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**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**

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**FINANCIAL AND COMPLIANCE AUDIT**

**TOGETHER WITH**

**INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 1995**

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

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**& Tervalon**

MICHAEL B. BRUNO, CPA  
ALCIDE J. TERVALON, JR., CPA  
WÁLDO J. MORET, JR., CPA

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Neighborhood Housing Services  
of New Orleans, Inc.

We have audited the financial statements of the Neighborhood Housing Services of New Orleans, Inc. (NHSNO—a nonprofit organization) as of and for the year ended December 31, 1995, as listed in the accompanying table of contents. These financial statements are the responsibility of the management OF NHSNO. 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 Audit 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 Organizations". Those standards and the provisions of 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 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 the Neighborhood Housing Services of New Orleans, Inc. as of December 31, 1995 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

**INDEPENDENT AUDITORS' REPORT**  
**(CONTINUED)**

To the Board of Directors  
Neighborhood Housing Services  
of New Orleans, Inc.  
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated May 28, 1996 on our consideration of Neighborhood Housing Services of New Orleans, Inc.'s internal control structure and a report dated May 28, 1996 on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements and the schedules listed in the accompanying table of contents are presented for purpose of additional analysis and are not a required part of the financial statements of Neighborhood Housing Services of New Orleans, Inc. Such information 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.

*Bruno & Tervalon*

**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

May 28, 1996

**Bruno**

CERTIFIED PUBLIC ACCOUNTANTS

**& Tervalon**

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
 COMBINED BALANCE SHEET  
 DECEMBER 31, 1995

	<u>GENERAL FUND</u>	<u>RESTRICTED FUNDS (SCHEDULE I)</u>	<u>ESCROW FUND</u>	<u>TOTAL FUNDS (MEMORANDUM ONLY-NOTE 2)</u>
ASSETS:				
Cash	\$ 50,424	\$ 405,167	\$198,114	\$ 653,705
Due from other funds (NOTE 2)	53,618	42,552	12,714	108,884
Mortgage loans receivable (NOTES 2 and 4)	-0-	1,785,496	-0-	1,785,496
Allowance for uncollectible loans (NOTES 2 and 4)	-0-	(108,441)	-0-	(108,441)
Net property, furniture and equipment (NOTES 2 and 8)	125,024	20,590	-0-	145,614
Other real estate owned	-0-	22,101	-0-	22,101
Other receivable	-0-	350	-0-	350
Deposits	<u>851</u>	<u>-0-</u>	<u>-0-</u>	<u>851</u>
Total assets	<u>\$229,917</u>	<u>\$2,167,815</u>	<u>\$210,828</u>	<u>\$2,608,560</u>

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

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
 COMBINED BALANCE SHEET, CONTINUED  
 DECEMBER 31, 1995

	<u>GENERAL FUND</u>	<u>RESTRICTED FUNDS (SCHEDULE I)</u>	<u>ESCROW FUND</u>	<u>TOTAL FUNDS (MEMORANDUM ONLY-NOTE 2)</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 9,200	-0-	-0-	\$ 9,200
Accrued expenses	17,142	-0-	-0-	17,142
Notes payable (NOTE 7)	24,370	75,000	-0-	99,370
Due to other funds (NOTE 2)	-0-	83,029	25,855	108,884
Due to NHSA (NOTES 2 and 3)	-0-	491,831	-0-	491,831
Interest payable	281	2,454	-0-	2,735
Construction escrow (NOTE 5)	-0-	-0-	45,568	45,568
Client construction escrow (NOTE 5)	-0-	-0-	126,691	126,691
Client insurance escrow	-0-	-0-	<u>12,714</u>	<u>12,714</u>
Total liabilities	<u>50,993</u>	<u>652,314</u>	<u>210,828</u>	<u>914,135</u>
Fund balance	<u>178,924</u>	<u>1,515,501</u>	<u>-0-</u>	<u>1,694,425</u>
Total liabilities and fund balance	<u>\$229,917</u>	<u>\$2,167,815</u>	<u>\$210,828</u>	<u>\$2,608,560</u>

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

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
 COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED DECEMBER 31, 1995

	GENERAL FUND	RESTRICTED FUNDS (SCHEDULE II)	ESCROW FUND	TOTAL FUNDS (MEMORANDUM ONLY-NOTE 2)
REVENUES (NOTE 2):				
Contributions	\$138,767	\$ -0-	\$ -0-	\$ 138,767
Grants (NOTE 10)	62,702	75,000	-0-	137,702
Interest	1,766	58,241	-0-	60,007
Construction management fees	3,439	-0-	-0-	3,439
Loan charges and fees	16,776	1,165	-0-	17,941
Rental income	7,961	-0-	-0-	7,961
Other revenue	8,917	-0-	-0-	8,917
Inspection fees	<u>5,900</u>	<u>-0-</u>	<u>-0-</u>	<u>5,900</u>
Total revenues	<u>246,228</u>	<u>134,406</u>	<u>-0-</u>	<u>380,634</u>

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



NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
 COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES, CONTINUED  
 FOR THE YEAR ENDED DECEMBER 31, 1995

	<u>GENERAL FUND</u>	<u>RESTRICTED FUNDS (SCHEDULE II)</u>	<u>ESCROW FUND</u>	<u>TOTAL FUNDS (MEMORANDUM ONLY-NOTE 2)</u>
<b>EXPENSES:</b>				
Housing assistance grants	\$ 1,000	\$ 29,930	\$ -0-	\$ 30,930
Bad debt expense	-0-	17,684	-0-	17,684
Salaries	104,779	98,133	-0-	202,912
Employee benefits	11,936	7,234	-0-	19,170
Payroll taxes	13,294	2,953	-0-	16,247
Pre-development expense	-0-	2,390	-0-	2,390
Depreciation (NOTE 2)	7,142	658	-0-	7,800
Office supplies	28,977	772	-0-	29,749
Deferred loans forgiven	-0-	16,600	-0-	16,600
Professional fees	20,139	500	-0-	20,639
Insurance	6,284	233	-0-	6,517
Other operating expenses (SCHEDULE III)	28,699	5,754	-0-	34,453
Foreclosure expense	<u>-0-</u>	<u>15,880</u>	<u>-0-</u>	<u>15,880</u>
Total expenses	<u>222,250</u>	<u>198,721</u>	<u>-0-</u>	<u>420,971</u>
Excess (deficiency) of revenues over expenses	23,978	(64,315)	-0-	(40,337)
Beginning fund balance	141,114	1,593,648	-0-	1,734,762
Transfers between funds (NOTE 11)	<u>13,832</u>	<u>(13,832)</u>	<u>-0-</u>	<u>-0-</u>
Ending fund balance	<u>\$178,924</u>	<u>\$1,515,501</u>	<u>\$ -0-</u>	<u>\$1,694,425</u>

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

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 1995

	<u>SUPPORT SERVICES</u>	<u>PROGRAM SERVICES</u>		
	<u>MANAGEMENT AND GENERAL</u>	<u>CONSTRUCTION MANAGEMENT ASSISTANCE</u>	<u>HOME OWNERSHIP AND LENDING ASSISTANCE</u>	<u>TOTAL (MEMORANDUM ONLY-NOTE 2)</u>
<u>EXPENSES</u>				
Salaries and related expenses:				
Salaries	\$ 73,983	\$ 68,987	\$ 59,942	\$202,912
Employee benefits	6,989	6,518	5,663	19,170
Payroll taxes	<u>5,923</u>	<u>5,524</u>	<u>4,800</u>	<u>16,247</u>
 Total salaries and related expenses	 <u>86,895</u>	 <u>81,029</u>	 <u>70,405</u>	 <u>238,329</u>
Other:				
Bad debt expense	-0-	-0-	17,684	17,684
Advertising	176	176	175	527
Insurance	2,172	2,172	2,173	6,517
Maintenance and repairs	268	269	269	806
Office supplies	9,916	9,917	9,916	29,749
Postage and shipping	1,591	1,591	1,592	4,774
Professional fees	6,880	6,880	6,879	20,639
Rent 539	539	538	1,616	
Telephone	2,154	2,154	2,153	6,461
Staff training and travel	1,297	1,298	1,298	3,893
Foreclosure expense	-0-	-0-	15,880	15,880
Inspection costs	-0-	9,000	-0-	9,000
Pre-development expense	-0-	-0-	2,390	2,390
Utilities	1,832	1,832	1,832	5,496
Other expenses	626	627	627	1,880
Housing assistance grants	-0-	-0-	30,930	30,930
Deferred loans forgiven	<u>-0-</u>	<u>-0-</u>	<u>16,600</u>	<u>16,600</u>
 Total other expenses before depreciation	 27,451	 36,455	 110,936	 174,842
Depreciation expense	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>	<u>7,800</u>
 Total expenses	 <u>\$116,946</u>	 <u>\$120,084</u>	 <u>\$183,941</u>	 <u>\$420,971</u>

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

# NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

## COMBINED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 1995

Cash flows from Operating Activities:	
Deficiency of revenues over expenses	\$(40,337)
Adjustments to reconcile deficiency of revenues over expenses to cash used in operating activities:	
Deferred loans forgiven	16,600
Bad debt expense	17,684
Depreciation expense	7,800
Decrease in grant receivable	42,082
Increase in other receivables	(215)
Increase in accounts payable	5,456
Decrease in interest payable	(23)
Increase in accrued expenses	502
Decrease in construction escrow	(17,395)
Decrease in client construction escrow	(54,034)
Increase in client insurance escrow	<u>344</u>
Net cash used in operating activities	<u>(21,536)</u>
Cash Flows From Investing Activities:	
Increase in mortgage loans receivable	(55,369)
Additions to other real estate owned	(22,101)
Purchase of property and equipment	<u>(4,707)</u>
Net cash used in investing activities	<u>(82,177)</u>
Cash Flows From Financing Activities:	
Principal payment on notes payable	(4,788)
Proceeds from notes payable	85,000
Decrease in due to NHTSA	<u>(17,148)</u>
Net cash provided by financing activities	<u>63,064</u>
Decrease in cash	(40,649)
Cash - beginning of year	<u>694,354</u>
Cash - end of year	<u>\$653,705</u>
Interest paid in cash during 1995	<u>\$ -0-</u>

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

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1 - Organization:**

Neighborhood Housing Services of New Orleans, Inc. (NHSNO) is a private, locally funded, nonprofit 501(c)(3) corporation which works to revitalize declining neighborhoods and provide affordable housing opportunities. NHSNO is based on the idea that a partnership of local residents, financial institutions, businesses, and local government working together can stop decline, promote reinvestment, restore pride and confidence, re-establish a sense of neighborhood self-reliance in the NHSNO neighborhoods and the broader community.

**NOTE 2 - Summary of Significant Accounting Policies:**

The financial statements of NHSNO have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

**FUND ACCOUNTING**

To ensure observance of limitations and restrictions placed on the use of resources available to NHSNO, the accounts 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 purpose. Separate accounts are maintained for each fund.

The assets, liabilities, and fund balances of NHSNO are reported in self-balancing fund groups as follows:

**General Fund**

The General Fund is used to account for all financial resources that are not required to be accounted for in another fund. This fund is used to pay the cost of the general operations of NHSNO and certain expenditures that are not budgeted or permitted in other programs and/or grants.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

FUND ACCOUNTING, CONTINUED

Escrow Fund

The Escrow Fund is used as a depository for construction escrow and insurance escrow. This fund is custodial in nature and does not involve measurement of results of operations.

Restricted Funds

The Restricted Funds represent all programs and grants as described below.

Community Development Block Grant  
Revolving Loan Fund

This program represents funds established through a grant agreement with the City of New Orleans. Annual contracts provide funds for NHSNO to use for the purpose of providing loans to area residents who cannot qualify for conventional financing for home renovations and acquisitions.

Neighborhood Reinvestment Corporation  
Fund

This program represents restricted funds established through a grant agreement with Neighborhood Reinvestment Corporation for the purpose of providing loans to designated area residents for home renovations and acquisitions.

Neighborhood Housing Improvement Fund

This program represents funds established through a grant agreement with the City of New Orleans. Annual contracts provide funds for NHSNO to use for purposes of providing loans to

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

FUND ACCOUNTING, CONTINUED

Restricted Funds, Continued

Neighborhood Reinvestment Corporation  
Fund

area residents for home renovations and acquisitions, and for providing home ownership training and housing acquisition assistance grants. Expenses recorded to this fund include those incurred by the program and paid from its own funds.

Neighborhood Housing Services of  
America (NHSA) Fund

This program represents the activities and accounts of NHSA. Through an agreement between NHSNO and NHSA (See NOTE 3), certain mortgages have been sold to NHSA with the loans are being serviced by NHSNO.

Brown Foundation

This program represents the activities and accounts of the Brown Foundation. Through an agreement with the Brown Foundation, loans are serviced by NHSNO.

Open Door

This program was established for the purpose of providing interim financing for home renovations to designated area residents who have obtained commitments for permanent financing from a financial institution.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

Statement of Cash Flows

For purposes of the statement of cash flows, cash and cash equivalents include all items contained in the balance sheet caption "cash".

Revenue Recognition

Revenue from contributions is recognized as support when contributions are received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Noncash contributions are recorded at their fair market value on the date received. Grants from governmental agencies are recorded when NHSNO is entitled to the funds.

Mortgage Loans Receivable and Allowance  
for Uncollectible Loans

Loans are stated at the amount of unpaid principal. The allowance for uncollectible loans is established through a provision for bad debts charged to expenses. Loans are charged against the reserve 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 of loans.

Due From or to Other Funds

All interfund activities have been recorded as a receivable or payable and represent expenditures/receipts paid/received by one program on behalf of another.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

Income Taxes

NHSNO is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for federal or state income taxes have been recorded in the accompanying financial statements.

Property, Furniture and Equipment

Property, furniture and equipment are recorded at cost (or fair market value for donated assets) and are depreciated using the straight-line method over the estimated useful lives of the related assets.

Total Columns On Combined Statements

Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations 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.

NOTE 3 - Loans Serviced:

Loans Serviced for NHSA

Under the terms of the Loan Sales and Services Agreement, NHSNO has sold certain mortgage loans to Neighborhood Housing Services of America (NHSA) and has agreed to service the loans for a nominal fee. NHSNO is required to repurchase or replace all mortgages sold to NHSA which become delinquent by 90 days or more. Principal balances outstanding on mortgages sold to NHSA and serviced by NHSNO amounted to \$490,682 at December 31, 1995.



**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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**NOTE 3 - Loans Serviced, Continued:**

Loans Serviced for Brown Foundation

NHSNO serviced loans for the Brown Foundation with a total principal balance of \$319,567 at December 31, 1995.

**NOTE 4 - Allowance for Uncollectible Loans:**

The following is an analysis of the allowance for uncollectible loans as of December 31, 1995:

	<u>CDBG</u>	<u>NRC</u>	<u>NHIF</u>	<u>TOTAL</u>
Beginning balance	\$ 85,257	\$8,715	\$4,243	\$ 98,215
Loans written-off	(6,969)	(489)	-0-	(7,458)
Recoveries of loans previously written- off	-0-	-0-	-0-	-0-
Bad debt expense	<u>17,195</u>	<u>489</u>	<u>-0-</u>	<u>17,684</u>
Ending balance	<u>\$ 95,483</u>	<u>\$8,715</u>	<u>\$4,243</u>	<u>\$108,441</u>

**NOTE 5 - Construction Escrow:**

Construction escrow represents funds that have been committed for Rehabilitation projects but have not been disbursed to construction contractors.

**NOTE 6 - Contingencies:**

Grants and contracts with agencies often require fulfillment of certain conditions as set forth in the terms of the instrument. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since NHSNO has agreed to comply with the grantor's provisions.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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**NOTE 6 - Contingencies:**

Certain legal actions are pending against NHSNO. Management, after reviewing with counsel, considers the aggregate liability or loss, if any, resulting from them will not be material.

**NOTE 7 - Notes Payable:**

NHSNO's obligation under notes payable consists of the following:

0% note payable maturing January 1, 1999		\$14,370
8.25% note payable maturing May 1, 1996		<u>10,000</u>
Sub-total		<u>24,370</u>
3% note payable maturing November 14, 1996		<u>75,000</u>
Total		<u>\$99,370</u>

**NOTE 8 - Property, Furniture and Equipment:**

At December 31, 1995, NHSNO's property, equipment and accumulated depreciation were classified as follows:

	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET BOOK VALUE</u>
Land	\$ 21,079	\$ -0-	\$ 21,079
Building	117,260	6,804	110,456
Furniture, fixtures and equipment	<u>25,831</u>	<u>11,752</u>	<u>14,079</u>
	<u>\$164,170</u>	<u>\$18,556</u>	<u>\$145,614</u>

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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**NOTE 9 - Fair Values of Financial Instruments:**

The fair value of financial instruments have been determined by NHSNO utilizing available market information and appropriate valuation methodologies. NHSNO considers the carrying amounts of cash and notes payable to approximate fair value.

The estimated fair value of mortgage loans receivable could not be determined because of the excessive cost in calculating such valuation.

**NOTE 10 - Neighborhood Reinvestment Corporation Grants:**

The Neighborhood Reinvestment Corporation (NRC) provided the following support to NHSNO for the year ended December 31, 1995:

General Fund

NRC provided \$61,202 of expendable grants during the year to defray operating expenses incurred by the NHSNO through December 31, 1995.

Neighborhood Reinvestment Corporation Fund

NRC provided a \$75,000 capital grant during the year for making loans and for acquisition of capital projects.

**NOTE 11 - Transfers Between Funds:**

Investment income and interest on outstanding loans in the amount of \$4,095 was earned on the Net Assets of the Neighborhood Reinvestment Capital Fund and was available for unrestricted use by NHSNO. For the year ended December 31, 1995, \$4,095 was transferred to the General Fund.

The Neighborhood Housing Improvement Fund transferred \$9,737 to the General Fund for operating purposes.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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**NOTE 12 - Concentration of Credit Risk:**

The NHSNO lends primarily to low-to-moderate-income individuals living within the New Orleans area. The majority of loans are secured by first and second mortgages on residential real estate. The mortgage loans receivable is a concentration of credit risk.

At December 31, 1995, NHSNO's cash on deposit with financial institutions exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) by \$238,922.

**NOTE 13 - CDBG Costs Reimbursements:**

All CDBG program service costs that was reimbursed to NHSNO for the year ended December 31, 1995 were paid with program income generated from the CDBG revolving loan funds. Program income consists of loan principal and interest and other related fees collected by NHSNO.

**SUPPLEMENTARY INFORMATION**

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
COMBINING BALANCE SHEET - RESTRICTED FUNDS  
DECEMBER 31, 1995

	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)	NEIGHBORHOOD HOUSING IMPROVEMENT FUND (NHIF)	NEIGHBORHOOD HOUSING SERVICES OF AMERICA (NHS)	NEIGHBORHOOD REINVESTMENT CORPORATION (NRC)	BROWN FOUNDATION	OPEN DOOR	TOTAL (MEMORANDUM ONLY-NOTE 2)
ASSETS:							
Cash	\$ 90,975	\$ 160,428	\$ -0-	\$ 71,837	\$ -0-	\$ 81,927	\$ 405,167
Due from other funds (NOTE 2)	25,855	12,811	3,603	-0-	-0-	283	42,552
Mortgage loans receivable (NOTES 2 and 4)	829,771	298,590	490,682	98,152	-0-	68,301	1,785,496
Allowance for uncollectible loans (NOTES 2 and 4)	(95,483)	(4,243)	-0-	(8,715)	-0-	-0-	(108,441)
Net property and equipment (NOTES 2 and 8)	1,616	-0-	-0-	18,974	-0-	-0-	20,590
Other real estate owned	16,182	-0-	-0-	5,919	-0-	-0-	22,101
Other receivable	-0-	-0-	-0-	-0-	350	-0-	350
Total Assets	\$ 868,916	\$ 467,586	\$ 494,285	\$ 186,167	\$ 350	\$ 150,511	\$ 2,167,815

See Independent Auditors' Report on Supplementary Information.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
COMBINING BALANCE SHEET - RESTRICTED FUNDS, CONTINUED  
DECEMBER 31, 1995

	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)	NEIGHBORHOOD HOUSING IMPROVEMENT FUND (NHIF)	NEIGHBORHOOD HOUSING SERVICES OF AMERICA (NHSA)	NEIGHBORHOOD REINVESTMENT CORPORATION (NRC)	BROWN FOUNDATION	OPEN DOOR	TOTAL (MEMORANDUM ONLY-NOTE 2)
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Notes payable (NOTE 7)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 75,000	\$ 75,000
Due to other funds (NOTE 2)	73,023	-0-	-0-	9,656	350	-0-	83,029
Due to NHSA (NOTES 2 and 3)	-0-	-0-	491,831	-0-	-0-	-0-	491,831
Interest payable	-0-	-0-	2,454	-0-	-0-	-0-	2,454
Total liabilities	73,023	-0-	494,285	9,656	350	75,000	652,314
Fund balance	795,893	467,586	-0-	176,511	-0-	75,511	1,515,501
Total liabilities and fund balance	\$ 868,916	\$ 467,586	\$ 494,285	\$ 186,167	\$ 350	\$ 150,511	\$ 2,167,815

See Independent Auditors' Report on Supplementary Information.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES  
IN FUND BALANCES - RESTRICTED FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 1995

	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)	NEIGHBORHOOD HOUSING IMPROVEMENT FUND (NHIF)	NEIGHBORHOOD HOUSING SERVICES OF AMERICA (NHS)	NEIGHBORHOOD REINVESTMENT CORPORATION (NRC)	BROWN FOUNDATION	OPEN DOOR	TOTAL (MEMORANDUM ONLY-NOTE 2)
REVENUES (NOTE 2):							
Grants (NOTE 10)	\$ -0-	\$ -0-	\$ -0-	\$ 75,000	\$ -0-	\$ -0-	\$ 75,000
Interest	41,054	12,628	-0-	4,095	-0-	464	58,241
Loan charges and fees	<u>1,165</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,165</u>
Total revenues	<u>42,219</u>	<u>12,628</u>	<u>-0-</u>	<u>79,095</u>	<u>-0-</u>	<u>464</u>	<u>134,406</u>

See Independent Auditors' Report on Supplementary Information.



NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES  
IN FUND BALANCE - RESTRICTED FUNDS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 1995

	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)	NEIGHBORHOOD HOUSING IMPROVEMENT FUND (NHIF)	NEIGHBORHOOD HOUSING SERVICES OF AMERICA (NHSA)	NEIGHBORHOOD REINVESTMENT CORPORATION (NRC)	BROWN FOUNDATION	OPEN DOOR	TOTAL (MEMORANDUM ONLY-NOTE 2)
EXPENSES:							
Housing assistance grants	\$ -0-	\$ 29,930	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 29,930
Bad debt expense	17,195	-0-	-0-	489	-0-	-0-	17,684
Salaries	87,427	10,706	-0-	-0-	-0-	-0-	98,133
Employee benefits	7,234	-0-	-0-	-0-	-0-	-0-	7,234
Payroll taxes	2,953	-0-	-0-	-0-	-0-	-0-	2,953
Pre-development expense	-0-	2,390	-0-	-0-	-0-	-0-	2,390
Depreciation (NOTE 2)	146	-0-	-0-	512	-0-	-0-	658
Office supplies	772	-0-	-0-	-0-	-0-	-0-	772
Deferred loans forgiven	-0-	16,600	-0-	-0-	-0-	-0-	16,600
Professional fees	-0-	500	-0-	-0-	-0-	-0-	500
Insurance	233	-0-	-0-	-0-	-0-	-0-	233
Other operating expenses (SCHEDULE III)	1,967	3,787	-0-	-0-	-0-	-0-	5,754
Foreclosure expense	10,120	-0-	-0-	5,760	-0-	-0-	15,880
Total expenses	128,047	63,913	-0-	6,761	-0-	-0-	198,721
Excess (deficiency) of revenues over expenses	(85,828)	(51,285)	-0-	72,334	-0-	464	(64,315)
Beginning fund balance	881,721	528,608	-0-	108,272	-0-	75,047	1,593,648
Transfers between funds (NOTE 11)	-0-	(9,737)	-0-	(4,095)	-0-	-0-	(13,832)
Ending fund balance	\$ 795,893	\$ 467,586	\$ -0-	\$ 176,511	\$ -0-	\$ 75,511	\$ 1,515,501

See Independent Auditors' Report on Supplementary Information.

SCHEDULE III

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
 SCHEDULE OF OTHER OPERATING EXPENSES  
 FOR THE YEAR ENDED DECEMBER 31, 1995

R E S T R I C T E D F U N D S

	GENERAL FUND	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)	NEIGHBORHOOD HOUSING IMPROVEMENT FUND (NHIF)	NEIGHBORHOOD HOUSING SERVICES OF AMERICA (NHSA)	NEIGHBORHOOD REINVESTMENT CORPORATION (NRC)	BROWN FOUNDATION	OPEN DOOR	TOTAL FUNDS (MEMORANDUM ONLY-NOTE 2)
OTHER OPERATING EXPENSES;								
Telephone	\$ 5,178	\$1,283	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 6,461
Postage and shipping	4,274	-0-	500	-0-	-0-	-0-	-0-	4,774
Advertising	527	-0-	-0-	-0-	-0-	-0-	-0-	527
Maintenance and repairs	806	-0-	-0-	-0-	-0-	-0-	-0-	806
Rent	1,289	327	-0-	-0-	-0-	-0-	-0-	1,616
Staff training and travel	3,893	-0-	-0-	-0-	-0-	-0-	-0-	3,893
Inspection costs	5,900	-0-	3,100	-0-	-0-	-0-	-0-	9,000
Utilities	5,496	-0-	-0-	-0-	-0-	-0-	-0-	5,496
Other expenses	<u>1,336</u>	<u>357</u>	<u>187</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,880</u>
Total	<u>\$28,699</u>	<u>\$1,967</u>	<u>\$3,787</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$34,453</u>

See Independent Auditors' Report on Supplementary Information.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.  
 SCHEDULE OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 1995

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>GRANTOR'S CONTRACT NUMBER</u>	<u>CFDA NUMBER</u>	<u>AWARD AMOUNT</u>	<u>REVENUE RECOGNIZED</u>	<u>EXPENSE</u>
U.S. Department of Housing and Urban Development					
Pass through City of New Orleans Office of Housing and Urban Affairs: Community Development Block Grant - loan grant	CD#10-050(95)	14.218	\$350,000	\$ -0-	\$154,002*
Neighborhood Reinvestment Corporation <u>A Quasi-Governmental Agency</u>					
Capital Funds Grant	N/A	N/A	75,000	75,000	6,661
Expendable Funds Award	N/A	N/A	<u>61,202</u>	<u>61,202</u>	<u>61,202</u>
Total Federal Awards			<u>\$486,202</u>	<u>\$136,202</u>	<u>\$221,865</u>

\*Denotes Major Program

See Independent Auditors' Report on Supplementary Information.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
CONTINUED

In planning and performing our audit of the financial statements of Neighborhood Housing Services of New Orleans, Inc. for the year ended December 31, 1995, 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Neighborhood Housing Services of New Orleans, Inc. in a separate letter dated May 28, 1996.

This report is intended for the information of the Board of Directors, management, grantors and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruno & Tervalon*

**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

May 28, 1996

**& Tervalon**

MICHAEL B. BRUNO, CPA  
ALCIDE J. TERVALON, JR., CPA  
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
STRUCTURE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of  
**Neighborhood Housing Service of New Orleans, Inc.**

We have audited the financial statements of **Neighborhood Housing Service of New Orleans, Inc.** (a nonprofit organization) as of and for the year ended December 31, 1995, and have issued our report thereon dated May 28, 1996. We have also audited the compliance of **Neighborhood Housing Services of New Orleans, Inc.** with requirements applicable to its major federal award program and have issued our report thereon dated May 28, 1996.

We conducted our audits 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 the provisions of 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 and about whether **Neighborhood Housing Services of New Orleans, Inc.** complied with laws and regulations, noncompliance with which would be material to a major federal award program.

In planning and performing our audits for the year ended December 31, 1995, we considered **Neighborhood Housing Service of New Orleans, Inc.**'s internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on **Neighborhood Housing Service of New Orleans, Inc.** financial statements and on its compliance with requirements applicable to its major program 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 May 28, 1996.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
STRUCTURE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(CONTINUED)

The management of Neighborhood Housing Service of New Orleans, 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 award 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 awards in the following categories:

ACCOUNTING APPLICATIONS

Cash Receipts  
Purchasing/Receiving  
Accounts payable  
Cash disbursement  
Payroll  
Property and equipment  
General ledger  
Receivables

GENERAL REQUIREMENTS

Political activity  
Civil rights  
Cash management  
Federal financial reports  
Allowable costs/cost principles  
Drug-free workplace  
Administrative requirements

SPECIFIC REQUIREMENTS

Types of services  
Eligibility  
Matching, level of effort or earmarking  
Reporting  
Cost allocation

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
STRUCTURE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(CONTINUED)

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 December 31, 1995, **Neighborhood Housing Service of New Orleans, Inc.** expended 69 percent of its total federal awards under the Community Development Block Grant major program.

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 considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the major program which is identified in the accompanying Schedule of Federal Awards. 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.

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 constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. 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. We noted no matters involving the internal control structure and its operations that we considered to be a material weakness as defined above.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
STRUCTURE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(CONTINUED)

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of Neighborhood Housing Services of New Orleans, Inc. in a separate letter dated May 28, 1996.

This report is intended for the information of the Board of Directors, management, grantors and the Legislative Auditor of the State of Louisiana. This is not intended to limit the distribution of this report, which is a matter of public record.

*Bruno & Tervalon*

**BRUNO & TERVALON  
CERTIFIED PUBLIC ACCOUNTANTS**

May 28, 1996



**& Tervalon**

MICHAEL B. BRUNO, CPA  
ALCIDE J. TERVALON, JR., CPA  
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
LAWS, REGULATIONS AND GRANTS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

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To the Board of Directors of  
Neighborhood Housing Services of New Orleans, Inc.

We have audited the financial statements of Neighborhood Housing Services of New Orleans, Inc. (a nonprofit organization) as of and for the year ended December 31, 1995, and have issued our report thereon dated May 28, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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 New Orleans, Inc. is the responsibility of Neighborhood Housing Services of New Orleans, Inc.'s management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Neighborhood Housing Services of New Orleans, Inc.'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 an opinion.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
LAWS, REGULATIONS AND GRANTS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS  

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(CONTINUED)

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

This report is intended for the information of the Board of Directors, management, grantors and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruno & Tervalon*  
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CERTIFIED PUBLIC ACCOUNTANTS

May 28, 1996

**& Tervalon**

MICHAEL B. BRUNO, CPA  
ALCIDE J. TERVALON, JR., CPA  
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO  
MAJOR FEDERAL AWARDS PROGRAMS

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To the Board of Directors of  
Neighborhood Housing Services of New Orleans, Inc.

We have audited the financial statements of Neighborhood Housing Services of New Orleans, Inc. (a nonprofit organization) for the year ended December 31, 1995 and have issued our report thereon dated May 28, 1996.

We have also audited Neighborhood Housing Services of New Orleans, Inc.'s compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal award program, which is identified in the accompanying schedule of federal awards, for the year ended December 31, 1995. The management of Neighborhood Housing Services of New Orleans, Inc. is responsible for the Organization's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements 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 (OMB) A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations". Those standards and the provisions of OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO  
MAJOR FEDERAL AWARDS PROGRAMS  

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(CONTINUED)

The results of our audit procedures did not disclose any immaterial instances of noncompliance with the requirements referred to in the second paragraph.

In our opinion, Neighborhood Housing Services of New Orleans, Inc., complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to its major federal award program, which is identified in the accompanying schedule of federal awards, for the year ended December 31, 1995.

This report is intended for the information of the Board of Directors, management, grantors and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruno & Tervalon*

**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

May 28, 1996

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH GENERAL REQUIREMENTS APPLICABLE TO  
FEDERAL AWARDS PROGRAMS

To the Board of Directors of  
Neighborhood Housing Services of New Orleans, Inc.

We have audited the financial statements of Neighborhood Housing Services of New Orleans, Inc. (a nonprofit organization) for the year ended December 31, 1995 and have issued our report thereon dated May 28, 1996.

We have applied procedures to test Neighborhood Housing Services of New Orleans, Inc.'s compliance with the following requirements applicable to its federal financial award programs, which are identified in the accompanying Schedule of Federal Awards for the year ended December 31, 1995.

GENERAL REQUIREMENTS

Political Activity  
Civil Rights  
Cash Management  
Administrative Requirements  
Allowable Cost  
Drug Free Workplace  
Federal Financial Report

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH GENERAL REQUIREMENTS APPLICABLE TO  
FEDERAL AWARDS PROGRAMS  
(CONTINUED)

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 New Orleans, Inc. had not complied, in all material respects, with those requirements.

This report is intended for the information of the Board of Directors, management, grantors and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruno & Tervalon*

BRUNO & TERVALON  
CERTIFIED PUBLIC ACCOUNTANTS

May 28, 1996

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WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO  
NONMAJOR PROGRAM TRANSACTIONS

To the Board of Director of  
Neighborhood Housing Services of New Orleans, Inc.

We have audited the financial statements of Neighborhood Housing Services of New Orleans, Inc. (a nonprofit organization) as of and for the year ended December 31, 1995, and have issued our report thereon dated May 28, 1996.

In connection with our audit of the financial statements of Neighborhood Housing Services of New Orleans, Inc. and with our consideration of the Neighborhood Housing Services of New Orleans, Inc.'s internal control structure used to administer federal award programs, as required by Office of Management and Budget Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," we selected certain transactions applicable to certain nonmajor federal award program for the year ended December 31, 1995. 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, and special tests and provisions 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 the Neighborhood Housing Services of New Orleans, Inc.'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 the Neighborhood Housing Services of New Orleans, Inc.'s had not complied, in all material respects, with those requirements.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO  
NONMAJOR PROGRAM TRANSACTIONS  
(CONTINUED)

This report is intended for the information of the Board of Directors, management, grantors and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruno & Tervalon*

**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

May 28, 1996



NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

STATUS OF PRIOR YEAR FINDING  
FOR THE YEAR ENDED DECEMBER 31, 1995

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The prior audit report for the year ended December 31, 1994 contained the following finding. The status of the action taken by NHSNO to resolve the prior audit finding is as follows:

	<u>RESOLVED</u>	<u>UNRESOLVED</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)</u>	X	

Homeowner's insurance is required on all loans and flood insurance is required on homes mortgaged through the CDBG in certain flood zones. Of the 6 loans which were tested in 1994, there was no evidence of homeowner's insurance in 1 CDBG loan file.

CURRENT STATUS

We noted during our 1995 audit that all tested loan files contained evidence of homeowner's insurance and flood insurance as required. As such, this condition is considered to be resolved.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

EXIT CONFERENCE

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The audit report was discussed at meetings held on June 13 and June 21, 1996 and attended by:

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

Ms. Lauren Anderson	--	Executive Director
Mr. Richard C. Ainsworth	--	President
Mr. Ron J. Hardee	--	Treasurer
Mr. T. H. Betz, Jr.	--	Board Member

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Michael B. Bruno, CPA	--	Managing Partner
Mr. Lawrence Jones, CPA	--	Supervisor

*Bruno & Tervalon*

BRUNO & TERVALON  
CERTIFIED PUBLIC ACCOUNTANTS

May 28, 1996

**INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT**

To the Board of Directors  
Neighborhood Housing Services of  
New Orleans, Inc.

We have audited the general purpose financial statements of Neighborhood Housing Services of New Orleans, Inc. (NHSNO) for the year ended December 31, 1995 and have issued our report thereon dated May 28, 1996.

In planning and performing our audit for the general purpose financial statements of Neighborhood Housing Services of New Orleans, Inc. (NHSNO), we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

In accordance with Government Auditing Standards, as part of our audit, we are required to report to you reportable conditions and material weaknesses. A reportable condition is a significant deficiency in internal controls. A material weakness is a more serious reportable condition that is of such magnitude that it could potentially result in a material misstatement of the financial statements. By definition, all material weaknesses are reportable conditions. Not all reportable conditions, however, are material weaknesses. This management letter reflects some of our suggestions regarding improvements to the NHSNO's internal control structure and efficiency. Our aim in this letter is to provide a constructive, realistic and an independent view on topics such as organization and efficiency, fiscal matters, and uses of resources.

During our audit we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are included in the accompanying Schedule of Current Year Comments and Status of Prior Year Comments.

**INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT**

To the Board of Directors  
Neighborhood Housing Services of  
New Orleans, Inc.

This report is intended for the information of the Board of Directors, management, and the Louisiana Legislative Auditor.

*Bruno & Tervalon*

**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**May 28, 1996**

**Bruno**

CERTIFIED PUBLIC ACCOUNTANTS

**& Tervalon**

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF CURRENT YEAR COMMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**

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**1. LOAN RECEIVABLE RECORDS**

We noted during our testwork that loan receivable subsidiary records were not timely reconciled to control accounts in the general ledger on a monthly basis. Differences between the subsidiary records and the general ledger were reconciled, in all material respects, to complete the audit procedures in connection with the loan receivable accounts.

We recommend that NHSNO reconcile monthly all subsidiary records to the general ledger accounts to ensure that amounts reported in the financial statements and to debtors are accurate.

Management Response

NHSNO is currently using a Lotus Software for its loan servicing. This has required more manual data entry of loan payments and disbursements than is advisable, resulting in the discrepancies noted in the audit. NHSNO has applied for funding through the City of New Orleans to acquire loan servicing software that will allow for greater efficiencies and quality in our loan servicing.

**2. LOAN SERVICING PROCESS**

Currently escrow and servicing records are prepared manually by staff. This process requires an enormous amount of staff time and may contribute to errors or inaccuracies in subsidiary records.

We recommend that NHSNO continue its efforts to obtain computerized loan servicing software and/or research the benefit of out-sourcing the compilation of monthly loan servicing reports. These alternative approaches should aid in the efficiency of the loan servicing process.

Management Response

NHSNO is currently using a Lotus Software for its loan servicing. This has required more manual data entry of loan payments and disbursements than is advisable, resulting in the discrepancies noted in the audit. NHSNO has applied for funding through the City of New Orleans to acquire loan servicing software that will allow for greater efficiencies and quality in our loan servicing.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF CURRENT YEAR COMMENTS**  
**(CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**

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**3. LOAN PROCEDURES AND DOCUMENTATION**

As part of the NHSNO loan policy and requirements of grantors of loan funds, certain documents must be maintained in loan files and loan and lending procedures should be documented as performed.

One method to ascertain that loan procedures were performed and all required documents were completed or obtained is to establish a loan check list. This check list should aid management in its review of loan documents and determining whether all required procedures were performed and documented accordingly.

Management Response

NHSNO now has a compliance checklist that will be maintained in each loan file.

**4. CASH DISBURSEMENTS**

During our cash disbursement testwork we noted that one (1) out of twenty-five disbursements tested was not in agreement with its supporting documentation. While the difference was a minor amount, less than \$20.00, such a discrepancy should never exist.

We recommend that NHSNO adhere to established cash disbursement procedures to ensure that payments to vendors are made only for the exact amounts documented on their invoices.

Management Response

The check in question was prepared by the Executive Director on the day of the May 8 flood to pay an independent contractor (a photographer) who was leaving the country that day. A typographical error was made in preparing the check in the amount of \$20.00. However, that amount, plus \$30.00 was still owing and due to the contractor at the time of that disbursement.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF CURRENT YEAR COMMENTS**  
**(CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**

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**5. VOIDED CHECKS**

We noted during our audit that two (2) checks were listed as outstanding for at least four (4) months on bank reconciliations which were actually voided. The cash balance in the general ledger did not reflect adjustments for those voided checks.

In order to ascertain that cash balances in the general ledger are correct, we recommend that checks listed as outstanding are timely reviewed for subsequent cancellations by banks or voiding.

**Management Response**

A system has been created to create a record of all voided checks that will be provided to the accountants on a monthly basis. In the past if a check was prepared in, for example, April, the accountants would receive it. But if that check were voided in May, they would not, as a matter of course, have knowledge that it was voided. Under the new system, an independent record will be maintained of all voided checks and provided to the accountants on a monthly basis.

**6. FINANCIAL INFORMATION**

The powers of NHSNO are vested in the Board of Directors. As such, it typically authorizes management to acquire significant assets, procure major purchases and adjust salaries. Also, the Board adopts an operating budget and monitors it throughout the fiscal year.

Therefore, we suggest that the management of NHSNO provide the Board with monthly financial report and other financial analyses, as needed. This information provided to the Board should be current and accurate in order for the Board to make appropriate decisions.

**Management Response**

A monthly financial report is prepared by the accounting firm and presented by the accounting firm to the Board. Management will review the monthly reports prepared by the accountants more closely and encourage the Board's Treasurer and the Board to review more closely as well.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF CURRENT YEAR COMMENTS**  
**(CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**

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**7. GENERAL LEDGER REVIEW**

During our audit we proposed numerous audit adjustments to general ledger accounts. Such adjustments were necessary to properly reflect account balances.

We recommend that NHSNO establish and implement procedures to review the general ledger on a monthly basis to ensure that account balances are properly recorded.

Management Response

In the past the accounting firm created the chart of accounts and posted each transaction to the general ledger. At the recommendation of the new firm, NHSNO will code all transactions and provide this to the firm. This should reduce or eliminate the problems of the past.

**8. CUSTOMER INSURANCE ESCROW**

As in the prior year, we noted during our 1995 audit that the balance of the loan and escrow cash account as of December 31, 1995 was not sufficient to cover the liability of customer insurance escrow payments after disbursements of principal, interest and service fees to other funds. As of December 31, 1995, the customer insurance escrow cash shortfall was determined to be approximately \$5,600.

We recommend that NHSNO fund the calculated cash shortfall. Also, we recommend that NHSNO establish and implement procedures to ensure that escrow collections are properly accounted for in the escrow cash account and to ascertain that borrowers' escrow requirements are sufficient to cover related costs.

Management Response

NHSNO will raise the funds to replenish the deficiencies in the escrow account.



**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF CURRENT YEAR COMMENTS**  
**(CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**

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**9. LOAN FILES**

We noted during our audit that loan files were not always organized in a systematic and orderly manner. We also noted in certain loan files that some documents were loosely placed in the files.

We recommend that NHSNO establish procedures to ensure that all loan files are organized in a manner that will allow the user to easily retrieve information. NHSNO should also consider developing a standard index system to locate commonly used documents.

**Management Response**

Management will request that one or more lenders who are represented on our board provide consultation on the establishment and maintenance of loan files.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**STATUS OF PRIOR YEAR COMMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**

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The prior year's audit contained eight (8) management letter comments. The subject of the comments are outlined below. The following is a current status of the corrective actions taken by management to resolve those comments:

	<u>Resolved</u>	<u>Unresolved</u>	<u>Current Finding Number</u>
Mortgage loans documentation	x		N/A
Employees salary increases	x		N/A
CDBG funds	x		N/A
Loan & escrow receipts	x		N/A
Insurance	x		N/A
Customer insurance escrow		x	8
Cash disbursements	x		N/A
Loan servicing agreements	x		N/A