

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1
<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets:	
For the Year Ended June 30, 2010	3
For the Year Ended June 30, 2009	4
Statements of Functional Expenses:	
For the Year Ended June 30, 2010	5
For the Year Ended June 30, 2009	6
Statements of Cash Flows	7
<u>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</u>	8

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of the New Orleans Area Habitat for Humanity, Inc. (a nonprofit organization) (the Organization) and its subsidiary as of June 30, 2010 and 2009 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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. 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the New Orleans Area Habitat for Humanity, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Postlethwaite & Netterville

Metairie, Louisiana
November 15, 2010

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

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 11,553,656	\$ 12,068,216
Accounts receivable	57,057	3,566
Grants and pledges receivable	151,616	404,261
Investments	4,500,812	9,776,997
Mortgage notes receivable, current portion	204,559	172,869
Construction inventory	9,140,001	9,542,202
ReStore inventory	110,021	65,857
Prepaid expenses	35,807	68,389
Total current assets	25,753,529	32,102,357
<u>NON-CURRENT ASSETS</u>		
Investments, net of current maturities	1,250,000	-
Mortgage notes receivable, net	7,181,052	6,023,622
Property and equipment, net	2,935,556	2,212,168
Loan costs, net	262,192	271,312
Deposits	3,250	7,550
Total non-current assets	11,632,050	8,514,652
<u>TOTAL ASSETS</u>	\$ 37,385,579	\$ 40,617,009

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 527,331	\$ 310,809
Escrow deposits	36,746	195,021
Other liabilities	71,703	120,728
Accrued remediation costs	8,550,000	-
Total current liabilities	9,185,780	626,558
<u>NOTES PAYABLE, LONG-TERM</u>	2,850,000	2,850,000
<u>NET ASSETS</u>		
Unrestricted	22,768,885	32,586,677
Temporarily restricted	2,580,914	4,553,774
Total net assets	25,349,799	37,140,451
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 37,385,579	\$ 40,617,009

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

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Contributions	\$ 1,984,763	\$ 464,743	\$ 2,449,506
Home sale revenue, net of discount	2,733,587	-	2,733,587
Investment income	160,255	-	160,255
ReStore income	710,226	-	710,226
Other income	644,053	-	644,053
Total revenues and other support	<u>6,232,884</u>	<u>464,743</u>	<u>6,697,627</u>
Net assets released from restrictions	<u>2,437,603</u>	<u>(2,437,603)</u>	<u>-</u>
Total revenues, support, and assets released from restrictions	<u>8,670,487</u>	<u>(1,972,860)</u>	<u>6,697,627</u>
<u>EXPENSES</u>			
Program services	17,688,719	-	17,688,719
Management and general	538,948	-	538,948
Fundraising	259,661	-	259,661
Total expenses	<u>18,487,328</u>	<u>-</u>	<u>18,487,328</u>
Loss of disposal of equipment	<u>951</u>	<u>-</u>	<u>951</u>
	<u>951</u>	<u>-</u>	<u>951</u>
<u>CHANGE IN NET ASSETS</u>	(9,817,792)	(1,972,860)	(11,790,652)
Net assets, beginning of year	<u>32,586,677</u>	<u>4,553,774</u>	<u>37,140,451</u>
Net assets, end of year	<u>\$ 22,768,885</u>	<u>\$ 2,580,914</u>	<u>\$ 25,349,799</u>

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

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Contributions	\$ 2,647,501	\$ 1,680,731	\$ 4,328,232
Home sale revenue, net of discount	4,772,403	-	4,772,403
Investment income	298,409	-	298,409
ReStore income	825,558	-	825,558
Other income	365,905	-	365,905
Total revenues and other support	<u>8,909,776</u>	<u>1,680,731</u>	<u>10,590,507</u>
Net assets released from restrictions	<u>7,182,553</u>	<u>(7,182,553)</u>	<u>-</u>
Total revenues, support, and assets released from restrictions	<u>16,092,329</u>	<u>(5,501,822)</u>	<u>10,590,507</u>
<u>EXPENSES</u>			
Program services	16,437,103	-	16,437,103
Management and general	778,530	-	778,530
Fundraising	346,101	-	346,101
Total expenses	<u>17,561,734</u>	<u>-</u>	<u>17,561,734</u>
Loss of disposal of equipment	<u>148,373</u>	<u>-</u>	<u>148,373</u>
<u>CHANGE IN NET ASSETS</u>	(1,617,778)	(5,501,822)	(7,119,600)
Net assets, beginning of year	<u>34,204,455</u>	<u>10,055,596</u>	<u>44,260,051</u>
Net assets, end of year	<u>\$ 32,586,677</u>	<u>\$ 4,553,774</u>	<u>\$ 37,140,451</u>

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

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services	Management and General	Fundraising	Total
Cost of homes sold	\$ 5,756,019	\$ -	\$ -	\$ 5,756,019
Cost of goods sold - inventory and other	367,014	-	-	367,014
Contract labor	11,102	120	-	11,222
Dumpsters/portable buildings	115,665	-	-	115,665
Depreciation	213,523	-	-	213,523
Donation	105,000	-	-	105,000
Equipment rental	307	-	-	307
Employee benefits	116,868	29,809	18,878	165,555
Firewatch	614	-	-	614
Food	(60)	-	-	(60)
Insurance	94,149	957	20	95,126
Interest	30,590	-	-	30,590
Inventory adjustment	99,487	-	-	99,487
Maintenance	135,413	-	-	135,413
Marketing	37,489	-	14,843	52,332
Merchant and bank fees	24,167	-	-	24,167
Other expenses	72,712	-	1,300	74,012
Payroll taxes	102,338	30,206	11,714	144,258
Postage	6,917	1,231	2,387	10,535
Printing	13,491	1,231	5,794	20,516
Professional services	181,001	26,200	4,330	211,531
Remediation costs	8,550,000	-	-	8,550,000
Rent	44,410	19,100	18,900	82,410
Repairs and building supplies	82,216	148	-	82,364
Salaries	1,008,694	400,236	164,060	1,572,990
Security	9,734	-	-	9,734
Supplies	54,834	11,738	4,007	70,579
Tithe	5,000	-	-	5,000
Telephone	67,940	12,215	11,383	91,538
Tools and equipment	16,610	66	66	16,742
Travel and training	12,095	3,838	695	16,628
Utilities	72,698	-	-	72,698
Vehicle expense	139,369	-	-	139,369
Vista/Americorps	75,847	-	-	75,847
Volunteers	11,002	-	-	11,002
Workers' compensation	54,464	1,853	1,284	57,601
Total	<u>\$ 17,688,719</u>	<u>\$ 538,948</u>	<u>\$ 259,661</u>	<u>\$ 18,487,328</u>

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

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	Program Services	Management and General	Fundraising	Total
Cost of homes sold	\$ 10,405,683	\$ -	\$ -	\$ 10,405,683
Cost of goods sold - inventory and other	531,033	-	-	531,033
Consulting	-	-	10,000	10,000
Contract labor	57,039	20,628	-	77,667
Dumpsters/portable buildings	143,963	-	-	143,963
Depreciation	507,029	-	-	507,029
Donation	295,321	-	-	295,321
Equipment rental	10,306	-	-	10,306
Employee benefits	136,923	25,725	19,120	181,768
Firewatch	997	-	-	997
Food	285,157	-	-	285,157
Insurance	429,484	19,577	19,062	468,123
Interest	9,923	-	-	9,923
Inventory adjustment	114,050	-	-	114,050
Jimmy Carter Project	4,788	-	-	4,788
Maintenance	103,687	-	-	103,687
Marketing	20,511	-	6,576	27,087
Merchant and bank fees	49,483	-	-	49,483
Other expenses	61,044	-	-	61,044
Outreach	175,036	-	-	175,036
Payroll taxes	150,043	41,250	13,658	204,951
Postage	11,850	3,877	11,675	27,402
Printing	14,643	4,181	21,879	40,703
Professional services	183,262	167,029	40,278	390,569
Rent	161,956	18,900	18,900	199,756
Repairs and building supplies	156,008	1,411	-	157,419
Salaries	1,481,384	413,552	155,094	2,050,030
Security	79,334	-	-	79,334
Supplies	54,115	15,792	10,435	80,342
Tithe	25,000	-	-	25,000
Telephone	73,905	10,683	9,632	94,220
Tools and equipment	34,573	7,408	-	41,981
Travel and training	45,109	9,858	1,018	55,985
Utilities	151,042	-	-	151,042
Vehicle expense	132,009	-	-	132,009
Vista/Americorps	36,995	-	-	36,995
Volunteers	127,926	-	-	127,926
Workers' compensation	176,492	18,659	8,774	203,925
Total	<u>\$ 16,437,103</u>	<u>\$ 778,530</u>	<u>\$ 346,101</u>	<u>\$ 17,561,734</u>

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

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (11,790,652)	\$ (7,119,600)
Adjustment to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	213,523	507,029
Loss on disposal of equipment	951	148,373
Sales of homes to participants	(2,586,619)	(3,956,071)
Non-cash donations	(364,586)	(626,503)
Changes in assets and liabilities		
Accounts receivable	(53,491)	207,407
Grants and pledges receivable	252,645	297,782
Construction inventory	402,201	5,255,232
ReStore inventory	320,422	628,655
Prepaid expenses	41,702	67,201
Deposits	4,300	9,993
Accounts payable	216,522	(250,708)
Escrow deposits	(158,275)	(91,661)
Other liabilities	(49,025)	45,721
Accrued remediation costs	8,550,000	-
Net cash used in operating activities	(5,000,382)	(4,877,150)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(937,862)	(311,087)
Proceeds from sales of property and equipment	-	4,100
Proceeds from mortgage notes receivable	1,397,499	662,889
Purchase of mortgages notes receivable	-	(23,023)
Proceeds from investments	9,776,997	11,327,024
Purchase of investments	(5,750,812)	(9,776,997)
Net cash provided by investing activities	4,485,822	1,882,906
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issuance of notes payable	-	2,850,000
Payments on notes payable	-	(12,927)
Loan costs	-	(271,312)
Net cash provided by investing activities	-	2,565,761
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(514,560)	(428,483)
Cash and cash equivalents, beginning of year	12,068,216	12,496,699
Cash and cash equivalents, end of year	\$ 11,553,656	\$ 12,068,216

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. Nature of Activities

New Orleans Area Habitat for Humanity, Inc. (Habitat) and its controlled subsidiary NOAHH MC, Inc. (MC) (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. Its 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 via 0% 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. 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 financial statements of the Organization and its controlled subsidiary, MC. 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, 2010 AND 2009

2. Summary of Significant Accounting Policies (continued)

Basis of presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates made in the preparation of these consolidated financial statements include the determination of the allowance for losses on loans and the valuation of mortgage notes receivable. It is reasonably possible that the significant estimates used will change within the next year.

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 the Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. However, unrelated business income from such activities as t-shirt sales is subject to tax. The Organization paid no federal income tax for the years ended June 30, 2010 and 2009.

In fiscal year 2010, the Organization adopted *Accounting for Uncertainty in Income Taxes* policy, which 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 adoption of the provisions of the interpretation had no material impact on the Organization's financial statements. The Organization's tax returns for the years ended June 30, 2009, 2008 and 2007 remain open and subject to examination by taxing authorities.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For purposes of reporting cash flows, cash consists of cash and cash equivalents. The Organization considers all money market investments, and other items having an original maturity of three months or less from the date of acquisition, to be cash equivalents.

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 payable in monthly installments over the life of the mortgage notes. The mortgage notes receivable 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 receivable 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, 2010 and 2009, and therefore no allowance for losses has been provided.

Allowance for doubtful accounts

The Organization records an allowance for doubtful accounts for pledges and accounts receivable, if needed, based on the Organization's collection history.

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 costs.

Inventory

Inventory is recorded at net realizable value. During the years ended June 30, 2010 and 2009 respectively, the Organization recorded a write-down totaling \$99,487 and \$114,050 on its sheetrock inventory (see Note 5).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

2. Summary of Significant Accounting Policies (continued)

Property and equipment

Property and equipment are recorded at cost when purchased and at their estimated fair market value when received as a donation. The Organization expenses equipment with a cost less than \$2,500. Expenditures for maintenance and repairs are charged against earnings 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.

Loan costs

Loan costs consist of professional fees incurred as a result of entering into the notes payable. The costs are being amortized over the term of the notes payable which is 360 months. At June 30, 2010 and 2009, accumulated amortization was \$9,120 and \$2,280, respectively.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support based on the existence and/or nature of any donor restrictions. Donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Donated materials and services

Donated assets are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Contributed services are recorded when the services received require specialized skills that would otherwise be purchased if not provided by donation, or create or enhance a non-financial asset.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

2. Summary of Significant Accounting Policies (continued)

Functional expenses

Generally, expenses are charged to each program or function based on direct expenditures incurred. Expenditures not directly chargeable are allocated to programs or functions based on the estimated percentage of time spent by the Organization's employees or the space utilized.

3. Investments

Investments consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Certificates of deposit	\$ 2,752,252	\$ 4,522,384
Government securities	2,998,560	5,254,613
	<u>\$ 5,750,812</u>	<u>\$ 9,776,997</u>

Government securities consist primarily of U.S Treasury bills at both June 30, 2010 and 2009. Pertaining to the investments held as of June 30, 2010, the government securities matured in October 2010 and the certificates of deposits had maturities ranging from September 2010 through June 2012.

4. Mortgage Notes Receivable

Mortgage notes receivable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Mortgage notes receivable	\$ 13,355,240	\$ 11,085,065
Unamortized discount based on imputed interest rates of 6.5% - 9.0%	<u>(5,969,629)</u>	<u>(4,888,574)</u>
	7,385,611	6,196,491
Current maturities	<u>(204,559)</u>	<u>(172,869)</u>
	<u>\$ 7,181,052</u>	<u>\$ 6,023,622</u>

At June 30, 2010, contractual maturities of mortgage receivables, net of discounts, were as follows:

Fiscal Year Ending June 30:	
2011	\$ 204,559
2012	214,543
2013	226,527
2014	240,499
2015	255,724

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. Construction Inventory

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

	<u>2010</u>	<u>2009</u>
Construction in progress	\$ 4,153,769	\$ 6,072,831
Musician's Village Streets	2,008,936	2,008,936
Ellis Marsalis Center	2,484,976	586,714
Pocket Park	75,760	-
Materials inventory and prepaid supplies	151,868	533,880
Lot inventory	264,692	339,841
	<u>\$ 9,140,001</u>	<u>\$ 9,542,202</u>

6. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>Useful Lives</u>	<u>2010</u>	<u>2009</u>
Buildings and land	32 - 40 years	\$ 2,897,771	\$ 1,957,149
Furniture and fixtures	3 - 7 years	16,507	16,507
Tools and equipment	2 - 7 years	370,357	379,942
Vehicles	5 years	375,068	375,068
		<u>3,659,703</u>	<u>2,728,666</u>
Accumulated depreciation		<u>(724,147)</u>	<u>(516,498)</u>
		<u>\$ 2,935,556</u>	<u>\$ 2,212,168</u>

7. Notes Payable

Notes payable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Note payable to a financial institution with interest at 1.0%, calling on quarterly interest payments until April 2016, at which time quarterly principal and interest payments of \$34,716 will begin until maturity in March 2039.	\$ 2,850,000	\$ 2,850,000
	2,850,000	2,850,000
Less current portion	-	-
	<u>\$ 2,850,000</u>	<u>\$ 2,850,000</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

8. Remediation of Homes with Contaminated Sheetrock

The Organization purchases sheetrock to either use in construction of its homes, donate to others who need sheetrock for reconstruction of their homes, or sell at the ReStore. During fiscal year 2010, the Organization discovered that some of the sheetrock it purchased was contaminated Chinese sheetrock. The contaminated sheetrock caused issues with electrical systems, heating and air conditioning units, appliances and emitted an odor, as well as caused problems with other devices within the house. Studies and court rulings in the matter entitled In Re: Chinese Manufactured Drywall Products Liability Litigation, MDL No. 2047, pending in United States District Court for the Eastern District of Louisiana, suggested properties containing this problematic sheetrock be gutted to the studs and rebuilt. The Organization decided that the right thing to do for its purchasers, who are mostly lower income with limited access to funds for repairs, was to relocate residents temporarily, then gut and rebuild the interior of the homes using uncontaminated sheetrock. After year end, the Organization began entering into "Remediation Agreements" with residents, whereby the Organization agreed to remediate the homes using Organization funds in return for the resident's assignment to the Organization of his rights to any claim against the sheetrock vendors, manufacturer and his homeowners' insurer. The Organization has retained counsel to pursue these remedies. Counsel for the Organization has given notice to these parties and to the Organization's general liability insurer. The Organization estimated, from the number of residences which tested positive for contaminated sheetrock, that the total cost of remediation of affected homes would be approximately \$8,550,000. This amount is accrued for in the June 30, 2010 statement of financial position and the corresponding expense reflected in program expenses in the statement of activities for the year ended June 30, 2010.

9. Temporarily Restricted Net Assets

The temporarily restricted net assets are primarily restricted for the construction or financing of future houses sponsored by the individual contributors and are included in cash and cash equivalents.

10. 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 2010 and 2009, the Organization received goods and supplies with an estimated fair value of \$364,586 and \$626,503, respectively.

In 2010, over 18,000 people volunteered approximately 146,504 hours; in 2009, over 17,000 people volunteered approximately 287,000 hours to assist in the construction work. A valuation of their effort is not reflected in the consolidated financial statements since it does not meet the criteria for recognition.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

11. Donated Warehouse Facility

The Organization operated a construction warehouse that was provided free of charge by the owner of the warehouse. The estimated fair market value of the donated warehouse space is reflected in the accompanying consolidated statements of activities as contributions and rent expense in the amount of \$102,000 for the year ended June 30, 2009. The free use of this warehouse ended subsequent to June 30, 2009.

12. Commitments and Contingencies

Lease Commitments

The Organization leases office space. The office space lease is on a month-to-month basis. Rent expense for the Organization's office was \$57,000 for each fiscal year. Additionally, the Organization rented residential space for temporary housing for its volunteers. The Organization had a lease on a residential property that expired May 31, 2009 and was not renewed. The lease was \$3,500 per month. The volunteers paid a modest fee to subsidize the expense. Warehouse space is also leased in six month intervals at \$1,000 per month. Rent expense for other than office space was \$20,335 and \$40,056 during fiscal years 2010 and 2009, respectively.

During 2009, MC, as lessor, entered into a lease agreement, which contains an option to purchase, with New Orleans Habitat Musicians Village, Inc., the lessee, for the right to lease the Ellis Marsalis Center (the Center) after its construction. The agreement calls for base rent of \$105,000 per year for years 1 through 7, then increasing to \$470,000 times an annual Consumer Price Index Factor for years 8 through 30. Additionally, the lease contains two 10 year extension options at fair market rental value. The lease term begins after construction portion of the agreement called the Diligence Period. If construction is not complete after the Diligence Period, the lessor shall have an additional 180 days to complete. If improvements have not been completed at the end of the said extended 180 days, lessee may, at its option and at any time after the aforementioned additional 180 day period, extend the Diligence Period an additional 180 days or such other time period or periods necessary to complete construction; or lessee may terminate the lease agreement. During the period, October 1, 2015 through December 31, 2015, the lessee has an option to purchase the Center for \$9,550,000 or fair market value.

Option Agreement

On March 17, 2009, MC entered into an option agreement with a financial institution whereby during a four month period beginning approximately seven years after the date of the agreement, the financial institution can obligate the MC to purchase the financial institution's interest in its subsidiary, with which

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

12. Commitments and Contingencies (continued)

the MC has notes payable with, for \$5,000. If the financial institution does not exercise its option at the end of its option period, MC has the option during the subsequent 24 month period to exercise its option to purchase the financial institution's interest in its subsidiary, with which the MC had its notes payable with, for its fair market value as determined by the MC.

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. 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. No amounts have been recorded for the second mortgages in the accompanying consolidated balance sheets.

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 2010 and 2009, the Organization sold 20 and 12 mortgage notes receivable at their present values of \$820,509 and \$516,943, respectively. At June 30, 2010 and 2009, the total recourse mortgage notes receivable had face value of \$4,587,042 and \$3,372,404, respectively, and present values of \$2,731,813 and \$2,020,442. In the event the notes are repurchased, the Organization has the right to foreclose and resell the associated property.

Guarantees

In March 2009, the Organization entered into agreements with a local financial institution, in which the financial institution provided certain funds for the construction of the Center in return for approximately \$3,700,000 of income tax credits. In return, the Organization guarantees the completion of the Center and lease so that the tax credits will be realized in the future. If the Center and lease are not completed and the tax credits become worthless, the Organization will reimburse the financial institution their loan of \$2,850,000 plus an additional \$850,000 to cover the loss of tax credits. As of June 30, 2010, the Center has not been completed.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

13. Related Party Transactions

A financial institution whose president is a member of the Organization's board of directors holds recourse mortgage notes that it purchased from the Organization (See Note 12).

14. Supplemental Disclosures of Cash Flow Information

During the years ended June 30, 2010 and June 30, 2009, non-interest bearing mortgage notes receivable of \$4,376,806 and \$6,910,097, respectively, with unamortized discount of \$1,790,187 and \$2,954,026, respectively, resulted from sale of homes. In 2010 and 2009, construction materials with a fair market value of \$364,586 and \$626,503, respectively, were donated. Interest paid in 2010 and 2009 were \$30,590 and \$2,798, respectively.

15. 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 high quality 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). Government securities consist primarily of U.S Treasury bills at both June 30, 2010 and 2009. The Organization's mortgage notes receivable base is limited to primarily New Orleans, Louisiana. Risk is mitigated in that homeowners insurance and flood insurance are required on all homes securing the mortgage notes.

The Organization maintains the majority of its cash at large national and regional financial institutions. The funds were either FDIC insured or were maintained in a sweep account that was collateralized at 102% of the market value of FNMA or government securities. At June 30, 2010 and 2009, uninsured cash balances totaled \$8,507,603 and \$11,114,157, respectively. The Organization has not experienced losses on these accounts and management believes the Organization is not exposed to significant risks on such accounts.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

16. 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.

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.

Government securities: Stated at cost, plus accrued interest, which approximates fair value.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

16. Fair Value Measurements (continued)

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.

17. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 15, 2010, and determined that there were no items for disclosure.