humanity, Inc.
New Orleans, Louisiana

We have audited the accompanying consolidated financial statements of New Orleans Area Habitat for Humanity, Inc. and its subsidiaries (a nonprofit organization) (the Organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits 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 on the page above present fairly, in all material respects, the consolidated financial position of New Orleans Area Habitat for Humanity, Inc. and its subsidiaries as of June 30, 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 2 to the consolidated financial statements, New Orleans Area Habitat for Humanity, Inc. adopted Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, in the current year related to the presentation of financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 28 and 29 is presented for purposes of additional analysis and is not a required part of the basic 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. The 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 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 December 26, 2019, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and in considering the Organization's internal control over financial reporting and compliance.

Postlethwaite & Netterville

New Orleans, Louisiana
December 26, 2019

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 776,045	\$ 603,906
Accounts receivable, net	52,097	77,988
Investments	7,627,548	6,078,211
Mortgage notes receivable, current portion	133,666	200,071
Construction in progress and inventory	1,524,499	3,456,462
ReStore inventory	182,993	102,534
Prepaid expenses	64,544	113,047
Total current assets	<u>10,361,392</u>	<u>10,632,219</u>
<u>NON-CURRENT ASSETS</u>		
Mortgage notes receivable, net	2,732,451	4,992,407
Property and equipment, net	10,143,694	6,012,340
Note receivable	1,415,000	1,415,000
Lot inventory	358,700	497,978
Deposits	6,725	3,725
Total non-current assets	<u>14,656,570</u>	<u>12,921,450</u>
<u>TOTAL ASSETS</u>	<u>\$ 25,017,962</u>	<u>\$ 23,553,669</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 132,004	\$ 150,773
Other liabilities	416,278	788,674
Current portion of notes payable	86,041	-
Total current liabilities	<u>634,323</u>	<u>939,447</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable, net	<u>4,549,474</u>	<u>2,423,475</u>
<u>TOTAL LIABILITIES</u>	<u>5,183,797</u>	<u>3,362,922</u>
<u>NET ASSETS</u>		
Without donor restrictions	19,834,165	20,040,362
With donor restrictions	-	150,385
Total net assets	<u>19,834,165</u>	<u>20,190,747</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 25,017,962</u>	<u>\$ 23,553,669</u>

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

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Home sale revenue, net	\$ 1,065,641	\$ -	\$ 1,065,641
Contributions	658,824	192,350	851,174
Interest income on mortgage notes	174,905	-	174,905
Investment gain, including change in unrealized appreciation of investments, net	340,416	-	340,416
ReStore revenues	1,904,400	-	1,904,400
Rental revenues	516,295	-	516,295
Gain on sale of mortgage notes	1,636,187	-	1,636,187
Other income	116,466	-	116,466
Total revenues and other support	<u>6,413,134</u>	<u>192,350</u>	<u>6,605,484</u>
Net assets released from restrictions	<u>342,735</u>	<u>(342,735)</u>	<u>-</u>
Total revenues and other support	<u>6,755,869</u>	<u>(150,385)</u>	<u>6,605,484</u>
<u>EXPENSES</u>			
Program services	6,026,779	-	6,026,779
Management and general	489,247	-	489,247
Fundraising	446,040	-	446,040
Total expenses	<u>6,962,066</u>	<u>-</u>	<u>6,962,066</u>
<u>CHANGE IN NET ASSETS</u>	(206,197)	(150,385)	(356,582)
Net assets, beginning of year	<u>20,040,362</u>	<u>150,385</u>	<u>20,190,747</u>
Net assets, end of year	<u><u>\$ 19,834,165</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,834,165</u></u>

The accompanying notes are an integral part of this consolidated financial statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Home sale revenue, net	\$ 1,276,199	\$ -	\$ 1,276,199
Contributions	951,239	298,939	1,250,178
Interest income on mortgage notes	253,784	-	253,784
Investment gain, including change in unrealized appreciation of investments, net	125,277	-	125,277
ReStore revenues	1,673,323	-	1,673,323
Rental revenues	401,590	-	401,590
Gain on sale of mortgage notes	396,682	-	396,682
Other income	180,061	-	180,061
Total revenues and other support	<u>5,258,155</u>	<u>298,939</u>	<u>5,557,094</u>
Net assets released from restrictions	<u>281,673</u>	<u>(281,673)</u>	<u>-</u>
Total revenues and other support	<u>5,539,828</u>	<u>17,266</u>	<u>5,557,094</u>
<u>EXPENSES</u>			
Program services	5,677,535	-	5,677,535
Management and general	532,530	-	532,530
Fundraising	469,970	-	469,970
Total expenses	<u>6,680,035</u>	<u>-</u>	<u>6,680,035</u>
<u>CHANGE IN NET ASSETS</u>	(1,140,207)	17,266	(1,122,941)
Net assets, beginning of year	<u>21,180,569</u>	<u>133,119</u>	<u>21,313,688</u>
Net assets, end of year	<u><u>\$ 20,040,362</u></u>	<u><u>\$ 150,385</u></u>	<u><u>\$ 20,190,747</u></u>

The accompanying notes are an integral part of this consolidated financial statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,136,802	\$ 336,125	\$ 207,029	\$ 1,679,956
Payroll taxes	94,436	28,167	17,498	140,101
Benefits	135,413	33,264	24,082	192,759
Vista/AmeriCorps	89,079	-	-	89,079
Contract labor	58,468	3,767	6,000	68,235
Total personnel costs	1,514,198	401,323	254,609	2,170,130
Cost of homes sold	2,491,365	-	-	2,491,365
Cost of merchandise sold	903,181	-	-	903,181
Professional services	154,844	46,645	33,300	234,789
Depreciation and amortization	295,128	-	-	295,128
Transportation	136,074	-	697	136,771
Insurance	226,608	5,351	5,107	237,066
Home and repair	277,298	-	-	277,298
Occupancy	156,264	10,231	11,359	177,854
Program expenses	62,639	1,391	51,403	115,433
Marketing	74,618	591	57,940	133,149
Equipment	23,456	-	-	23,456
Supplies	55,990	12,212	10,662	78,864
Special events	5,401	-	20,095	25,496
Bad debt expense	188,466	-	-	188,466
Other expenses	82,850	11,503	868	95,221
Total expenses by function	6,648,380	489,247	446,040	7,583,667
Less sales discounts included with revenues on the consolidated statement of activities and changes in net assets	(621,601)	-	-	(621,601)
Total expenses included in the expense section on the consolidated statement of activities and changes in net assets	<u>\$ 6,026,779</u>	<u>\$ 489,247</u>	<u>\$ 446,040</u>	<u>\$ 6,962,066</u>

The accompanying notes are an integral part of this consolidated financial statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,045,267	\$ 334,707	\$ 241,533	\$ 1,621,507
Payroll taxes	84,177	26,868	19,482	130,527
Benefits	171,516	41,568	16,543	229,627
Vista/AmeriCorps	157,071	-	-	157,071
Contract labor	18,402	7,096	68	25,566
Total personnel costs	1,476,433	410,239	277,626	2,164,298
Cost of homes sold	2,640,738	-	-	2,640,738
Cost of merchandise sold	842,890	-	-	842,890
Professional services	188,224	60,730	21,112	270,066
Occupancy	229,762	15,699	15,503	260,964
Depreciation	249,672	-	-	249,672
Insurance	165,778	4,445	4,156	174,379
Home and repair	143,285	-	-	143,285
Program expenses	125,811	129	7,436	133,376
Supplies	31,369	13,721	61,559	106,649
Transportation	93,919	-	648	94,567
Other expenses	57,239	27,567	-	84,806
Marketing	25,763	-	45,586	71,349
Special events	11,095	-	36,344	47,439
Equipment	17,369	-	-	17,369
Total expenses by function	6,299,347	532,530	469,970	7,301,847
Less sales discounts included with revenues on the consolidated statement of activities and changes in net assets	(621,812)	-	-	(621,812)
Total expenses included in the expense section on the consolidated statement of activities and changes in net assets	<u>\$ 5,677,535</u>	<u>\$ 532,530</u>	<u>\$ 469,970</u>	<u>\$ 6,680,035</u>

The accompanying notes are an integral part of this consolidated financial statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (356,582)	\$ (1,122,941)
Adjustment to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	287,847	249,672
Amortization of loan issuance costs	7,281	7,282
Sales of homes to participants	(1,065,641)	(1,276,199)
Unrealized (gain) loss on investments	128,999	(13,715)
Realized (gain) loss on investments	(264,937)	99,904
(Gain) loss on disposal of fixed assets	(5,626)	(22,683)
Gain on sale of mortgage notes receivable	(1,636,187)	(396,682)
Bad debt expense	188,466	-
Changes in assets and liabilities		
Accounts receivable	(12,462)	460,873
Construction in progress and inventory	131,450	(824,219)
ReStore inventory	(80,459)	19,497
Prepaid expenses	48,503	10,984
Deposits	(3,000)	-
Accounts payable	(18,769)	(1,201)
Other liabilities	(372,396)	505,113
Net cash used in operating activities	<u>(3,023,513)</u>	<u>(2,304,315)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of fixed assets	(2,334,875)	(714,002)
Purchase of lot inventory	(36,215)	(115,732)
Purchases of investments	(4,258,101)	(223,806)
Proceeds from sales of investments	2,844,702	1,410,000
Receipts of mortgage notes receivable principal	245,779	263,140
Proceeds from sale of fixed assets	48,681	130,854
Repurchase of mortgage notes receivable	(150,113)	-
Proceeds from the sale of mortgage notes receivable	4,631,035	1,248,560
Net cash provided by investing activities	<u>990,893</u>	<u>1,999,014</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issuance of notes payable	2,225,444	574,556
Payments on notes payable	(20,685)	-
Net cash provided by financing activities	<u>2,204,759</u>	<u>574,556</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	172,139	269,255
Cash and cash equivalents, beginning of year	<u>603,906</u>	<u>334,651</u>
Cash and cash equivalents, end of year	<u><u>\$ 776,045</u></u>	<u><u>\$ 603,906</u></u>

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

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

1. Nature of Activities

New Orleans Area Habitat for Humanity, Inc. (Habitat) and its wholly owned subsidiaries, NOAHH MC, Inc. (MC) and NOAHH SO, Inc. (SO), (collectively, the Organization) are each 501(c)(3) exempt organizations. Habitat, which was incorporated in the state of Louisiana in 1983 and is an ecumenical Christian based housing ministry that seeks to eradicate poverty housing and to make safe, decent, affordable housing a matter of conscience and action, is an independent affiliate of Habitat for Humanity International, Inc. The Organization's service area includes Orleans, St. Bernard, Jefferson, Plaquemines, and St. Charles Parishes. MC was incorporated in the state of Louisiana in March, 2009. SO was incorporated in the state of Louisiana in December, 2013. These subsidiaries exclusive purpose is to benefit and support Habitat to the extent such support is a charitable purpose.

The Organization builds homes in partnership with volunteers, donors, communities, and hard-working, low-income families. Habitat homes are sold to qualifying partner families at no profit through zero percent interest loans.

The Organization operates a retail establishment, the ReStore, which sells donated quality surplus building materials at prices significantly below retail. This allows the public to maintain or improve their homes. The proceeds from the ReStore are used to help further the mission of the Organization.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). Accordingly, revenues are recognized when earned and expenses are recorded when incurred. Contributions are recognized when received or unconditionally promised. In-kind donations are recognized at their fair market value when received.

Principles of consolidation

The consolidated financial statements include the accounts of Habitat and its wholly owned subsidiaries, MC and SO. All significant intercompany balances and transactions have been eliminated in consolidation.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

Basis of presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of estimates

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

Income taxes

The Organization is a non-profit corporation that 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 exempt from Louisiana income tax under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950.

Accounting Standards Codification (ASC) *Accounting for Uncertainty in Income Taxes* policy, clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. It also clarifies the application of accounting for income taxes by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an entity’s financial statements. The interpretation requires recognition and measurement of uncertain income tax positions using a “more-likely-than-not” approach. The Organization has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments in money market funds and investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair value based on available market quotes in the consolidated statements of financial position and as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law. Unrealized gains that are restricted by donors are reported as increases in net assets with donor restrictions. Unrealized gains absent restriction and unrealized losses are reported as increases and decreases in net assets without donor restrictions. Realized and unrealized gains and interest and dividends earned are reported as investment gains in the consolidated statements of activities and changes in net assets.

Mortgage notes receivable

Mortgage notes receivable consist of non-interest bearing mortgage notes which are collateralized by real estate in the New Orleans area and are payable in monthly installments over the life of the mortgage notes. The mortgage notes receivables are net of discounts, which represent the difference between the stated amount of the mortgage notes and the present values based on an imputed amount of interest. The discounts are amortized over the lives of the mortgage notes using the interest method. The imputed interest rates used approximate the rates that independent borrowers and lenders would have negotiated in a similar transaction. Mortgage notes receivable are considered past due if payments are more than thirty days late. All mortgage notes receivables are collateralized by residential property. Management believes that the values of such collateral are in excess of the mortgage notes receivable as of both June 30, 2019 and 2018, and therefore no allowance for losses has been provided.

Construction inventory and cost of homes sold

Construction inventory consists of land, materials, and other costs associated with houses under construction. Construction in progress is recorded at cost. When homes are sold, costs of homes sold are considered program services expense.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

Receivables

Receivables are stated at the amount the Organization expects to collect from outstanding balances. Management provides for probable 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 management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At June 30, 2019 and 2018, the allowance for doubtful accounts was \$0 and \$33,315, respectively.

Inventory

Inventory is recorded at the lower of cost or net realizable value.

Property and equipment

Property and equipment are recorded at cost when purchased and at their estimated fair market value when received as a donation. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The costs and accumulated depreciation of assets sold or retired are removed from the respective accounts and any resulting gain or loss is reflected in the change in net assets.

Contributions

Contributions received are recorded as support with or without donor restrictions based on the existence and/or nature of any donor restrictions. Donor restricted support is reported as an increase in net assets with donor restrictions.

Donated materials and services

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. In 2019, over 4,551 people volunteered approximately 90,216 hours. In 2018, over 7,890 people volunteered approximately 104,151 hours to assist in the construction work. Contributed goods are recorded at fair value at the date of donation.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

Functional allocation of expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Salaries	Time and effort
Payroll taxes	Time and effort
Benefits	Time and effort
Contract labor	Time and effort
Professional services	Time and effort
Transportation	Full time equivalent
Insurance	Full time equivalent
Occupancy	Square footage
Program expense	Full time equivalent
Marketing	Full time equivalent
Supplies	Full time equivalent
Special events	Full time equivalent
Other expenses	Full time equivalent

Reclassification

Certain accounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements.

Recently adopted accounting standard

On August 18, 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities (Topic 958); *Presentation of Financial Statements of Not-for-Profit Entities*. Under the ASU, the number of net asset classes is decreased from three to two; enhanced disclosure of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature, is required; and qualitative information in the notes to the financial statements on how it manages its liquid available resources and liquidity risk is required. This adoption of ASU No. 2016-14 had no impact on the Organization's total net assets and has been applied retrospectively to all periods presented.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

2. Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements

In June 2018, the FASB issued 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. This ASU will be effective for the Organization's year ending June 30, 2020.

The FASB has issued 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. This ASU will be effective for the Organization's year ending June 30, 2020.

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 consolidated statements of financial position as well as additional disclosures. This ASU will be effective for the Organization's year ending June 30, 2022.

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

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

3. Liquidity and Availability

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

Financial assets at year end:	
Cash and cash equivalents	\$ 776,045
Accounts receivable, net	52,097
Investments	7,627,548
Mortgage notes receivable, current portion	133,666
Total financial assets	<u>8,589,356</u>
Less amounts not available to be used within twelve months:	
Net assets with donor restrictions	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 8,589,356</u>

As part of the Organization's liquidity management plan, it invests cash in excess of daily requirements in short-term investments, certificates of deposits, and money market funds.

4. Investments

Investments consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Certificates of deposit	\$ 2,588,313	\$ 803,163
Money market funds	296,461	425,369
Corporate bonds	3,334,099	3,970,098
Mutual funds	-	42,630
Common stocks	-	836,951
Exchange-Traded Products	1,408,715	-
	<u>\$ 7,627,548</u>	<u>\$ 6,078,211</u>

Money market funds are primarily invested in U.S. government securities. The certificates of deposits have maturities ranging through October 2020.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

5. Mortgage Notes Receivable

Mortgage notes receivable consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Mortgage notes receivable	\$ 4,219,875	\$ 7,735,727
Unamortized discount based on imputed interest rates of 4.0% - 6.5%	(1,353,758)	(2,543,249)
	<u>2,866,117</u>	<u>5,192,478</u>
Current maturities	(133,666)	(200,071)
	<u>\$ 2,732,451</u>	<u>\$ 4,992,407</u>

At June 30, 2019, contractual maturities of mortgage receivables, net of discount, were as follows:

Fiscal Year Ending June 30:

2020	\$ 133,666
2021	136,550
2022	139,863
2023	146,561
2024	165,846
Thereafter	2,143,631

6. Note Receivable

	<u>2019</u>	<u>2018</u>
Note receivable from a financial institution with interest at 1.0%, requiring monthly interest payments of \$1,179 until May 2021, at which time semi-annual principal and interest payments sufficient to fully amortize the outstanding principal balance at maturity in March 2039.	<u>\$ 1,415,000</u>	<u>\$ 1,415,000</u>

7. Construction Inventory

Construction inventory consisted of land, materials, and houses in various stages of completion at June 30:

	<u>2019</u>	<u>2018</u>
Construction in progress	\$ 1,444,296	\$ 3,371,224
Materials inventory and prepaid supplies	80,203	85,238
	<u>\$ 1,524,499</u>	<u>\$ 3,456,462</u>

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

8. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>Useful Lives</u>	<u>2019</u>	<u>2018</u>
Buildings and land	32 – 40 years	\$ 6,527,703	\$ 2,308,154
Rental houses	27 – 28 years	4,400,058	4,274,479
Furniture and fixtures	3 – 7 years	240,461	453,178
Tools and equipment	2 – 7 years	194,931	178,127
Vehicles	5 years	251,912	311,340
		<u>11,615,065</u>	<u>7,525,278</u>
Accumulated depreciation		<u>(1,471,371)</u>	<u>(1,512,938)</u>
		<u><u>\$ 10,143,694</u></u>	<u><u>\$ 6,012,340</u></u>

9. Notes Payable

The Organization participates in the New Market Tax Credits (NMTC) program described in Note 13 and has obtained loans of \$1,415,000 and \$585,000 payable to a commercial bank, which is a certified community development entity (CDE). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. Semi-annual payments of interest only are required for the first seven years. Beginning May 15, 2021, principal and interest payments will be due in semi-annual installments through the maturity date. The stated interest is 1%, and the loan matures on March 18, 2039. These loans are secured by the Organization's assets held with the financial institution.

In connection with the loan, the Organization also incurred debt issuance costs of \$182,023 which have been capitalized and will amortize over the term of the loan. Debt issuance costs are presented net of accumulated amortization of \$38,226 and \$30,946 at June 30, 2019 and June 30, 2018, respectively.

At June 30, 2019, principal payments for the five years which follow for the above notes payable are:

Fiscal Year Ending June 30:	
2020	\$ -
2021	101,942
2022	102,964
2023	103,996
2024	105,039
Thereafter	1,586,059

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

9. Notes Payable (continued)

In December of 2017, the Organization entered into a capital expenditure borrowing facility with a financial institution of \$2,800,000 bearing an interest rate of 5%. The Organization had the right to draw upon the facility through March 2019 at which point the facility converted into a term note payable. The borrowings are payable in monthly interest only payments beginning January 2018 through March 2019, at which point principal and interest payments are paid in monthly installments beginning April 2019, with the remaining principal due in full in December 2024. At June 30, 2019, the outstanding balance was \$2,779,312 of which \$86,041 is classified as a current obligation in the statement of financial position at June 30, 2019.

At June 30, 2019, principal payments for the five years which follow for the above notes payable are:

Fiscal Year Ending June 30:		
2020	\$	86,041
2021		90,641
2022		95,104
2023		99,787
2024		2,407,739

10. Net Assets with Donor Restrictions

The net assets with donor restrictions are primarily restricted for the construction or financing of certain future houses sponsored by the individual contributors and are included in cash and cash equivalents. At June 30, 2019 and 2018, net assets with donor restrictions was \$0 and \$150,385.

11. In-kind Contributions and Services

In-kind contributions consist principally of contributed fixed assets, building materials, and supplies for use in the Organization's home building program or inventory for use in the ReStore. During 2019 and 2018, the Organization received goods and supplies with an estimated fair value of \$1,051,661 and \$953,476, respectively.

12. Commitments and Contingencies

Contingent mortgage notes receivable

To encourage homeowners to fulfill their commitment to homeownership, second mortgage notes receivable (for the difference between the selling price and the estimated fair value at date of sale) are held by the Organization on most houses sold after March 1998. Mortgage note payments under these "soft" second mortgages are not due as long as the homeowners retain ownership and are current in their payments.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

12. Commitments and Contingencies (continued)

Contingent mortgage notes receivable (continued)

If the homeowners are current on the first mortgage notes, then after certain specified years, the principal balances of the second mortgage notes will be reduced over various time periods so that at the end of the amortization period the principal balances of the mortgage notes will be zero. For the fiscal years ended June 30, 2019 and 2018, the Organization recognized income from second mortgages totaling \$44,242 and \$67,202, respectively (the unforgiven portion), and is recorded as proceeds from second mortgages.

Recourse mortgage notes

The Organization occasionally sells its non-interest bearing mortgage notes receivable. The sales have a provision which requires the Organization to repurchase the notes in the event of default. During 2019 and 2018, the Organization sold 56 and 15 mortgage notes receivable at their face of \$4,629,408 and \$1,163,360, respectively. At June 30, 2019 and 2018, the total recourse mortgage notes receivable had face value of \$17,616,386 and \$14,276,101, respectively. In the event the notes are repurchased, the Organization has the right to foreclose and resell or repurpose the associated property.

13. New Market Tax Credits

Habitat applied for NMTC of \$2,000,000, which was received in March 2014. In preparation of these credits and to facilitate the NMTC structure, a new entity, SO, was formed in December 2013 as a support organization for Habitat. On March 19, 2014, Habitat made contributions totaling \$1,415,000 to SO. SO funded a loan of \$1,415,000 to a LLC lending entity in exchange for a note receivable with interest at 1.413427% for 25 years, calling for semi-annual payments of interest only beginning

May 2014, and then semi-annual payments of principal and interest beginning May 2021 until maturity in March 2039.

On March 19, 2014, Habitat borrowed funds of \$2,000,000 in a separate division within Habitat known as Portion of the Business (POB). These funds were borrowed through two separate qualified low-income community investment loans of \$1,415,000 and \$585,000 from a second LLC lending entity.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

13. New Market Tax Credits (continued)

During the year ended June 30, 2019, and 2018, POB completed construction of zero and one homes, respectively, and then sold the home to a qualified purchaser by providing zero interest mortgage notes receivable. At June 30, 2019 and 2018, the POB division was allocated total assets of \$1,581,971 and \$1,340,450 and liabilities of \$2,063,071 and \$2,038,307, respectively. For the years ending June 30, 2019 and 2018, the POB division had gross revenues of \$252,925 and \$336,497 and expenses of \$36,468 and \$144,975, respectively.

14. Related Party Transactions

Two members of the Organization's board of directors and finance committee are high ranking officials of financial institutions who hold recourse mortgage notes that were purchased from the Organization (See Note 12).

15. Supplemental Disclosures of Cash Flow Information

During the years ended June 30, 2019 and June 30, 2018, non-interest bearing mortgage notes receivable of \$1,575,994 and \$1,777,859, respectively, with an unamortized discount of \$592,269 and \$618,438, respectively, resulted from the sale of homes. In 2019 and 2018, construction materials with a fair market value of \$1,051,661 and \$953,476, respectively, were donated. During 2019 and 2018, mortgage notes receivable of \$150,113 and \$303,118, respectively, were foreclosed upon with the collateral property converted to rental properties. Interest paid in 2019 and 2018 was \$53,905 and \$60,690, respectively. Accrued construction in progress was \$154,061 and \$502,333, at June 30, 2019 and 2018, respectively.

16. Financial Instruments and Credit and Market Risk Concentration

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, investments and mortgage notes receivable. Cash and cash equivalents are placed with financial institutions to minimize risk. Investments consist of certificates of deposit and government securities. The certificates of deposit have been placed in increments up to \$250,000 with banks nationwide and are fully insured by the Federal Deposit Insurance Corporation (FDIC). Money market funds are primarily backed by U.S. government securities.

Common stock, corporate bonds, and preferred securities are primarily invested in large international corporations. The Organization's mortgage notes receivable base is limited to primarily New Orleans, Louisiana. Homeowners insurance and flood insurance are required on all homes securing the mortgage notes, thus mitigating risk.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

16. Financial Instruments and Credit and Market Risk Concentration (continued)

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 FDIC. The Organization has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

As of June 30, 2019, the Organization's money market funds, common stock, corporate bonds and preferred securities are held with a large national brokerage firm and are covered by Securities Investor Protection Corporation (SIPC) up to \$500,000. Excess SIPC coverage has been purchased, at no cost to the Organization, from an international insurance firm, to cover amounts not covered under FDIC and SIPC limits.

17. Fair Value Measurements

Fair value is defined as the price that would be received by the Organization for an asset or paid by the Organization to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the Organization's principal or most advantageous market for the asset or liability. The fair value hierarchy requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

17. Fair Value Measurements (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

All investments of the Organization are valued using Level 1 inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit: Stated at cost, plus accrued interest, which approximates fair value.

Money market funds: Stated at cost, plus accrued interest, which approximates fair value.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the mutual fund. Mutual funds held by the Organization are closed-ended mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

17. Fair Value Measurements (continued)

The following tables sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019 and 2018:

Assets at Fair Value as of June 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposits	\$ 2,588,313	\$ -	\$ -	\$ 2,588,313
Money market funds	296,461	-	-	296,461
Corporate bonds	3,334,099	-	-	3,334,099
Exchange-traded products	<u>1,408,715</u>	<u>-</u>	<u>-</u>	<u>1,408,715</u>
Total assets at fair value	<u>\$ 7,627,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,627,548</u>

Assets at Fair Value as of June 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposits	\$ 803,163	\$ -	\$ -	\$ 803,163
Money market funds	425,369	-	-	425,369
Common stocks	836,951	-	-	836,951
Corporate bonds	3,970,098	-	-	3,970,098
Mutual funds	<u>42,630</u>	<u>-</u>	<u>-</u>	<u>42,630</u>
Total assets at fair value	<u>\$ 6,078,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,078,211</u>

18. Benefit Plan

The Organization provides for a 401(k) contribution plan to all employees who are at least 21 years of age and have one year of service with the Organization. During the years ended June 30, 2019 and 2018, matching contributions to the contribution plan were \$20,979 and \$21,967, respectively.

19. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, December 26, 2019, and determined that no additional disclosures were necessary. No events after this date have been evaluated for inclusion in these consolidated financial statements.

**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
New Orleans Area Habitat for Humanity, Inc.
New Orleans, Louisiana

We have audited, 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, the consolidated financial statements of New Orleans Area Habitat for Humanity (the "Organization") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 26, 2019.

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 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 Organization'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-01 and 2019-02 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-01 and 2019-02.

New Orleans Area Habitat for Humanity Inc.'s Response to Findings

The Organization's response to findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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

New Orleans, Louisiana
December 26, 2019

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

(1) **Summary of Results**

(a) The type of report issued on the financial statements: Unmodified

(b) Internal control over financial reporting:

Material weakness(es) identified: None reported

Significant deficiency(ies) identified: Yes

(c) Noncompliance which is material to the financial statements: none reported

(2) **Findings Relating to the Financial Statements Reported in Accordance with *Louisiana Legislative Auditor Requirements***

Finding 2019-01 General Ledger

<u>Criteria:</u>	The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Organization, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP).
<u>Condition:</u>	A significant number of account balances require extensive reconciliation and outside corroboration to finalize reliable financial information. These include, mortgage notes receivable, fixed assets, construction inventory, and other transaction classes.
<u>Context:</u>	The lack of periodic reconciliation of the general ledger has caused significant delays in producing financial statements at the end of each accounting period. This lack of periodic reconciliation and the need for corroboration will continue to cause delays in the financial statements as well as allow for possible irregularities, including fraud, to exist and continue without notice.
<u>Effect:</u>	The Organization does not appear to have adequate internal controls relating to reconciliation of the general ledger on a timely basis.
<u>Recommendation:</u>	The Organization should reconcile all accounts to the general ledger at least quarterly and make future reconciliations of accounts on a consistent basis. This will facilitate more accurate and timely financial information, that will allow for better management oversight and review.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Management's Response: The Organization hired a new Chief Financial Officer in August 2019. This position has already put into place monthly reconciliations for the general ledger accounts. The month end closing process has been defined which includes a month end closing checklist to ensure all reconciliation activities are performed and reviewed by the Chief Financial Officer.

Finding 2019-02 Check Signing: Conflicting Duties

Criteria: Adequate internal controls include appropriate segregation of duties over significant transactions including disbursements.

Condition: The Finance Director for the Organization is also an authorized check signor on the cash accounts. Recently the Organization put into place a control that any check over \$15,000 requires two signatures.

Context: Although the Organization has put into place a control that any check over \$15,000 requires two signatures, the potential for material misstatements of the financial statements due to fraud still exists.

Effect: The Organization does not appear to have adequate internal controls relating to appropriate segregation of duties.

Recommendation: In order to maintain proper segregation of duties and strengthen internal controls, we recommend that the Organization consider requiring two signatures for checks signed by the Finance Director and any other individuals who have access to the cash and accounting functions. This is especially important if an individual who signs checks also can make accounting entries to the general ledger and reconciles the account.

Management's Response: The Organization hired a new Chief Financial Officer in August 2019. The authorized signers for the bank accounts are the President, Vice-President, Treasurer, Executive Director, Director of Operations and Chief Financial Officer. The Chief Financial Officer reviews the accounts payable check run and approves it for signing. The Director of Operations is the primary signer. For checks greater than \$15,000, the Chief Financial Officer will co-sign along with the Director of Operations. The Chief Financial Officer serves as the signer of last resort, and does not sign checks without Executive Director or Director of Operations written/emailed request.

(3) Status of Prior Year's Finding and Responses

None reported.

SUPPLEMENTARY INFORMATION

SCHEDULE 1

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

	<u>New Orleans Area Habitat for Humanity, Inc.</u>	<u>NOAHH SO, Inc.</u>	<u>NOAHH MC, Inc.</u>	<u>Eliminations/ Reclassifications</u>	<u>Consolidated</u>
<u>ASSETS</u>					
<u>CURRENT ASSETS</u>					
Cash and cash equivalents	\$ 531,492	\$ 102,334	\$ 142,219	\$ -	\$ 776,045
Accounts receivable, net	49,542	2,555	-	-	52,097
Investments	7,627,548	-	-	-	7,627,548
Mortgage notes receivable, current portion	133,666	-	-	-	133,666
Construction in progress and inventory	1,524,499	-	-	-	1,524,499
ReStore inventory	182,993	-	-	-	182,993
Prepaid expenses	62,173	-	2,371	-	64,544
Due from NOAHH MC	87,573	-	-	(87,573)	-
Total current assets	<u>10,199,486</u>	<u>104,889</u>	<u>144,590</u>	<u>(87,573)</u>	<u>10,361,392</u>
<u>NON-CURRENT ASSETS</u>					
Mortgage notes receivable, net	2,732,451	-	-	-	2,732,451
Property and equipment, net	10,143,694	-	-	-	10,143,694
Note receivable	-	1,415,000	-	-	1,415,000
Lot Inventory	358,700	-	-	-	358,700
Deposits	6,725	-	-	-	6,725
Total non-current assets	<u>13,241,570</u>	<u>1,415,000</u>	<u>-</u>	<u>-</u>	<u>14,656,570</u>
<u>TOTAL ASSETS</u>	<u>\$ 23,441,056</u>	<u>\$ 1,519,889</u>	<u>\$ 144,590</u>	<u>\$ (87,573)</u>	<u>\$ 25,017,962</u>
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Accounts payable	\$ 132,004	\$ -	\$ -	\$ -	\$ 132,004
Other liabilities	416,278	-	-	-	416,278
Current portion of long-term debt	86,041	-	-	-	86,041
Due to New Orleans Area Habitat for Humanity, Inc.	-	-	87,573	(87,573)	-
Total current liabilities	<u>634,323</u>	<u>-</u>	<u>87,573</u>	<u>(87,573)</u>	<u>634,323</u>
<u>LONG-TERM LIABILITIES</u>					
Notes payable, net of debt issuance costs of \$143,797, net	4,549,474	-	-	-	4,549,474
<u>TOTAL LIABILITIES</u>	<u>5,183,797</u>	<u>-</u>	<u>87,573</u>	<u>(87,573)</u>	<u>5,183,797</u>
<u>NET ASSETS</u>					
Without donor restrictions	18,257,259	1,519,889	57,017	-	19,834,165
With donor restrictions	-	-	-	-	-
Total net assets	<u>18,257,259</u>	<u>1,519,889</u>	<u>57,017</u>	<u>-</u>	<u>19,834,165</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 23,441,056</u>	<u>\$ 1,519,889</u>	<u>\$ 144,590</u>	<u>\$ (87,573)</u>	<u>\$ 25,017,962</u>

SCHEDULE 2

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	New Orleans Area Habitat for Humanity, Inc.	NOAHH SO, Inc.	NOAHH MC, Inc.	Eliminations/ Reclassifications	Consolidated
<u>REVENUE AND OTHER SUPPORT</u>					
Home sale revenue, net of discount	\$ 1,065,641	\$ -	\$ -	\$ -	\$ 1,065,641
Contributions	851,174	-	-	-	851,174
Interest income on mortgage notes	174,905	-	-	-	174,905
Investment gain, including change in unrealized appreciation of investments	340,416	-	-	-	340,416
ReStore income	1,904,400	-	-	-	1,904,400
Rental income	516,295	-	-	-	516,295
Gain on sale of mortgage notes	1,636,187	-	-	-	1,636,187
Other income (loss)	96,466	20,000	-	-	116,466
Total revenues and other support	<u>6,585,484</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>6,605,484</u>
<u>EXPENSES</u>					
Program services	6,004,757	-	22,022	-	6,026,779
Management and general	489,247	-	-	-	489,247
Fundraising	446,040	-	-	-	446,040
Total expenses	<u>6,940,044</u>	<u>-</u>	<u>22,022</u>	<u>-</u>	<u>6,962,066</u>
<u>CHANGE IN NET ASSETS</u>	(354,560)	20,000	(22,022)	-	(356,582)
Net assets, beginning of year	<u>18,611,819</u>	<u>1,499,889</u>	<u>79,039</u>	<u>-</u>	<u>20,190,747</u>
Net assets, end of year	<u>\$ 18,257,259</u>	<u>\$ 1,519,889</u>	<u>\$ 57,017</u>	<u>\$ -</u>	<u>\$ 19,834,165</u>