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JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

AUDITED FINANCIAL STATEMENTS

December 31, 2012 and 2011

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

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December 31, 2012 and 2011

Kushner LaGraize, LLC

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INDEPENDENT AUDITORS' REPORT

Ms Nicole Barnes and the Board of Directors
Jericho Road Episcopal Housing Initiative, L L C.
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Jericho Road Episcopal Housing Initiative, L.L.C. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities 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

Auditors' 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 Jericho Road Episcopal Housing Initiative, L.L C. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 audits 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2013, on our consideration of Jericho Road Episcopal Housing Initiative, L L.C '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 Jericho Road Episcopal Housing Initiative, L.L.C.'s internal control over financial reporting and compliance

Kushner LaGraize L.L.C.

Metairie, Louisiana
June 19, 2013

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 145,111	$ 212,879
Grants receivable	147,436	309,272
Retainages receivable – NSP1	27,914	41,565
Donations receivable	-	902
Employee advances	408	-
Other receivables	9,000	-
Inventory	1,946,539	1,150,986
TOTAL CURRENT ASSETS	2,276,408	1,715,604
PROPERTY AND EQUIPMENT		
Office equipment	10,428	10,428
Office furniture and fixtures	12,325	10,476
Vehicles	4,000	-
Less accumulated depreciation	(18,063)	(13,390)
	8,690	7,514
OTHER ASSETS		
Soft second mortgage loans receivable, net of accumulated amortization of $112,596 and $70,938 and allowance for doubtful accounts of $14,389 and $14,389 in 2012 and 2011, respectively	487,062	528,720
Investment in community project	59,186	59,186
	546,248	587,906
	$ 2,831,346	$ 2,311,024

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

STATEMENTS OF FINANCIAL POSITION - CONTINUED

December 31, 2012 and 2011

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Cash overdraft	$ -	$ 9,639
Accounts payable	65,244	12,446
Accrued expenses	417	1,917
TOTAL CURRENT LIABILITIES	65,661	24,002
NET ASSETS		
Unrestricted	2,590,335	2,232,988
Temporarily restricted	175,350	54,034
	2,765,685	2,287,022
	$ 2,831,346	$ 2,311,024

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grant income	$ 37,325	$ 794,431	$ 831,756
Grant income from sales of homes	130,000		130,000
Cash contributions	31,940		31,940
Contribution of furniture	75,752		75,752
Interest income	1,346		1,346
Miscellaneous income	794		794
Property development income	164,865		164,865
Net assets released from restrictions - satisfaction of restrictions	673,115	(673,115)	-
TOTAL REVENUE AND SUPPORT	1,115,137	121,316	1,236,453
EXPENSES			
Amortization	41,658	-	41,658
Bad debt expense	500	-	500
Bank fees	1,036	-	1,036
Business registration fees	432	-	432
Chinese dry wall	3,655	-	3,655
Community promotions	6,403	-	6,403
Computer software	2,533	-	2,533
Continuing education	3,203	-	3,203
Cost of homes sold	194,459	-	194,459
Depreciation	4,673	-	4,673
Fundraising	2,281	-	2,281
Insurance	19,939	-	19,939
Marketing	13,152	-	13,152
Miscellaneous	5,275	-	5,275
Office supplies	4,048	-	4,048
Payroll taxes	17,794	-	17,794
Postage	488	-	488
Printing and copying	7,450	-	7,450
Professional fees	24,713	-	24,713
Public relations	5,716	-	5,716
Rent	24,000	-	24,000
Salaries and benefits	335,680	-	335,680
Telephone	4,350	-	4,350
Travel and meetings	1,763	-	1,763
Vacant land management	32,589	-	32,589
TOTAL EXPENSES	757,790	-	757,790
CHANGE IN NET ASSETS	357,347	121,316	478,663
NET ASSETS – Beginning of year	2,232,988	54,034	2,287,022
NET ASSETS – End of year	$ 2,590,335	$ 175,350	$ 2,765,685

See Notes to Financial Statements

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grant income	$ 134,000	$ 701,464	$ 835,464
Grant income from sales of homes	735,000	-	735,000
Cash contributions	80,370	-	80,370
Interest income	4,021	-	4,021
Miscellaneous income	26,395	-	26,395
Net assets released from restrictions - satisfaction of restrictions	1,090,102	(1,090,102)	-
TOTAL REVENUE AND SUPPORT	2,069,888	(388,638)	1,681,250
EXPENSES			
Amortization	26,714	-	26,714
Bank fees	1,882	-	1,882
Business registration fees	1,096	-	1,096
Community promotions	11,510	-	11,510
Computer software	2,796	-	2,796
Cost of homes sold	1,087,561	-	1,087,561
Continuing education	27,983	-	27,983
Depreciation	3,438	-	3,438
Fundraising	33,313	-	33,313
Insurance	14,463	-	14,463
Marketing	24,049	-	24,049
Miscellaneous	3,425	-	3,425
Office supplies	11,987	-	11,987
Payroll taxes	25,169	-	25,169
Postage	608	-	608
Printing and copying	16,054	-	16,054
Professional fees	23,315	-	23,315
Public relations	115	-	115
Rent	24,000	-	24,000
Salaries and benefits	417,746	-	417,746
Telephone	6,600	-	6,600
Travel and meetings	1,181	-	1,181
Vacant land management	11,887	-	11,887
TOTAL EXPENSES	1,776,892	-	1,776,892
CHANGE IN NET ASSETS	292,996	(388,638)	(95,642)
NET ASSETS – Beginning of year	1,939,992	442,672	2,382,664
NET ASSETS – End of year	$ 2,232,988	$ 54,034	$ 2,287,022

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	$ 478,663	$ (95,642)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	4,673	3,438
Amortization	41,658	26,714
Bad debt	500	-
Loss on sales of homes	64,459	352,561
(Increase) decrease in operating assets		
Employee advances	(408)	-
Grants receivable	161,336	130,728
Retainages receivable	13,651	(41,565)
Donations receivable	902	(150)
Other receivables	(9,000)	-
Increase (decrease) in operating liabilities		
Cash overdraft	(9,639)	9,639
Accounts payable	52,798	10,284
Accrued expenses	(1,500)	(270,564)
NET CASH PROVIDED BY OPERATING ACTIVITIES	798,093	125,443
INVESTING ACTIVITIES		
Purchase of property and equipment	(5,849)	-
Proceeds from sale of homes/lots	117,158	657,760
Cost of homes/lots purchased for construction	(977,170)	(1,065,108)
Increase in soft second mortgage loans receivable	-	(255,000)
NET CASH USED IN INVESTING ACTIVITIES	(865,861)	(662,348)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(67,768)	(536,905)
CASH AND CASH EQUIVALENTS AS OF BEGINNING OF YEAR	212,879	749,784
CASH AND CASH EQUIVALENTS AS OF END OF YEAR	$ 145,111	$ 212,879
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Donated furniture	$ 75,752	$ -

See Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jericho Road Episcopal Housing Initiative, L L C. (the Organization) is a neighborhood-based non-profit organization that was formed as a tax exempt organization in March 2006 It is located in New Orleans, Louisiana, and the initial and sole member of the Organization was the Diocese of the Episcopal Church of Louisiana In October 2011, sole membership was assigned and conveyed by the Diocese to Christ Church Corporation, a Louisiana non-profit religious corporation The primary purpose of the Organization is to provide healthy and energy efficient affordable housing opportunities in New Orleans neighborhoods for working families and individuals

The Organization works with other non-profit organizations, businesses, governmental agencies and neighborhood residents to create and maintain a stable and thriving community. Long-term housing strategies include new construction and rehabilitation of existing owner-occupied homes The Organization is supported primarily through contributions and grants

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets

Contributions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized All donor-restricted support is reported as an increase in temporarily restricted net assets When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

Cost Recognition/Homes-In-Process

All direct material, labor, and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs are recorded as inventory on the statement of financial position as they are incurred Land costs included in inventory are stated at cost or fair value at the date of the contribution Included in land costs are any costs incurred in development When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statements of activities

Property and Equipment

It is the Organization's policy to capitalize property improvements and equipment purchases of $1,500 or more Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets (generally 5-20 years).

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Soft Second Mortgage Loans Receivable

Soft second mortgage loans receivable consist of non-interest bearing forgivable loans secured by real estate. No repayment is required unless the borrower fails to maintain ownership of the property and reside in it as his/her principal place of residency for the duration of the applicable period of affordability, which is fifteen years In the event the borrower ceases to occupy the property, the entire amount of the loan, less any portion earned by the borrower, will be due and payable

The borrower will earn a portion of the loan for each month that he/she owns and resides in the property as his/her principal place of residency. The borrower will earn the loan on a pro-rata basis for each month of ownership and occupancy as measured against the period of affordability.

The Organization records the earned portion on a straight-line basis as amortization in the statement of activities Management has recorded an allowance for doubtful accounts in the amount of $14,389 for both years ended December 31, 2012 and 2011

Retainages Receivable

Grants receivable are recorded when requests for funds are issued The New Orleans Redevelopment Authority issues 90% of Neighborhood Stabilization funds requested The remaining 10% is recorded as retainages receivable Retainages are due upon completion of contracts Subsequent to December 31, 2012, all retainages totaling $27,914 have been collected

Warranties

The Organization provides a new home warranty in the deed of trust on the sale of new homes as required by the State of Louisiana's New Warranty Act. The warranty is for one year and is generally for defects in materials and workmanship The Organization did not record a warranty liability because the subcontractor furnishes a warranty The Organization would only be liable if the subcontractor fails to honor their warranty

Use of Estimates in Preparing Financial Statements

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

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Reserved Cash

The Organization has received grant funds from the New Orleans Redevelopment Authority Terms of the grant require the funds to be segregated from other Organization funds Reserved cash at December 31, 2012 and 2011 was $79,432 and $149, respectively.

Donated Land, Furniture and Services

Donated land and furniture are reflected at the estimated fair value at the date of receipt and totaled $75,752 and $0 for the years ended December 31, 2012 and 2011, respectively Support arising from donated services is recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected in the financial statements for donated services as the amount of these items do not meet all of the recordation requirements of ASC 958 as described above

Land Development Costs

Costs that clearly relate to land development projects are capitalized Costs are allocated to project components by the specific identification method whenever possible

Fair Value of Financial Instruments

Fair value estimates, methods and assumptions for the Organization's financial instruments of cash and cash equivalents, grants and other receivables, accounts payable and accrued expenses are that the carrying amounts reported in the statements of financial position are a reasonable estimate of fair value for the years ended December 31, 2012 and 2011

Income Taxes

The Organization qualifies as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, and thus, is exempt from federal and state income taxes

The Organization recognizes the tax benefit from uncertain tax positions only if it is "more likely than not" the tax position will be sustained on examination by the taxing authorities. To the extent the Organization's assessment of such tax positions change, the change will be recorded in the period in which the determination is made No adjustments were required for the years ended December 31, 2012 and 2011

Reclassification

Certain reclassifications have been made to the 2011 financial statement presentation to correspond to the current year's format Net assets and changes in net assets are unchanged due to these reclassifications

NOTE 2 - OFF-BALANCE SHEET RISK

At December 31, 2012 and 2011, respectively, the Organization had bank balances of $159,107 and $207,640 of which $159,107 and $207,640 was covered by federal depository insurance and $0 and $0 was uninsured and uncollateralized Subsequent to year-end, the unlimited coverage by Federal Deposit Insurance Corporation ("FDIC") insurance of certain bank balances expired As a result, future balances may exceed FDIC insurance limits Those cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets.

NOTE 3 - PENSION PLAN

The Organization, an eligible sponsoring employer, participates in the Episcopal Church Lay Employees' Defined Benefit Plan The Plan is administered by the Church Pension Fund. The Organization contributes 9% of each staff member's base pay. Pension expenses for the staff amounted to $13,617 and $21,928 for the years ended December 31, 2012 and 2011, respectively

NOTE 4 – RELATED PARTY TRANSACTIONS

During 2012 and 2011, related parties of the Organization made contributions totaling $10,387 and $10,386, respectively

In 2012 and 2011, the Organization rented office space from Christ Church Corporation (see Note 11 – Lease)

NOTE 5 – INVENTORY

Inventory for the years ended December 31, 2012 and 2011 consists of the following components.

2012

Inventory Classification		Balance Beginning of Year	Additions	Deletions	Balance End of Year
Lots available for development	42	$ 594,983	$ 88,830	$ 173,521	$ 510,292
Construction-in-progress	5	387,166	39,692	-	426,858
Completed homes	4	168,837	1,012,495	171,943	1,009,389
Total		$ 1,150,986	$ 1,141,017	$ 345,464	$ 1,946,539

2011

Inventory Classification		Balance Beginning of Year	Additions	Deletions	Balance End of Year
Lots available for development	36	$ 790,801	$ 1,008,387	$ 1,204,205	$ 594,983
Construction-in-progress	7	-	387,166	-	387,166
Completed homes	1	305,398	168,837	305,398	168,837
Total		$ 1,096,199	$ 1,564,390	$ 1,509,603	$ 1,150,986

NOTE 5 – INVENTORY – (Continued)

Inventories are stated at cost plus the estimated fair value of donated land and furniture at the time of donation Additions and deletions of construction-in-progress are shown net of the $387,166 and $0 that was transferred to completed homes for the years December 31, 2012 and 2011, respectively

NOTE 6 – HOME/LOT SALES

During the years ended December 31, 2012 and 2011, there were 1 home and 0 lots and 5 homes and 0 lots sold to qualifying applicants, respectively.

	2012	2011
Home/lot sales – net proceeds	$ 117,158	$ 657,760
Cost of homes/lots sold – net	(181,617)	(1,010,321)
Net loss on sales of homes/lots	$ (64,459)	$ (352,561)

NOTE 7 - GRANTS

During the years ended December 31, 2012 and 2011, the following grants were awarded to the Organization for the purposes approved by the grantors to be used for the purposes described as grant objectives, as defined by the grants

2012

Grantor	Amount	Period
Episcopal Relief and Development	$ 150,000	01/01/12 through 12/31/12
Greater New Orleans Foundation	10,000	06/22/12 through 05/31/12
The Center for the Study of Social Policy	50,000	12/15/11 through 11/30/12
Trinity Episcopal Church – Vincent Memorial Legacy	5,000	01/01/12 through 12/31/12
Louisiana Housing Finance Agency – NSP1	847,834	09/15/11 through 06/30/12
Enterprise Community Partners	75,000	05/01/12 through 04/30/13
New Orleans Redevelopment Authority – NSP2	402,000	07/11/11 through 01/15/13
NeighborWorks America	30,000	01/01/12 through 12/31/12
Bike & Build	200	01/01/12 through 12/31/12
State of LA Dept of Natural Resources	6,000	01/01/12 through 12/31/12
Entergy – New Orleans	1,125	01/01/12 through 12/31/12

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE 7 – GRANTS – (Continued)

2011

Grantor		Amount	Period
Episcopal Relief and Development	$	150,000	04/01/11 through 12/31/11
Trinity Episcopal Church			
– Vincent Memorial Legacy		8,000	01/01/11 through 12/31/11
Trinity Wall Street		7,500	01/01/11 through 12/31/11
Institute of International Education		3,750	03/05/11 through 03/19/11
Jacobus Family Foundation		5,000	01/01/11 through 12/31/11
Mary E Peters & Robert W Polchow Foundation		1,500	01/01/12 through 12/31/12
Joe W & Dorothy Dorsett Brown Foundation		2,500	01/01/11 through 12/31/11
Local Initiatives Support Corporation		14,416	04/01/11 through 09/30/11
Local Initiatives Support Corporation		26,129	07/01/11 through 10/31/11
Louisiana Housing Finance Agency – NSP1		847,834	09/15/11 through 07/31/11

Grants receivable include

	2012	2011
Episcopal Relief and Development	$ 50,000	$ 75,000
Enterprise Community Partner	33,056	-
Louisiana Housing Finance Agency – NSP1	15,045	175,394
New Orleans Redevelopment Authority – NSP2	49,335	25,625
Local Initiatives Support Corporation	-	33,253
Total	$ 147,436	$ 309,272

Grant revenue includes:

	2012	2011
Episcopal Relief and Development	$ 150,000	$ 150,000
Greater New Orleans Foundation	10,000	-
The Center for the Study of Social Policy	50,000	-
Trinity Episcopal Church		
– Vincent Memorial Legacy	5,000	8,000
Trinity Wall Street	-	7,500
Louisiana Housing Finance Agency – NSP1	386,789	1,326,044
Enterprise Community Partners	33,056	-
New Orleans Redevelopment Authority – NSP2	289,586	25,625
Local Initiatives Support Corporation	-	40,545
NeighborWorks America	30,000	
Institute of International Education	-	3,750
Jacobus Family Foundation	-	5,000
Bike & Build	200	
Joe W. & Dorothy Dorsett Brown Foundation	-	2,500
Mary E Peters & Robert W. Polchow Foundation	-	1,500
State of LA Dept. of Natural Resources	6,000	-
Entergy – New Orleans	1,125	-
	$ 961,756	$ 1,570,464

NOTE 7 – GRANTS – (Continued)

During 2011, the New Orleans Redevelopment Authority (NORA) issued a termination letter to the Organization regarding its failure to comply with the requirements of the Neighborhood Stabilization Program 2 (NSP2) awarded in 2010, resulting in lost awards The Organization is continuing to work with NORA and received another HUD related grant in 2012.

Grants receivable are presented at fair value and management believes that all grants are fully collectible, therefore, management has elected not to record an allowance for doubtful accounts for grants receivable at December 31, 2012 and 2011

NOTE 8 – INVESTMENT IN COMMUNITY PROJECT

Investment in Community Project is stated at cost. This investment represents costs incurred on a project to develop a community park The property is owned by the City of New Orleans and the Organization's plan is to enter into an agreement with the City, solicit grants and/or funds and direct the development of this property into a community park for the benefit of homeowners in the area

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 were available for the following specified purpose

	2012	2011
Director of housing programs	$ -	$ 54,034
Home purchases and construction	175,350	-
Total.	$ 175,350	$ 54,034

NOTE 10 - FUNCTIONAL EXPENSES

Expenses incurred for the years ended December 31, 2012 and 2011 were for the following purposes

	2012	2011
General and administrative	$ 214,800	$ 261,619
Fundraising	33,174	89,942
Program services	251,607	1,214,255
Public relations and marketing	49,851	63,312
Community promotions	95,243	92,298
Vacant land management	113,115	55,466
Total	$ 757,790	$ 1,776,892

Functional expenses are summarized by function based on estimates and allocations developed by management.

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2012 and 2011

NOTE 11 - LEASE

In 2012 and 2011, the Organization leased office space under a month-to-month lease agreement from the Diocese of the Episcopal Church of Louisiana in the amount of $24,000 for both years.

NOTE 12- MAJOR VENDORS

During the year ended December 31, 2012, the Organization paid $710,931 of its construction expenses to one major vendor which accounted for 59 percent of construction expenses During the year ended December 31, 2011, the Organization paid $680,671 and $196,660 of its construction expenses to two major vendors which accounted for 38 and 11 percent of construction expenses, respectively

NOTE 13 - MAJOR GRANTORS

During the year ended December 31, 2012, the Organization received a substantial portion of its grant income from three major grantors totaling $150,000, $256,789 and $289,586, which accounted for 16, 27 and 3 percent of grant income, respectively. During the year ended December 31, 2011, the Organization received a substantial portion of its grant income from two major grantors totaling $1,326,044 and $150,000 which accounted for 84 and 10 percent of grant income, respectively

NOTE 14 – MARKETING

The Organization uses marketing to promote its programs among the audiences it serves Marketing costs are expensed as incurred Marketing expense for the years ended December 31, 2012 and 2011 was $13,152 and $24,049, respectively

NOTE 15 – CHINESE DRYWALL CONTINGENCY

During the year ended December 31, 2010, the Organization discovered that four of the homes that were sold in previous years contained Chinese drywall (a defective drywall manufactured in China) The Organization elected to remediate these homes and agreed to cover the costs associated with housing the homeowners during the remediation process The Organization estimated the costs to remediate the four homes and provide housing for the displaced homeowners to be $270,000 which was included in Accrued Expenses at December 31, 2010. All of the remediation expenses due were paid during the year ended December 31, 2011 The Organization incurred additional expenses of $3,655 during the year ended December 31, 2012 The Organization is currently a participant in a class action suit against the Chinese drywall manufacturer

NOTE 16 - SUBSEQUENT EVENTS

In May 2013, the Organization sold a home totaling $149,000.

The Organization has evaluated subsequent events through the date the financial statements were available to be issued, which corresponds with the date of the independent auditors' report No other material subsequent events have occurred since December 31, 2012 that required recognition or disclosure in these financial statements

SUPPLEMENTAL INFORMATION

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	TOTAL FEDERAL EXPENDITURE	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Funds passed through the Louisiana Housing Finance Agency			
Neighborhood Stabilization Program	14 218	$ 386,789	(1)
Funds passed through New Orleans Redevelopment Housing Initiative, L L C..			
Neighborhood Stabilization Program (ARRA) – Lankbanking	14 256	250	
Neighborhood Stabilization Program (ARRA) – Homebuilding	14 256	289,335	
Funds passed through Enterprise Community Partners			
Section 4 Capacity Building for Community Development and Affordable Housing – 2008	14 252	33,056	
TOTAL FEDERAL ASSISTANCE		$ 709,430	

(1) This program is considered a major program under OMB Circular A-133 for the year ended December 31, 2012

NOTES TO SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS

Presentation of Financial Statements

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting Grant revenues are recorded, for financial purposes, when Jericho Road Episcopal Housing Initiative, L.L.C has met the cost of reimbursement or funding qualifications for the respective grants

Kushner LaGraize, L.L.C.

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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 Ms. Nicole Barnes and the Board of Directors
Jericho Road Episcopal Housing Initiative, L.L.C

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 Jericho Road Episcopal Housing Initiative, L.L C. (a nonprofit organization) (the Organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the 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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. See Item 2012-1 in the accompanying schedule

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 We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency See item 2012-2 in the accompanying schedule.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

Jericho Road Episcopal Housing Initiative, L.L.C.'s Response to Findings

Jericho Road Episcopal Housing Initiative, L L.C.'s response to the 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 financial statements, and, accordingly, we express no opinion on it

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing on internal control and compliance and the results of that testing, and not to provide an opinion of 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

Kushner LaGraize, L L C

Metairie, Louisiana
June 19, 2013

Kushner LaGraize, L.L.C

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To Ms. Nicole Barnes and the Board of Directors
Jericho Road Episcopal Housing Initiative, L.L C

Report on Compliance for Each Major Federal Program

We have audited Jericho Road Episcopal Housing Initiative, L L.C.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization's major federal program is identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose

Kushner LaGraize, LLC

Metairie, Louisiana
June 19, 2013

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2012

SECTION I—SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	__X__ Yes ______ No
Significant deficiencies identified that are not considered to be material weaknesses?	__X__ Yes ______ None reported
Noncompliance material to financial statements notes?	______ Yes __X__ No

FEDERAL AWARDS

Internal control over major programs.	
Material weaknesses identified?	______ Yes __X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	______ Yes __X__ None reported
Type of auditors' report issued on compliance for major programs.	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______ Yes __X__ No
Identification of major programs.	
<u>U.S. Department of Housing and Urban Development</u>	
Neighborhood Stabilization Program (NSP1) – CFDA # 14.218	
Dollar threshold used to distinguish between types A and B programs	<u>$300,000</u>
Audit qualified as low-risk auditee	______ Yes __X__ No

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the Year Ended December 31, 2012

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2012-1

CONDITION – MATERIAL WEAKNESS

During our audit, we noted discrepancies in financial information that required us to make journal entries to adjust the financial statements to their correct balance as of December 31, 2012

CAUSE

Reconciliations were not prepared prior to the audit so that balances in accounts were adjusted to their correct amounts

EFFECT

As a result of the condition noted above, inaccurate financial statements may be produced

RECOMMENDATION

We recommend that the Organization implement procedures that will allow the Organization's employees to prepare accurate financial statements

MANAGEMENT'S RESPONSE

See Management's Corrective Action Plan

2012-2

CONDITION – SIGNIFICANT DEFICIENCY

During our audit, we noted that Jericho Road Episcopal Housing Initiative, L L C does not have the procedures in place to prepare the financial statements, including the year-end adjusting journal entries and notes to the financial statements

CAUSE

As is common in small organizations, the Organization has limited staff

EFFECT

The lack of a complete GAAP financial reporting package could prevent those charged with governance from identifying misstatements in a timely manner which could result in misstated or incomplete financial statements

RECOMMENDATION

We recommend the Organization implement procedures that will allow the Organization's employees to prepare the annual financial statements, year-end adjusting journal entries and notes to the financial statements

MANAGEMENT'S RESPONSE

See Management's Corrective Action Plan

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs were reported during the audit for the year ended December 31, 2012

SECTION IV – MANAGEMENT LETTER COMMENTS

A management letter of comments was issued for the audit for the year ended December 31, 2012.

JERICHO ROAD
EPISCOPAL HOUSING INITIATIVE

To Kushner LaGraize, L L C

From Jericho Road Episcopal Housing Initiative, L.L C

Date June 19, 2013

Subject Management's Corrective Action Plan

As part of the 2012 audit of Jericho Road Episcopal Housing Initiative, L L C , Kushner LaGraize, L L C provided a Schedule of Findings and Questioned Costs within their overall Independent Auditors' Report Listed below are the findings, recommendations, as well as our responses as to how we plan to strengthen internal controls to address the findings

<u>2012-1</u>

Finding	During our audit, we noted discrepancies in financial information that required us to make journal entries to adjust the financial statements to their correct balance as of December 31, 2012
Recommendation	We recommend that the Organization implement procedures that will allow the Organization's employees to prepare accurate financial statements
Response	Jericho Road Episcopal Housing Initiative, L L C has already implemented new procedures and we will continue to add new controls as needed to reduce and/or eliminate the need for adjustments

<u>2012-2</u>

Finding	During our audit, we noted that Jericho Road Episcopal Housing Initiative, L.L C does not have the procedures in place to prepare the financial statements, including the year-end adjusting journal entries and notes to the financial statements The lack of a complete GAAP financial reporting package prepared by the Organization could prevent those charged with governance from identifying misstatements in a timely manner which could result in misstated or incomplete financial statements
Recommendation	We recommend the Organization put procedures in place that will allow the Organization's employees to prepare the annual financial statements, year-end adjusting journal entries and notes to the financial statements
Response	Jericho Road Episcopal Housing Initiative, L.L C has already put procedures into place by adding staff and hiring a consultant to prepare annual financial statements, year-end adjusting journal entries and notes to the financial statements We will continue to add new procedures as needed to ensure the timely preparation of financial statements, including the year-end adjusting journal entries and notes to the financial statements

JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended December 31, 2012

SECTION V – FINANCIAL STATEMENT FINDINGS – PRIOR YEAR

2011-1

FINDING – MATERIAL WEAKNESS

There is a lack of segregation of duties over the cash receipts function. Specifically, the Director of Operations and Communications receives all cash receipts and submits them to an assistant who logs the receipt of the cash. The cash receipts are then returned directly to the Director of Operations and Communications who prepares the deposit slips, records the cash receipts in the general ledger and deposits the cash receipts at the bank

This finding has been cleared

2011-2

FINDING – SIGNIFICANT DEFICIENCY

During our audit, we noted that Jericho Road Episcopal Housing Initiative, L.L C. does not have the procedures in place to prepare the financial statements, including the year-end adjusting journal entries and notes to the financial statements The lack of a complete GAAP financial reporting package could prevent those charged with governance from identifying misstatements in a timely manner which could result in misstated or incomplete financial statements

This finding is repeated in the current year as Finding 2012-2

Kushner LaGraize, L.L.C

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June 19, 2013

Ms Nicole Barnes, Executive Director
Jericho Road Episcopal Housing Initiative, L.L.C.
New Orleans, Louisiana

In planning and performing our audit of the financial statements of Jericho Road Episcopal Housing Initiative, L.L C (the Organization), for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the internal controls of the Organization as a basis for designing our audit procedures 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

However, during the audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration.

CASH

1. ***Observation***

While conducting the audit of cash at December 31, 2012, we noted that the operating bank reconciliation did not agree to the general ledger.

Recommendation

Reconciling bank transactions with book transactions is a very important internal control procedure and should be performed each month. In addition, any book entries that are identified as part of the reconciliation should be recorded timely so that the general ledger balance agrees to the reconciled book balance.

Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances are incorporated into the Organization's procedures. We recommend that the bank accounts be reconciled monthly and the general ledger be adjusted accordingly, and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.

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ACCOUNTS PAYABLE

2. *Observation*

During our search for unrecorded liabilities, we noted one exception in which an invoice relating to services performed prior to year-end was not recorded as an accounts payable in the proper period.

Recommendation

Proper cutoffs are critical for the accuracy of the accrual basis of accounting. We recommend that the Organization implement controls to be included as a part of the Organization's accounting policies and procedures which indicate basic concepts of proper cutoffs and the individuals responsible for accruing payables at the end of each accounting period

INSURANCE

3. *Observation*

During our audit, we noted that the Organization carries no bonding insurance for those employees involved with the handling of checks &/or cash. Bonding coverage protects an organization from loss due to theft or embezzlement. We recommend that the Organization contact its insurance agent and consider obtaining bonding insurance Bonding insurance is considered to be a critical element of a strong system of internal controls The following types of coverage are available:

- *Scheduled bond* Used where the employer needs to cover only named employees
- *Blanket bond* Covers all employees, including automatic coverage for new employees
- *Position bond* Covers specific positions rather than certain named employees

Recommendation

We recommend that the Organization consider obtaining one of these insurance policies

GENERAL LEDGER

4. *Observation*

During our analysis of the accounting system, we noted the existing chart of accounts is not prepared on a functional or cost center basis

Recommendation

A chart of accounts can be designed to group expenses by functional area while retaining its expense classification. For example, a general ledger maintained in this fashion would detail the amount of travel expenses within each functional or program area. It is critical for an organization such as Jericho Road Episcopal Housing Initiative, L.L.C. to be able to evaluate financial results on a functional basis to monitor the success of its programs or activities. We strongly recommend that the chart of accounts be modified in this way to allow for the results of operations of each functional area or cost center to be determined. Management decisions are based on this type of financial data and inaccurate information will lead to poor stewardship of the Organization.

PAYROLL

5. *Observation*

During our audit fieldwork, we noted several variances between the payroll expense recorded on the annual Spectrum (payroll provider) Report, the annual W-3 Report, and the quarterly 941 Reports

Recommendation

We recommend that the Organization implement a process to ensure that payroll expense is appropriately reflected in the annual Spectrum (payroll provider) Report, the annual W-3 Report, and the quarterly 941 Reports.

CONCLUSION

Our objective in performing the audit was not to conclude on your internal control system Because of the inherent limitations in any internal controls, errors or fraud may nevertheless occur and not be detected Also, projection of any assessment of the internal controls to future periods is subject to the risk that policies or procedures may become inadequate because of

Ms. Nicole Barnes, Executive Director
Jericho Road Episcopal Housing Initiative, L.L C
June 19, 2013
Page 4

changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

This report is intended solely for your use and should not be used for any other purpose

We will be pleased to discuss the above comments with you and, if you desire, to assist you in implementing any of the recommendations

Sincerely,

Kushner LaGraize L.L.C.

JERICHO ROAD
EPISCOPAL HOUSING INITIATIVE

To Kushner LaGraize, L L C

From Jericho Road Episcopal Housing Initiative, L L C

Subject Management's Plan to Correct Matters Noted

As part of the 2012 audit of Jericho Road Episcopal Housing Initiative, L L C , Kushner LaGraize, L L C provided certain matters involving internal controls and other operational matters for Jericho Road's consideration Listed below are the items for consideration as well as our responses as to how we plan to strengthen internal controls

<u>2012-1</u>

Observation	While conducting the audit of cash at December 31, 2012, we noted that the operating bank reconciliation did not agree to the general ledger
Response	Jericho Road Episcopal Housing Initiative L L C recognizes this observation and has already implemented new procedures and we will continue to add new controls as needed to reduce and/or eliminate this observation

<u>2012-2</u>

Observation	During our search for unrecorded liabilities, we noted one exception in which an invoice relating to services performed prior to year-end was not recorded as an accounts payable in the proper period
Response	Jericho Road Episcopal Housing Initiative L L C recognizes this observation and has already implemented new procedures and we will continue to add new controls as needed to reduce and/or eliminate this observation

<u>2012-3</u>

Observation	During our audit, we noted that the Organization carries no bonding insurance for those employees involved with the handling of checks &/or cash
Response	Jericho Road Episcopal Housing Initiative L L C recognizes this observation and is considering new controls as needed to reduce and/or eliminate this observation

<u>2012-4</u>

Observation	During our analysis of the accounting system, we noted the existing chart of accounts is not prepared on a functional or cost center basis
Response	Jericho Road Episcopal Housing Initiative L L C recognizes this observation and has already implemented new procedures and we will continue to add new controls as needed to reduce and/or eliminate this observation

<u>2012-5</u>

Observation	During our audit fieldwork, we noted several variances between the payroll expense recorded on the annual Spectrum (payroll provider) Report, the annual W-3 Report, and the quarterly 941 Reports

Response Jericho Road Episcopal Housing Initiative L L C concurs and has already implemented new procedures and we will continue to add new controls as needed to reduce and/or eliminate this observation