

This report is intended for the information of the Board of Directors and management. However, this report is a matter of public record, and its distribution is not limited.

*Darnall, Sikes, Kolder, Frederick & Rainey*

A Corporation of Certified Public Accountants

Lafayette, Louisiana  
July 10, 1996

Follow-up:

Prior to the completion of the prior audit, the majority of these recommendations had already been achieved and during the current audit, none of these situations were noted.

Interfund Loans

Finding:

During 1995, numerous errors were made in depositing loan payments and monies collected at loan closings. Also, NHS did not always transfer monies to the construction escrow account before disbursing out of the construction escrow account for rehab. These problems resulted in the large interfund loan balances at the end of the year.

Recommendation:

Interfund loans should be repaid and controls established to ensure that deposits are made in the proper funds and that monies are transferred to an account before that account disburses any monies.

Follow-up:

The majority of the interfund loan balances were reimbursed to the respective fund during the current year, however several of the balances still exist and the recommendation will be made again in the current year.

Loans sold to NHSA

Finding:

There are no controls in place to ensure that the monthly collections made by NHS for loans sold to NHSA agree to the monthly remittances to NHSA. Also, the loan balances reported by NHSA do not agree to NHS's records.

Recommendation:

The differences between NHS and NHSA's records need to be resolved. In addition, each month the remittance amount should be reconciled to the previous month's total collections prior to being submitted to NHSA, and NHS should reconcile their allocation of principle and interest to NHSA's allocation.

Follow-up:

NHS has since put measures in place to ensure that the records agree. They have been working to reconcile their records to those of NHSA and adjust the loan ledgers accordingly. An improvement has been noted however, several discrepancies still exist and the finding will be noted again in the current audit report.

# DARNALL, SIKES, KOLDER, FREDERICK & RAINEY

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS

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To the Board of Directors  
Neighborhood Housing Services  
of Lafayette, Louisiana, Inc.  
Lafayette, Louisiana

We have audited the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a nonprofit organization) as of and for the year ended April 30, 1996, and have issued our report thereon dated July 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit for the year ended April 30, 1996, we considered Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s financial statements and to report on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal award programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated July 10, 1996.

The management of Neighborhood Housing Services of Lafayette, Louisiana, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of

financial statements in accordance with generally accepted accounting principles, and that federal awards programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal programs in the following categories:

Accounting Controls

Cash

Support, revenue and receivables  
Expenses for goods and services and accounts payable  
Payroll and related liabilities

Administrative Controls

<u>General Requirements</u>	<u>Specific Requirements</u>
Political activity Civil rights Cash management Federal financial reports Drug-Free Workplace Act Allowable costs/cost principles Administrative Requirements	Types of services allowed or not allowed Federal financial reports and claims for advances and reimbursements Eligibility

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended April 30, 1996, Neighborhood Housing Services of Lafayette, Louisiana, Inc. had no major programs and expended 55% of its total federal awards under the following nonmajor program:

Department of Housing and Urban Development:  
Community Development Block Grant

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we have considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect NHS's ability to administer federal awards programs in accordance with applicable laws and regulations.

#### Interfund Loans

##### Finding:

As noted in the previous audit report, several interfund loans exist at year end due to numerous errors made in depositing loan payments and monies collected at loan closings in the prior years.

##### Recommendation:

Interfund loans should be repaid to the respective loan funds.

##### Response:

Interfund loan balances will be repaid during the current fiscal year.

#### Loans Sold to NHSA

##### Finding:

As noted in the previous audit report, loan balances reported by NHSA do not agree to NHS's records.

##### Recommendation:

NHS should implement procedures to ensure that the individual loan balances as reported by NHSA equal the loan ledgers maintained by NHS.

##### Response:

NHS has determined the reason for the discrepancies is due to the allocation of principal and interest for each loan payment. They are in the process of reconciling the amounts and notifying the clients of the correct loan balances due.

### Escrow Balances

#### Finding:

In reviewing the loan ledgers, it was noted that discrepancies exist in the escrow amounts for each loan. The total escrow amounts per the subsidiary do not equal the liability on the general ledger and NHS has not been able to verify that the escrow amounts for each loan is adequate.

#### Recommendation:

NHS needs to continue researching the escrow balances on each individual loan ledger and amend the escrow agreements with the clients as determined to be necessary to ensure that the proper amount is being escrowed for the payment of taxes and insurance.

#### Response:

Management has implementated procedures to verify that the escrow agreements are accurate and that the proper amounts are being escrowed. The client has been working on reviewing the current loans to verify the escrow amounts, however, this is a long process and due to few employees, a time consuming process.

### Loan Subsidiary Ledgers

#### Finding:

It was noted that the loan subsidiary ledger does not agree to the general ledger. This is due to corrections being made to the subsidiary for errors in posting principal and interest that are not being made to the general ledger.

#### Recommendation:

Any time an error in posting to the cash receipts journal is noted that affects the loan balances, the correction being made on the loan ledger should be made to the general ledger also.

#### Response:

The client has put procedures in place to verify the principal and interest breakdowns posted to the cash receipts journal are accurate thereby eliminating differences between the general ledger and the subsidiary ledger.

### Loan File Documentation

#### Finding:

While reviewing the noncurrent loan files, it was noted that several of the files lacked the proper documentation as set forth in the loan policy.

Recommendation:

The client should implement procedures to verify that all necessary documents are in the loan files prior to closing the loan. Also, management should continue efforts to get the proper documentation in all the loan files.

Response:

Procedures have been implemented, including checklists put in the loan files, to verify that all necessary documentation is present prior to closing the loan.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal award program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above are material weaknesses.

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Lafayette, Louisiana  
July 10, 1996

Response:

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In reviewing the loan ledgers, it was noted that discrepancies exist in the escrow amounts for each loan. The total escrow amounts per the subsidiary do not equal the liability on the general ledger and NHS has not been able to verify that the escrow amounts for each loan is adequate.

Recommendation:

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Response:

Management has implemented procedures to verify that the escrow agreements are accurate and that the proper amounts are being escrowed. The client has been working on reviewing the current loans to verify the escrow amounts, however, this is a long process and due to few employees, a time consuming process.

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Recommendation:

Any time an error in posting to the cash receipts journal is noted that affects the loan balances, the correction being made on the loan ledger should be made to the general ledger also.

Response:

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL AWARDS PROGRAMS

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To the Board of Directors  
Neighborhood Housing Services  
of Lafayette, Louisiana, Inc.  
Lafayette, Louisiana

We have audited the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a nonprofit organization) as of and for the year ended April 30, 1996, and have issued our report thereon dated July 10, 1996.

We have applied procedures to test Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s compliance with the following requirements applicable to its federal programs, which are identified in the accompanying Schedule of Federal Awards, for the year ended June 30, 1996:

Political activity  
Civil rights  
Cash management  
Federal financial reports  
Allowable costs/cost principles  
Drug-Free Workplace Act  
Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's "Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions". Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on NHS's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that Neighborhood Housing Services of Lafayette, Louisiana, Inc. had not complied, in all material respects, with those requirements. Also, the results of our procedures did not disclose any immaterial instances of noncompliance with those requirements.

In planning and performing our audit of the financial statements of the Neighborhood Housing Services of Lafayette, Louisiana, Inc., for the year ended April 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statements.

#### Interfund Loans

##### Finding:

As noted in the previous audit report, several interfund loans exist at year end due to numerous errors made in depositing loan payments and monies collected at loan closings in the prior years.

##### Recommendation:

Interfund loans should be repaid to the respective loan funds.

##### Response:

Interfund loan balances will be repaid during the current fiscal year.

#### Loans Sold to NHTSA

##### Finding:

As noted in the previous audit report, loan balances reported by NHTSA do not agree to NHS's records.

##### Recommendation:

NHS should implement procedures to ensure that the individual loan balances as reported by NHTSA equal the loan ledgers maintained by NHS.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL AWARD PROGRAM TRANSACTIONS

To the Board of Directors  
Neighborhood Housing Services  
of Lafayette, Louisiana, Inc.  
Lafayette, Louisiana

We have audited the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a nonprofit organization) as of and for the year ended April 30, 1996, and have issued our report thereon dated July 10, 1996.

In connection with our audit of the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. and with our consideration of NHS's internal control structure used to administer federal programs, as required by Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions", we selected certain transactions applicable to certain nonmajor federal programs for the year ended April 30, 1996. As required by OMB Circular A-133, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; federal financial reports; and claims for advances and reimbursements that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on NHS's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Neighborhood Housing Services of Lafayette, Louisiana, Inc. had not complied, in all material respects, with those requirements. Also, the results of our procedures did not disclose any immaterial instances of noncompliance with those requirements.

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Lafayette, Louisiana  
July 10, 1996

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## INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF FEDERAL AWARDS

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To the Board of Directors  
Neighborhood Housing Services  
of Lafayette, Louisiana, Inc.  
Lafayette, Louisiana

We have audited the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a nonprofit organization) as of and for the year ended April 30, 1996, and have issued our report thereon dated July 10, 1996. These financial statements are the responsibility of NHS's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*Darnall, Sikes, Kolder, Frederick & Rainey*

A Corporation of Certified Public Accountants

Lafayette, Louisiana  
July 10, 1996

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Schedule of Federal Awards  
Year Ended April 30, 1996

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>Federal Assistance Programs</u>			
United States Department of Housing and Urban Development: Passed through the City of Lafayette - Community Development Block Grant - Entitlement	14.218	\$ 74,337	\$ 74,337
United States Congress: Passed through Neighborhood Reinvestment Corporation	N/A	<u>60,000</u>	<u>60,000</u>
		<u>\$134,337</u>	<u>\$134,337</u>

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Schedule of Findings and Questioned Costs  
Year Ended April 30, 1996

There were no findings and questioned costs for the year ended April 30, 1996, except as noted on pages 19-21.

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Follow-up on Prior Year Findings  
Year Ended April 30, 1996

The following are findings included in the report on internal controls for the year ended April 30, 1995:

Payroll taxes

Finding:

Inadequate controls over the preparation of the quarterly 941 payroll tax returns resulting in overpayment of payroll taxes for all four quarters of the 1995 fiscal year.

Recommendation:

Establish procedures to ensure that payroll tax deposits are properly and promptly paid, and that payroll tax returns are prepared accurately based on actual withholdings of income taxes, social security and Medicare taxes and that the employer's portion of the taxes agree to the employee contributions for social security and Medicare.

Follow-up:

Controls have been established to ensure that all payroll tax returns are prepared accurately and no exceptions were noted during the current fiscal year end audit.

Construction Ledgers

Finding:

A lack of controls over the preparation and maintenance of construction ledgers was noted and numerous errors were noted during the audit, including over disbursing loan proceeds.

Recommendation:

NHS needs to determine and pay liabilities to contractors, determine the amount of funds collected in excess of rehab costs and determine the manner in which the excess funds are to be applied, increase the loan amount on the note for the excess disbursement and amend all applicable documents, and establish procedures to ensure that in the future the ledgers are properly maintained and accurate.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Lafayette, Louisiana

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We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Neighborhood Housing Services of Lafayette, Louisiana, Inc. is the responsibility of the Organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Organization's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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A Corporation of Certified Public Accountants

Lafayette, Louisiana  
July 10, 1996



NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements (Continued)

F. Fund Accounting

To insure observance of limitations and restrictions placed on the use of resources available to the Corporation, the accounts of the Corporation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund.

The assets, liabilities, and net assets of Neighborhood Housing Services of Lafayette, Louisiana, Inc. are reported in four self-balancing fund groups as follows:

Operating Fund

The Operating Fund includes unrestricted and restricted resources of expendable funds that are available for support of program operations.

Community Development Block Grant Revolving Loan Fund

The CDBG Revolving Loan Fund represents funds received from the United States Department of Housing and Urban Development for the purpose of improving housing stock in the City of Lafayette by means of low and/or no interest loans to residents for housing rehabilitation.

Neighborhood Reinvestment Corporation Revolving Loan Fund

The NRC Revolving Loan Fund is used to account for funds received from the Neighborhood Reinvestment Corporation for purposes of making loans to homeowners wanting to improve their homes but who cannot be served by local financial institutions and making loans to low and moderate income individuals to facilitate the purchase of affordable housing for occupancy.

H.O.M.E. Revolving Loan Fund

The H.O.M.E. Revolving Loan Fund is used to account for funds received from the United States Department of Housing and Urban Development through the City of Lafayette, Louisiana to provide

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**NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.**

Financial Report

Year Ended April 30, 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.  
Release Date OCT 09 1996

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# DARNALL, SIKES, KOLDER, FREDERICK & RAINEY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Neighborhood Housing Services  
of Lafayette, Louisiana, Inc.  
Lafayette, Louisiana

We have audited the accompanying statement of financial position of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a nonprofit organization) as of April 30, 1996, and the related statements of support, revenue and expenses and changes in fund balance; and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Housing Services of Lafayette, Louisiana, Inc. as of April 30, 1996 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated July 10, 1996 on our consideration of Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s internal control structure and a report dated July 10, 1996 on Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s compliance with laws and regulations.

*Darnall, Sikes, Kolder, Frederick & Rainey*

A Corporation of Certified Public Accountants

Lafayette, Louisiana  
July 10, 1996

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Statement of Financial Position  
April 30, 1996

	Operating Fund	CDBG Revolving Loan Fund	NRC Revolving Loan Fund	H.O.M.E. Revolving Loan Fund	Totals Memorandum Only
<b>ASSETS</b>					
<b>CASH</b>					
Unrestricted	\$35,001	\$ -	\$ -	\$ -	\$ 35,001
Restricted	19,178	71,610	78,780	24,557	194,125
Interest-bearing deposits	-	6,311	-	-	6,311
Due from the City of Lafayette	11,895	-	-	-	11,895
Prepaid insurance	1,867	-	-	-	1,867
Loans receivable, net	-	247,210	112,643	122,385	482,238
Land	145	-	-	-	145
Equipment, net of accumulated depreciation	2,858	-	-	-	2,858
Building, net of accumulated depreciation	-	25,297	-	-	25,297
Other receivables	4,170	-	-	-	4,170
Due from other funds					
Unrestricted	<u>2,890</u>	<u>-</u>	<u>-</u>	<u>25,258</u>	<u>28,148</u>
<b>TOTAL ASSETS</b>	<b>\$78,004</b>	<b>\$350,428</b>	<b>\$191,423</b>	<b>\$172,200</b>	<b>\$792,055</b>
	=====	=====	=====	=====	=====
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES (PAYABLE FROM CURRENT ASSETS)</b>					
Accounts payable and accrued liabilities	\$10,386	\$ -	\$ -	\$ -	\$ 10,386
Due to other funds	-	27,255	576	317	28,148
Other liabilities	-	38	4	-	42
	<u>10,386</u>	<u>27,293</u>	<u>580</u>	<u>317</u>	<u>38,576</u>
<b>LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</b>					
Tax and insurance payable	4,946	-	-	-	4,946
Loan collections due to others	7,750	-	-	-	7,750
Undisbursed loan proceeds	10,129	-	-	-	10,129
	<u>22,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,825</u>
<b>Total liabilities</b>	<b>33,211</b>	<b>27,293</b>	<b>580</b>	<b>317</b>	<b>61,401</b>
<b>FUND BALANCES</b>					
Reserved	-	323,135	183,265	171,883	678,283
Unreserved	44,793	-	7,578	-	52,371
<b>Total fund balances</b>	<b>44,793</b>	<b>323,135</b>	<b>190,843</b>	<b>171,883</b>	<b>730,654</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$78,004</b>	<b>\$350,428</b>	<b>\$191,423</b>	<b>\$172,200</b>	<b>\$792,055</b>
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of this statement.

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Statement of Support, Revenue and Expenses and Changes in Fund Balances  
Year Ended April 30, 1996

	Operating Fund	CDBG Revolving Loan Fund	NRC Revolving Loan Fund	H.O.M.E. Revolving Loan Fund	Totals Memorandum Only
<b>SUPPORT</b>					
Passed through federal funds:					
City of Lafayette	\$ 74,337	\$ -	\$ -	\$ -	\$ 74,337
Other	25,000	-	35,000	-	60,000
Contributions	2,000	-	-	-	2,000
	<u>101,337</u>	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>136,337</u>
<b>REVENUE</b>					
Interest	-	10,141	3,848	9,762	23,751
Gain on sale of purchased rehabilitation	-	552	-	-	552
Other	3,991	930	385	75	5,381
	<u>3,991</u>	<u>11,623</u>	<u>4,233</u>	<u>9,837</u>	<u>29,684</u>
 Total support and revenue	 <u>105,328</u>	 <u>11,623</u>	 <u>39,233</u>	 <u>9,837</u>	 <u>166,021</u>
<b>EXPENSES</b>					
Personnel cost	56,756	-	-	-	56,756
Accounting and auditing	20,582	-	-	-	20,582
Bad debts	-	19,898	7,668	1,753	29,319
Contractual services	1,220	-	-	-	1,220
Depreciation	929	2,331	-	-	3,260
Insurance	3,115	-	-	-	3,115
Telephone and utilities	4,999	-	-	-	4,999
Office supplies	6,729	-	-	-	6,729
Travel and seminars	4,209	-	-	-	4,209
Maintenance	992	-	-	-	992
Rent	1,730	-	-	-	1,730
Other	2,649	-	22	-	2,671
Total expenses	<u>103,910</u>	<u>22,229</u>	<u>7,690</u>	<u>1,753</u>	<u>135,582</u>
 Excess (deficiency) of support and revenue over expenses	 (1,418)	 (10,606)	 31,543	 8,084	 30,439
 FUND BALANCES, beginning	 23,348	 339,691	 172,478	 164,698	 700,215
Transfers from other funds	20,027	-	-	-	20,027
Transfers to other funds	<u>-</u>	<u>(5,950)</u>	<u>(13,178)</u>	<u>(899)</u>	<u>(20,027)</u>
 FUND BALANCES, ending	 \$ 44,793 =====	 \$323,135 =====	 \$190,843 =====	 \$171,883 =====	 \$730,654 =====

The accompanying notes are an integral part of this statement.

Loan File Documentation

Finding:

While reviewing the noncurrent loan files, it was noted that several of the files lacked the proper documentation as set forth in the loan policy.

Recommendation:

The client should implement procedures to verify that all necessary documents are in the loan files prior to closing the loan. Also, management should continue efforts to get the proper documentation in all the loan files.

Response:

Procedures have been implemented, including checklists put in the loan files, to verify that all necessary documentation is present prior to closing the loan.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the reportable conditions described above are material weaknesses.

This report is intended for the information of the Board of Directors and management. However, this report is a matter of public record, and its distribution is not limited.

*Darnall, Sikes, Kolder, Frederick & Rainey*

A Corporation of Certified Public Accountants

Lafayette, Louisiana  
July 10, 1996



NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Nature of Activities

Neighborhood Housing Services of Lafayette, Louisiana, Inc. (NHS) was incorporated on July 14, 1982 as a non-profit corporation. NHS's primary function is to provide low interest loans to low and moderate income homeowners in the target area. These loans are made from loan funds established through grants from the United States Department of Housing and Urban Development Community Development Block Grant (CDBG) and H.O.M.E. Investment Partnership Program through the City of Lafayette, the main grantee, and grants from the Neighborhood Reinvestment Corporation (NRC).

B. Vacation and Sick Leave

The Corporation's policy is to allow full time employees to carry forward 30 days of unused sick leave and no unused annual leave. Annual and sick leave is computed on a per pay period basis and is not payable upon separation from the Corporation.

C. Fixed Assets

Fixed assets consist of land, buildings and equipment which are valued at cost, or fair market value in the case of donated property. Depreciable assets are depreciated using the straight-line method over the estimated useful lives of the individual assets as follows:

Building	20 years
Furniture and equipment	5 - 7 years

D. Income Tax Status

The Organization qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes.

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at April 30, 1996.

## Escrow Balances

### Finding:

The aggregate balances on the loan ledgers relating to escrow amounts is more than the liability recorded on the general ledger. Several disbursements made on behalf of the borrower for taxes and/or insurance payments were not posted to the individual loan ledgers. Also noted were that prior year escrow balances were not always carried over to the current year ledger. This problem makes it difficult, if not impossible, to determine if individual borrowers have deficit escrow balances.

### Recommendation:

Each loan ledger should be researched, to the inception of the loan if necessary, to ensure that all payments made are properly reflected on the ledger. In addition, the liability on the general ledger should be reconciled to the individual loan ledgers on a monthly basis. Based on the results of this undertaking, individual borrower escrow payments may require adjustments to overcome any deficiencies in escrow accounts detected.

### Follow-up:

Specific procedures have been established to ensure that ledgers are properly maintained and accurate in the future. NHS is currently in the process of researching each loan ledger and escrow agreement to determine if the agreement should be modified. They are also currently trying to reconcile the escrow liability on the general ledger to the total per the loan ledgers. The improvement was noticed during the current audit, however discrepancies still exist and the finding will be noted again in the current year.

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements (Continued)

affordable housing to first-time home buyers in accordance with the provisions and regulations of the Crantston-Gonzales National Affordable Housing Act of 1990.

G. Undisbursed Loan Proceeds

Some of the loans made by NHS are to enable the homeowner to perform rehabilitation work to their home. On the date that this type of loan is made by NHS, the applicable loan fund transfers the loan proceeds to an escrow cash account in the operating fund. A contract is entered into with a contractor for the rehabilitation work, and as work is performed, NHS disburses the funds. The amount of loan proceeds transferred to the operating fund and undisbursed at year end is reported as a liability in the operating fund.

H. Restricted Assets

Escrow cash accounts are classified as restricted assets on the statement of financial position because they represent escrow payments by borrowers for property taxes and homeowners insurance, collections of principal and interest payments collected on behalf of others and undisbursed loan proceeds. An offsetting liability is reported for the future disbursement of the collected funds and undisbursed advance payments of taxes and insurance.

I. Transfers and Interfund Loans

Advances between funds which are not expected to be repaid are accounted for as transfers. In those cases where repayment is expected, the advances are classified as due from other funds or due to other funds on the statement of financial position. Short-term Interfund loans are classified as Interfund receivables and payables.

J. Loans, Allowance for Loan Losses and Interest Income

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is calculated and accrued by using the simple interest method on monthly balances of the principal amount outstanding.

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements (Continued)

of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may effect the borrowers' ability to pay.

K. Totals Columns

Totals columns on the statements are captioned "Memorandum Only" to indicate that they are presented only to help with financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Loans Receivable

The loans receivable are comprised of loans to homeowners in a specific geographical area who desired to improve their homes or purchase homes, but were unable to obtain financing at a conventional financial institution and are stated at the principal amounts outstanding at the financial statement date. The following summary reflects activities in the loan accounts for the various funds for the year ending April 30, 1996:

	<u>CDBG</u>	<u>NRC</u>	<u>H.O.M.E.</u>
Balance, beginning of year	\$251,648	\$123,755	\$155,452
Loans made during the year	46,924	2,903	-
Payments received during the year	(28,400)	(6,347)	(1,885)
Loans sold to NHSA	(3,063)	-	(29,429)
Balance, end of year	<u>267,109</u>	<u>120,311</u>	<u>124,138</u>
Less: Allowance for loan losses	<u>(19,899)</u>	<u>(7,668)</u>	<u>(1,753)</u>
Loans, net	<u>\$247,210</u>	<u>\$112,643</u>	<u>\$122,385</u>

Transactions in the allowance for loan losses for the year were as follows:

Balance, beginning of year	\$ -	\$ -	\$ -
Provision charged to operations	19,899	7,668	1,753
Loans charged off	-	-	-
Recoveries	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$19,899</u>	<u>\$7,668</u>	<u>\$1,753</u>

Management is of the opinion that the Allowance for Loan Losses account at April 30, 1996, is sufficient to cover any possible loan losses.

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements (Continued)

(3) Loans Serviced for Others

NHS and Neighborhood Housing Services of America, Inc. (NHTA) have entered into a purchase service contract agreement whereby NHS is paid the principal amount of the loan balance at the time of the purchase and a monthly commission of .03125% of the outstanding balance of the loan for servicing the loan. Should any of these loans become over 90 days delinquent, NHS must repurchase the delinquent loan or replace it with another acceptable loan or loans. The total balance of such loans at April 30, 1996 is \$377,385.

Since 1988, NHS has sold loans to Neighborhood Housing Services of America, Inc. as follows:

1988	\$ 87,447
1989	130,430
1990	-
1991	118,883
1992	82,140
1993	-
1994	-
1995	98,884
1996	<u>32,492</u>
	<u>\$550,276</u>

(4) Building and Equipment

Building and equipment consist of the following:

Land	\$ 145
Building	46,615
Equipment	<u>5,292</u>
	52,052
Less: Accumulated depreciation	<u>23,752</u>
	<u>\$28,300</u>

(5) Concentration of Credit Risk

At year end, the Corporation had cash balances in a financial institution which exceeded the limits set forth by the Federal Deposit Insurance Coverage.

NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements (Continued)

(6) Interfund Receivables, Payables

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Operating Fund	\$ 2,890	\$ -
CDBG Fund	-	27,255
H.O.M.E. Fund	25,258	317
NRC Fund	-	<u>576</u>
	<u>\$28,148</u>	<u>\$28,148</u>

INTERNAL CONTROL, COMPLIANCE  
AND  
OTHER GRANT INFORMATION

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Neighborhood Housing Services  
of Lafayette, Louisiana, Inc.  
Lafayette, Louisiana

We have audited the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a nonprofit organization) as of and for the year ended April 30, 1996, and have issued our report thereon dated July 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Neighborhood Housing Services of Lafayette, Louisiana, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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NEIGHBORHOOD HOUSING SERVICES  
OF LAFAYETTE, LOUISIANA, INC.

Statement of Cash Flows  
Year Ended April 30, 1996

	Operating Fund	CDBG Revolving Loan Fund	NRC Revolving Loan Fund	H.O.M.E. Revolving Loan Fund	Totals Memorandum Only
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Excess (deficiency) of support and revenue over expenses	\$ 1,418	\$(10,606)	\$ 31,543	\$ 8,084	\$ 30,439
Adjustments to reconcile excess (deficiency) of support and revenue over expenses to net cash provided by operating activities:					
Depreciation	929	2,331	-	-	3,260
Bad debts	-	19,898	7,668	1,753	29,319
Gain on sale of purchased rehabilitation	-	(552)	-	-	(552)
Other	20,027	(5,950)	(13,178)	(899)	-
(Increase) decrease in operating assets -					
Due from City of Lafayette	(4,367)	-	-	-	(4,367)
Prepaid insurance	(1,867)	-	-	-	(1,867)
Other receivables	(704)	1,010	-	-	306
Due from other funds	45,696	17,369	22,259	(23,951)	61,373
Increase (decrease) in liabilities -					
Accounts payable and accrued liabilities	(4,708)	-	-	-	(4,708)
Due to other funds	(22,259)	(5,839)	(2,637)	(30,638)	(61,373)
Other liabilities	(27,140)	1	1	-	(27,138)
Net cash provided by operating activities	<u>7,025</u>	<u>17,662</u>	<u>45,656</u>	<u>(45,651)</u>	<u>24,692</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Loans issued	-	(46,371)	(2,903)	-	(49,274)
Loan payments received	-	28,400	6,347	1,885	36,632
Sale of loans	-	3,063	-	29,429	32,492
Net cash provided (used) by investing activities	<u>-</u>	<u>(14,908)</u>	<u>3,444</u>	<u>31,314</u>	<u>19,850</u>
Net increase (decrease) in cash	7,025	2,754	49,100	(14,337)	44,542
CASH, beginning	<u>47,154</u>	<u>75,167</u>	<u>29,680</u>	<u>38,894</u>	<u>190,895</u>
CASH, ending	<u>\$ 54,179</u>	<u>\$ 77,921</u>	<u>\$ 78,780</u>	<u>\$ 24,557</u>	<u>\$235,437</u>

The accompanying notes are an integral part of this statement.