

**HABITAT FOR HUMANITY OF
GREATER BATON ROUGE, INC.**

BATON ROUGE, LOUISIANA

JUNE 30, 2021 AND 2020



L.A. CHAMPAGNE & CO.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Habitat for Humanity of Greater Baton Rouge, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Greater Baton Rouge, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Baton Rouge, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The schedule of compensation, benefits, and other payments to Agency heads on page 18 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2021, on our consideration of Habitat for Humanity of Greater Baton Rouge, Inc.'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 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* in considering Habitat for Humanity of Greater Baton Rouge, Inc.'s internal control over financial reporting and compliance.

J. A. Champagne & Co., LLP

*Baton Rouge, Louisiana
December 28, 2021*

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 901,882	\$ 1,109,803
Restricted cash - escrow holdings on deposit	186,470	169,419
Certificates of deposit	150,978	150,000
Receivables, net	276,000	36,894
Prepaid expenses	42,694	36,742
Inventories	620,486	501,965
Non-interest bearing mortgages receivable, net	3,442,620	3,809,974
Property and equipment, net	760,207	828,760
Land held for development	789,647	447,172
	\$ 7,170,984	\$ 7,090,729
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 70,869	\$ 41,375
Accrued salaries and payroll taxes	56,664	47,124
Other accrued expenses	26,681	57,441
Escrow deposits	186,470	169,419
Deferred revenue	5,000	-
Notes payable	55,049	70,773
Security deposits	5,425	5,425
Total liabilities	406,158	391,557
 NET ASSETS		
Without donor restrictions	6,571,352	6,542,121
With donor restrictions	193,474	157,051
Total net assets	6,764,826	6,699,172
	\$ 7,170,984	\$ 7,090,729

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions						
Cash	\$ 130,876	\$ 156,503	\$ 287,379	\$ 180,557	\$ 270,295	\$ 450,852
Construction materials and appliances	39,846	-	39,846	53,208	-	53,208
Land	-	-	-	110,000	-	110,000
Services	1,000	-	1,000	11,632	-	11,632
Governmental grants	11,846	27,555	39,401	294,531	-	294,531
Home sales revenue	601,500	-	601,500	472,000	-	472,000
ReStore sales	1,683,158	-	1,683,158	1,219,616	-	1,219,616
Interest - amortization of discount on mortgage loan	371,087	-	371,087	437,622	-	437,622
Rental income and fees	49,656	-	49,656	51,752	-	51,752
Other income	34,387	-	34,387	44,740	-	44,740
Loan forgiveness - Payment Protection Program	277,000	-	277,000	277,000	-	277,000
Employee retention tax credit	246,329	-	246,329	-	-	-
Gain on sale of mortgages	183,039	-	183,039	288,214	-	288,214
Mortgage late fees	12,882	-	12,882	9,194	-	9,194
Net assets released from restrictions	147,635	(147,635)	-	525,881	(525,881)	-
TOTAL SUPPORT AND REVENUE	3,790,241	36,423	3,826,664	3,975,947	(255,586)	3,720,361
EXPENSES						
Program services	3,244,227	-	3,244,227	2,718,446	-	2,718,446
Supporting services:						
Management and general	436,357	-	436,357	423,714	-	423,714
Fundraising	80,426	-	80,426	94,271	-	94,271
	516,783	-	516,783	517,985	-	517,985
TOTAL EXPENSES	3,761,010	-	3,761,010	3,236,431	-	3,236,431
Loss on sale of property and equipment	-	-	-	68,460	-	68,460
TOTAL EXPENSES AND LOSSES	3,761,010	-	3,761,010	3,304,891	-	3,304,891
INCREASE (DECREASE) IN NET ASSETS	29,231	36,423	65,654	671,056	(255,586)	415,470
Net assets - beginning of year	6,542,121	157,051	6,699,172	5,871,065	412,637	6,283,702
Net assets - end of year	<u>\$6,571,352</u>	<u>\$ 193,474</u>	<u>\$6,764,826</u>	<u>\$6,542,121</u>	<u>\$ 157,051</u>	<u>\$6,699,172</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	PROGRAM SERVICES				SUPPORTING SERVICES		
	Construction and Family Services	Mortgage Originations	ReStore	Total	Management and General	Fundraising	Total
Cost of homes sold:							
Materials, supplies, and labor	\$ 973,290	\$ -	\$ -	\$ 973,290	\$ -	\$ -	\$ 973,290
Land	55,916	-	-	55,916	-	-	55,916
Contributed services	-	-	-	-	-	-	-
Total cost of homes sold	1,029,206	-	-	1,029,206	-	-	1,029,206
Cost of sales	-	-	490,376	490,376	-	-	490,376
Mortgage discounts	-	289,245	-	289,245	-	-	289,245
Salaries and related expenses	266,966	-	571,837	838,803	308,314	59,998	1,207,115
Rent	38,686	-	109,151	147,837	19,343	6,448	173,628
Insurance	40,547	-	26,778	67,325	-	-	67,325
Repairs and maintenance	13,901	-	22,700	36,601	27,505	-	64,106
Operational costs	39,484	-	124,958	164,442	16,025	4,764	185,231
Critical home repair	75,858	-	-	75,858	-	-	75,858
Other construction costs	36,285	-	-	36,285	-	-	36,285
Emergency rental assistance	6,324	-	-	6,324	-	-	6,324
Depreciation	-	-	49,436	49,436	14,143	-	63,579
Marketing and advertising	-	-	3,439	3,439	-	2,951	6,390
Memberships and affiliations	-	-	-	-	15,000	-	15,000
Other miscellaneous expenses	-	-	232	232	7,942	-	8,174
Professional services	-	-	-	-	28,059	-	28,059
Special events	-	-	-	-	-	-	-
Property taxes	-	-	8,818	8,818	26	-	8,844
Bad debt expense	-	-	-	-	-	6,265	6,265
	<u>\$ 1,547,257</u>	<u>\$ 289,245</u>	<u>\$ 1,407,725</u>	<u>\$ 3,244,227</u>	<u>\$ 436,357</u>	<u>\$ 80,426</u>	<u>\$ 3,761,010</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	PROGRAM SERVICES				SUPPORTING SERVICES		
	Construction and Family Services	Mortgage Originations	ReStore	Total	Management and General	Fundraising	Total
Cost of homes sold:							
Materials, supplies, and labor	\$ 668,668	\$ -	\$ -	\$ 668,668	\$ -	\$ -	\$ 668,668
Land	66,322	-	-	66,322	-	-	66,322
Contributed services	11,632	-	-	11,632	-	-	11,632
Total cost of homes sold	746,622	-	-	746,622	-	-	746,622
Cost of sales	-	-	297,708	297,708	-	-	297,708
Mortgage discounts	-	164,646	-	164,646	-	-	164,646
Salaries and related expenses	348,554	-	580,560	929,114	288,475	65,518	1,283,107
Rent	39,910	-	161,310	201,220	19,955	6,651	227,826
Insurance	40,582	-	27,249	67,831	-	-	67,831
Repairs and maintenance	11,241	-	33,254	44,495	26,116	-	70,611
Operational costs	38,466	-	115,686	154,152	19,944	3,827	177,923
Critical home repair	13,374	-	-	13,374	-	-	13,374
Other construction costs	9,821	-	-	9,821	-	-	9,821
Emergency rental assistance	-	-	-	-	-	-	-
Depreciation	-	-	55,609	55,609	13,825	-	69,434
Marketing and advertising	-	-	433	433	-	17,409	17,842
Memberships and affiliations	-	-	2,025	2,025	15,000	-	17,025
Other miscellaneous expenses	7,997	-	255	8,252	3,839	-	12,091
Professional services	8,869	-	-	8,869	36,560	-	45,429
Special events	3,759	-	-	3,759	-	-	3,759
Property taxes	-	-	10,516	10,516	-	-	10,516
Bad debt expense	-	-	-	-	-	866	866
	<u>\$ 1,269,195</u>	<u>\$ 164,646</u>	<u>\$ 1,284,605</u>	<u>\$ 2,718,446</u>	<u>\$ 423,714</u>	<u>\$ 94,271</u>	<u>\$ 3,236,431</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
STATEMENTS OF CASH FLOWS

Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 65,654	\$ 415,470
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Bad debt expense	6,265	866
Depreciation	63,579	69,434
Gain (loss) on sale of property and equipment	(5,224)	68,460
Gain on sale of mortgages	(183,039)	(288,214)
Amortization of mortgage discount	(371,087)	(437,622)
New mortgages, net of discounts	(312,254)	(254,854)
Purchase and development of land	(398,391)	(191,472)
Home construction costs	(1,091,212)	(788,965)
Cost of homes transferred	1,029,206	734,990
(Increase) decrease in prepaid expenses	(5,952)	(18,199)
(Increase) decrease in receivables	(245,371)	4,001
(Increase) decrease in building supply inventory	(5,978)	(38,182)
(Increase) decrease in purchases for resale	70,353	6,193
Increase (decrease) in accounts payable	(1,266)	(85)
Increase (decrease) in accrued liabilities	14,540	(4,795)
Increase (decrease) in other liabilities	17,051	11,476
Net cash used in operating activities	(1,353,126)	(711,498)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase certificates of deposit and interest reinvested	(978)	(150,000)
Collections on mortgages receivable	765,481	839,409
Proceeds from the sale of mortgage notes	468,253	667,101
Proceeds from sale of equipment	10,234	2,100
Acquisition of equipment	(65,010)	(98,506)
Net cash provided by investing activities	1,177,980	1,260,104
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(15,724)	(21,743)
Proceeds from notes payable	-	92,516
Net cash provided by (used in) financing activities	(15,724)	70,773
 INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(190,870)	619,379
Cash and restricted cash - beginning of year	1,279,222	659,843
Cash and restricted cash - end of year	\$ 1,088,352	\$ 1,279,222
 SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 2,896	\$ 4,344

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

Habitat for Humanity of Greater Baton Rouge, Inc. (Habitat) is a non-profit organization incorporated in 1988, with offices in Baton Rouge, Louisiana, and operations in four Louisiana parishes. Habitat is an affiliate of the Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information and funding resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for their own operations. The accompanying financial statements include the activities of the Campus Chapter of Habitat for Humanity at Louisiana State University and the Habitat Young Professional Council of Greater Baton Rouge.

Habitat builds homes in partnership with volunteers and low-income families. The homes are sold to qualifying partner families at less than fair market value. Since the homeowners are involved in building their own homes, family support and education activities are inherent in the construction activities. Habitat provides zero interest mortgage loans to these homeowners.

Habitat owns and operates ReStore of Baton Rouge, LLC (Restore), which has two stores in Baton Rouge, Louisiana. These stores sell donated surplus building materials, furniture, appliances, and items purchased in bulk to the general public at below retail prices. Restore owns the building which houses one store, and leases the other part of the building to tenants. The second store leases its operation space. The net proceeds from the Restore operations and rentals are used to further the mission of Habitat.

Basis of presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). Under those standards, Habitat is required to report information regarding its financial position and activities under two classes of net assets: net assets without donor restrictions or net assets with donor restrictions. Net assets without donor restrictions are resources that are free of donor-imposed or time restrictions and are available at the direction of the governing board. Net assets with donor restrictions are those resources whose use by Habitat is limited to donor-imposed stipulations. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature: such as those that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Habitat.

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting

Habitat prepares its financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned or billed, and expenses are recognized when goods or services are received and the obligation for payment is incurred.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Contributions, grants, and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Habitat reports grants and gifts of cash and other assets as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When donor restrictions expire, that is, when the stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Habitat recognizes revenue from contracts with customers when it transfers promised goods or services to its members in an amount that reflects the consideration to which Habitat expects to be entitled in exchange for those goods and services. To accomplish this, Habitat applies the following five-step process to achieve this core principle:

- Identification of the contract with the member;
- Identification of the performance obligations under the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the identified performance obligations; and
- Recognition of revenue when (or as) an entity satisfies the identified performance obligations.

Revenue from the construction and sale of homes is recognized at a point in time upon closing of the sale when the title is transferred. Payment is due over time in installments, based on terms specified in the contracts. All mortgages and contracts for deed are due based on the term of the notes.

Government grants deemed to be exchange transactions are recorded as revenue when performance obligations are satisfied at a point in time as services are provided and the grantor receives benefits. Revenue is recognized only to the extent of allowable expenditures under the terms of the grants. Excess expenses incurred are non-reimbursable to Habitat. Advance payments from grantors are recorded as deferred revenue until expensed for its intended purpose.

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from ReStore sales is recognized at the point of sale. The performance obligation is the delivery of the goods to the customer. The transaction price is established by Habitat based on retail prices. As each item is individually priced, no allocation of the transaction price is necessary. Some merchandise is sold with the right to return. If probable customer returns exist at the end of fiscal year, Habitat estimates and records in the financial statements a liability for such returns. A liability for probable customer returns was not considered necessary as of June 30, 2021 and 2020.

Revenue Disaggregation

Habitat disaggregates revenue from contracts with customers into major revenue streams and based on the timing of recognized revenue. Habitat's revenue disaggregated based on timing of the transfer of goods or services as follows as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Recognized at a point in time:		
Home sales	\$ 601,500	\$ 472,000
ReStore sales	1,683,158	1,219,616
Government grants	39,401	294,531

Contract balances

Contract assets represent Habitat's right to consideration in exchange for goods or services that have been transferred to the customer before payment is due. Contract liabilities include consideration due or paid by a customer prior to when Habitat transfers goods or services and represents Habitat's obligation to the customers. Contract assets are included in the statement of financial position as mortgages receivable. Contract liabilities are included in the statement of financial position as deferred revenue.

Cash and cash equivalents

For purposes of the statement of cash flows, Habitat considers all unrestricted highly liquid investments with maturities of three months or less when acquired to be cash equivalents.

Restricted cash includes amounts received from homeowners for escrow payments, for payments received prior to closing, and for security deposits received from tenants. Restricted cash was \$186,470 and \$169,419 as of June 30, 2021 and 2020, respectively.

The following is a reconciliation of cash and restricted cash reported on the statements of financial position to total cash reported on the statements of cash flows:

	<u>2021</u>	<u>2020</u>
Cash	\$ 901,882	\$ 1,109,803
Escrow holding on deposits	186,470	169,419
	<u>\$1,088,352</u>	<u>\$1,279,222</u>

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certificates of deposit

Certificates of deposit totaling \$150,978 and \$150,000 at June 30, 2021 and 2020, respectively, bear interest of 0.65%, and have maturities of twelve months, with penalties for early withdrawal.

Mortgage notes receivable

Habitat has a policy of selling affordable housing with interest-free mortgages. The zero interest first mortgages are discounted to their present value by using prevailing market rates at the inception of the mortgages. Discounts are amortized using the straight-line method over the lives of the mortgages. Discount rates used for the years ending June 30, 2021 and 2020 was 7.23% and 7.38%, respectively.

Habitat also executes a supplemental mortgage with the homeowners upon sale of the home. The amount of these mortgages is approximately equal to the difference between the sales price and the fair market value of the home. These mortgages bear no interest, and the homeowner is discharged from their annual payment as long as they are not in default on their first mortgage. No amounts are included in the financial statements for these mortgages as collection is contingent upon future events and is generally unexpected and unintended.

Inventories

The inventory of new homes is valued at cost. The cost of land and the value of contributed labor are not included as they are recognized when the home is sold.

Foreclosures included in inventory are valued at cost, which includes the unpaid mortgage, related costs at the time of foreclosure, and the cost of estimated repairs after foreclosure.

Construction materials inventory consists of items donated in bulk through a gift-in-kind program established by Habitat International. Items are ordered from the vendor by Habitat, approved by Habitat International, and valued at estimated fair market value included on the gift-in-kind receipt sent with the materials. Materials are removed from inventory when used on a specific house.

Purchases for resale at ReStore are included in inventory at cost. The fair market value of the items donated to ReStore is not determinable until the items are sold. Therefore, revenue is recorded at the time of sale and no value is included in inventory for the unsold items.

Advertising and Marketing Costs

Habitat expenses advertising and marketing costs when incurred.

Prepaid expenses

Insurance and similar services which extend benefits over more than one accounting period have been recorded as prepaid expenses.

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment acquired are stated at cost less accumulated depreciation. Habitat capitalizes acquisitions of property and equipment in excess of \$2,500. Depreciation is calculated on the straight-line basis over the estimated useful life of the assets, ranging from three to ten years for all fixed assets except buildings and parking lot improvements, which are depreciated over 38 years.

When property is retired or otherwise disposed of, the accounts are relieved of the applicable cost and accumulated depreciation, and any resulting gain or loss is reflected in operations.

Donated services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat. These services are recorded, based on the fair value of the services provided, as in-kind contributions on the Statement of Activities and the Statement of Functional Expenses. Volunteer services are not recognized in the financial statements when the recognition criteria are not met.

Pledges Receivable

Contribution receivables that are expected to be collected in future years are recorded at fair value based on the present value of their estimated future cash flows and are discounted at the rate applicable to the year in which the contribution was made.

Donated equipment

Donations of property and equipment are recorded as contributions at the fair market value on the date received. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Habitat reclassifies temporarily restricted net assets at that time.

Income taxes

Habitat is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the financial statements.

Habitat accounts for income taxes in accordance with the income tax accounting guidance included in the FASB ASC. Under this guidance, Habitat may recognize the tax effects from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by tax authorities. Habitat has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions.

Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress.

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs are charged specifically to a program or function and the remaining costs are allocated among programs, administrative and fund raising based upon estimates of staff time devoted to these functions.

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to be consistent with the 2021 presentation. Reclassifications had no effect on 2020 net assets.

New accounting pronouncement

In May 2014, the FASB issued ASU No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods and services. Additional disclosure is required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This standard was adopted by Habitat effective July 1, 2020 using the full retrospective method. The adoption of this standard did not have a material impact on Habitat's financial statements.

B: CONCENTRATIONS AND CREDIT RISK

Habitat builds and rehabilitates homes in the Baton Rouge and surrounding areas. As a result, all of the mortgage receivables from homeowners are concentrated as to geographic risk. Also, all homes built are sold to low-income families, which can represent a credit risk.

Habitat maintains its cash in bank deposit accounts, the balances of which at times may exceed federally insured limits. Management has placed these funds in high quality institutions in order to minimize the risk. At June 30, 2021 and 2020, Habitat's cash balances exceeded federally insured limits by \$169,067 and \$327,997, respectively.

C: PAYMENTS TO HABITAT INTERNATIONAL

Habitat voluntarily remits a portion of its contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2021 and 2020, contributions of \$4,000 and \$3,000, respectively are included in cost of homes sold.

Habitat pays Habitat International an annual Stewardship and Organizational Sustainability Initiative fee based on the population and the geographic area served. ReStore pays a monthly ReStore Collaborative fee. These amounts totaled \$15,000 and \$17,025 for the years ended June 30, 2021 and 2020, respectively.

D: RECEIVABLES

Receivables consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Cost reimbursement grants	\$ 15,638	\$ 11,193
Homeowner escrow shortages	13,933	13,091
Employee retention tax credit	246,329	-
Pledges, net of discount and allowance	-	12,610
Other	100	-
	<u>\$ 276,000</u>	<u>\$ 36,894</u>

Pledges receivable at June 30, 2021 and 2020, are as follows, discounted using a 5% discount rate:

	2021	2020
Receivable in less than one year	\$ -	\$ 13,945
Receivable in one to five years	-	-
	-	13,945
Discount to net present value	-	-
Allowance for uncollectible receivables	-	(1,335)
	<u>-</u>	<u>12,610</u>

E: PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost, less accumulated depreciation as of June 30, 2021 and 2020:

	2021	2020
Land	\$ 62,028	\$ 62,028
Leasehold improvements	24,053	24,053
Buildings and improvements	762,805	761,303
Rental property	74,842	139,816
Furniture and fixtures	50,108	50,108
Machinery and equipment	310,687	287,575
	1,284,523	1,324,883
Less accumulated depreciation	(524,316)	(496,123)
	<u>\$ 760,207</u>	<u>\$ 828,760</u>

Depreciation expense was \$63,579 and \$69,434 for the years ended June 30, 2021 and 2020, respectively.

F: LINE OF CREDIT

Habitat entered into a line of credit agreement with a local bank in the amount of \$500,000 bearing a variable interest rate of Wall Street Journal Prime. The line of credit matures October April 26, 2022 and is secured by a pledge of the first mortgage notes on houses built and financed by Habitat with an assignment of specific mortgage notes. There were no outstanding draws on the line during the years ended June 30, 2021 and 2020.

G: NOTES PAYABLE

Notes payable consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Note payable secured by vehicle, bearing interest at 4.50% per annum, payable upon demand. If no demand is made, note is payable in 60 equal installments of \$1,552 and maturing October 2, 2024.	\$ 55,049	\$ 70,773

Principal payments on the above note are due as follows, if no demand is made:

<u>Year</u>	<u>Amount</u>
2022	\$ 16,372
2023	17,124
2024	17,911
2025	3,642
2026	-
	<u>\$ 55,049</u>

H: PAYCHECK PROTECTION PROGRAM LOAN

During the years ended June 30, 2021 and 2020, Habitat received a Paycheck Protection Program (PPP) loan for \$277,000 each year from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The PPP loans are considered a conditional contribution, with right of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that the PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following receipt of the loan funds. The loans have both been fully forgiven.

I: EMPLOYEE RETENTION CREDIT

The Employee Retention Credit (ERC) was created under the CARES Act to help organizations who have been negatively impacted by COVID-19 retain their employees.

I: EMPLOYEE RETENTION CREDIT (continued)

During 2021, the Organization qualified for an ERC in the amount of \$246,329. The Organization performed an assessment and determined the conditions have been substantially met, therefore the tax credit has been recognized as other income in the accompanying statement of activities.

J: INVENTORIES

Inventories consisted of the following as of June 30, 2021 and 2020:

	2021		2020	
	Number	Cost	Number	Cost
Homes				
New construction	5	\$ 337,451	6	\$ 288,871
Repossessions	1	90,189	2	84,624
	<u>6</u>	<u>427,640</u>	<u>8</u>	<u>373,495</u>
Construction materials		70,115		76,092
Purchases for resale		122,731		52,378
		<u>\$ 620,486</u>		<u>\$ 501,965</u>

Rentals are repossessions for which Habitat has not been able to find qualified partners to purchase the homes through the Habitat program and has not been able to sell the houses otherwise. The Board approved the temporary rental of these houses through the U.S. Housing and Urban Development Section 8 rental assistance program. These houses are included in inventory because management's intent in renting them is to offset costs of vacant houses until a suitable owner is found. At that time, they are reclassified back to repossessions.

K: NON-CASH INVESTING AND FINANCING ACTIVITIES

There were no non-cash investing and financing activities during the year ended June 30, 2021 and 2020.

L: LEASE COMMITMENTS

Habitat leases office space under an agreement that is classified as operating leases. The lease provides for monthly rent of \$5,373 and expires March 31, 2022.

Restore leases a store location under an agreement that is classified as operating leases. The lease provides for monthly rent ranging from \$7,000 to \$7,283 and expires December 31, 2023.

The lease expense under these agreements was \$173,628 and \$227,826 for the years ended June 30, 2021 and 2020, respectively.

L: LEASE COMMITMENTS (continued)

The future minimum lease payments required under the operating leases are as follows for the year ending June 30, 2021:

Years Ending June 30,	
2022	\$ 133,197
2023	86,537
2024	43,697
	<u>\$ 263,431</u>

M: LIQUIDITY

The following represents Habitat's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use because of contractual restrictions within one year of the statement of financial position date:

	<u>2021</u>	<u>2020</u>
Financial assets	\$ 1,515,330	\$ 1,466,116
Amounts unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions	<u>(379,944)</u>	<u>(326,470)</u>
	<u>\$ 1,135,386</u>	<u>\$ 1,139,646</u>

As part of the organization's liquidity management, Habitat maintains sufficient cash balances throughout the year through the receipt of grants and donations, and proceeds from the operation of Restore to support Habitat's objective to help provide housing for low-income families by identifying potential home sites, constructing new homes, and refurbishing existing structures. To help manage unanticipated liquidity needs, Habitat has a committed line of credit in the amount of \$500,000 which it could draw upon.

N: MORTGAGES RECEIVABLE

Mortgages receivable as of June 30, 2021 and 2020 consists of non-interest-bearing mortgage notes of \$6,805,111 and \$7,519,978, respectively, less unamortized discounts of \$3,362,491 and \$3,710,004, respectively. All mortgages are collateralized by real estate in the Baton Rouge area.

Mortgages are subject to foreclosure if a payment is 90 days or more past due and no revised payment plan has been approved by the Habitat Board of Directors. Homeowners that have not responded to prior notifications and are 120 days late may be presented to the Board for approval of the foreclosure. Foreclosures are only begun with Board approval. If approved, the homeowner's file is turned over to an attorney to send the official notice of default, which states that the homeowner has 30 days to cure the default.

N: MORTGAGES RECEIVABLE (continued)

The following schedule shows the past due principal payments as of June 30, 2021 and 2020. These past due balances are based on the payments required by the mortgages and have not been reduced to reflect modifications made under payment plans.

	2021		2020	
	Mortgages Past Due	Past Due Amount	Mortgages Past Due	Past Due Amount
Past Due Amounts				
6 months or more	1	\$ 4,271	5	\$ 11,201
5 months	1	1,544	1	1,911
4 months	2	2,888	3	5,151
3 months	1	1,399	5	5,171
2 months	6	5,046	11	10,174
1 months	19	8,400	37	11,300
	<u>30</u>	<u>\$ 23,548</u>	<u>62</u>	<u>\$ 44,908</u>

There were no mortgage loans in the process of foreclosure at June 30, 2021 and 2020, respectively.

Since management estimates that the fair market value of the homes exceeds the mortgage balance, no allowance for uncollectible loans has been recorded.

O: MORTGAGES SOLD

Periodically, Habitat sells their mortgage loans to local banks. Habitat continues to service these loans and in return receives a loan servicing fee. Habitat is responsible for collection activities and disbursement of property taxes and insurance. Principal payments on loans are remitted to the banks monthly.

All loans sold are with recourse. If a loan becomes nonperforming, Habitat is required to repurchase the mortgage loan and, at Habitat's option, require the bank to purchase another loan which is acceptable. The outstanding balance of loans sold with recourse at June 30, 2021 and 2020 was \$1,814,952 and \$1,388,042, respectively.

During 2021, Habitat sold 10 loans and recognized a gain of \$183,039. During 2020, Habitat sold 12 loans and recognized a net gain of \$288,214.

P: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of funds designated by donors or grantors for specific purposes or programs. At June 30, 2021 and 2020, amounts restricted to use for specific programmatic areas was as follows:

	<u>2021</u>	<u>2020</u>
Critical home repair	\$ 13,837	\$ -
Construction of new homes	179,637	157,051
	<u>\$ 193,474</u>	<u>\$ 157,051</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of restrictions specified by donors as follows for the year ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Flood relief	\$ -	\$ 52,648
Critical home repairs	42,870	-
Passage of time	1,100	-
Construction of new homes	103,665	473,233
Total restrictions released	<u>\$ 147,635</u>	<u>\$ 525,881</u>

Q: SUBSEQUENT EVENTS

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen that could negatively impact contributions and operating results. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain.

Subsequent events were evaluated through December 28, 2021 which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEAD

Year Ended June 30, 2021

Lynn Clark
Executive Director

	<u>Amount</u>
Salary	\$ -
Benefits - payroll taxes	-
Conference travel	-
Reimbursements	-

Note - All payments to the agency head for compensation, benefits, and other payments were made from private funds.

See accompanying notes to financial statements.



**INDEPENDENT AUDITOR'S 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***

The Board of Directors
Habitat for Humanity of Greater Baton Rouge, Inc.

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 financial statements of Habitat for Humanity of Greater Baton Rouge, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of Greater Baton Rouge, Inc.'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 Habitat for Humanity of Greater Baton Rouge'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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 Habitat for Humanity of Greater Baton Rouge, Inc.'s financial statements are free of 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 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 Habitat for Humanity of Greater Baton Rouge, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Greater Baton Rouge, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

L.A. Champagne & Co., LLP

*Baton Rouge, Louisiana
December 28, 2021*

HABITAT FOR HUMANITY OF GREATER BATON ROUGE, INC.
SUMMARY OF AUDIT RESULTS AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2021

A: SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an unmodified opinion on the financial statements of Habitat for Humanity of Greater Baton Rouge, Inc.
2. No significant deficiencies in internal controls relating to the audit of the financial statements are reported in the “Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*.”
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. A management letter was not issued.

B: FINDINGS – FINANCIAL STATEMENTS AUDIT

There were no findings that are required to be reported in this section of the report.

C: SUMMARY OF PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

There are no findings that are required to be reported in this section of the report.