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NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, 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 5/2/98

FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 1997

**Bruno
& Tervalon**

CERTIFIED PUBLIC ACCOUNTANTS

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

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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, 1997, 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 1997 and the changes in its net assets 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 June 3, 1998 on our consideration of Neighborhood Housing Services of New Orleans, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. Schedules I through IV as 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. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audit of State, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. 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

**BRUND & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS**

June 3, 1998

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1997

| ASSETS | | | | |
|---|--------------------------|-------------------------------|-------------------------------|----------------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Cash and cash equivalents | \$ 414,165 | \$ 7,856 | \$ 351,688 | \$ 773,689 |
| Due from other funds (NOTE 2) | 69,794 | 1,818 | 95,926 | 167,538 |
| Mortgage loans receivable | - | - | 2,415,190 | 2,415,190 |
| Allowance for uncollectible loans (NOTES 2 and 4) | - | - | (188,447) | (188,447) |
| Grant receivable (NOTE 14) | - | - | 102,554 | 102,554 |
| Net property, furniture and equipment (NOTES 2 and 7) | 119,664 | - | 17,949 | 137,613 |
| Other real estate owned | - | - | 66,554 | 66,554 |
| Deposits | <u>616</u> | <u>-</u> | <u>-</u> | <u>616</u> |
| Total assets | \$ <u>584,619</u> | \$ <u>9,674</u> | \$ <u>2,928,400</u> | \$ <u>3,524,713</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 255 | \$ - | \$ 16,800 | \$ 17,255 |
| Accrued expenses | 4,719 | - | - | 4,719 |
| Due to other funds (NOTE 2) | 90,205 | - | 188,333 | 198,538 |
| Due to NHA (NOTES 2 and 3) | - | - | 783,617 | 783,617 |
| Construction accrual (NOTE 3) | 322,267 | - | - | 322,267 |
| Client insurance accrual | 7,336 | - | - | 7,336 |
| Notes payable (NOTE 7) | <u>9,781</u> | <u>-</u> | <u>62,559</u> | <u>72,340</u> |
| Total liabilities | <u>394,673</u> | <u>-</u> | <u>920,129</u> | <u>1,320,792</u> |
| Net Assets: | | | | |
| Unrestricted | 199,966 | - | - | 199,966 |
| Temporarily restricted | - | 9,674 | - | 9,674 |
| Permanently restricted | <u>-</u> | <u>-</u> | <u>1,944,280</u> | <u>1,944,280</u> |
| Total net assets | <u>199,966</u> | <u>9,674</u> | <u>1,944,280</u> | <u>2,153,920</u> |
| Total liabilities and net assets | \$ <u>584,619</u> | \$ <u>9,674</u> | \$ <u>2,928,400</u> | \$ <u>3,524,713</u> |

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

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 1997

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUES And | | | | |
| RECLASSIFICATIONS: | | | | |
| Contributions | \$ 110,185 | \$ 30,883 | \$ -0- | \$ 140,998 |
| Grants (NOTE 10) | 78,388 | -0- | 273,080 | 351,288 |
| Interest | 49,187 | 28 | -0- | 49,215 |
| Construction management fees | 20,741 | -0- | -0- | 20,741 |
| Loan charges and fees | 22,764 | -0- | -0- | 22,764 |
| Rental income | 9,997 | -0- | -0- | 9,997 |
| Gain on sale of real estate | 11,107 | -0- | -0- | 11,107 |
| Other revenue | 15,692 | -0- | -0- | 15,692 |
| Inspection fees | 7,419 | -0- | -0- | 7,419 |
| Net assets released from restrictions: satisfaction of program restrictions | 29,596 | (29,596) | -0- | -0- |
| Expulsion of these restrictions | 143,194 | -0- | 114,199 | -0- |
| Total revenues | 438,902 | 1,317 | 129,886 | 629,205 |
| EXPENSES: | | | | |
| Housing assistance grants | 6,800 | -0- | -0- | 6,800 |
| Salaries | 241,445 | -0- | -0- | 241,445 |
| Employer benefits | 26,431 | -0- | -0- | 26,431 |
| Payroll taxes | 22,313 | -0- | -0- | 22,313 |
| Interest | 884 | -0- | -0- | 884 |
| Depreciation (NOTE 2) | 18,478 | -0- | -0- | 18,478 |
| Office supplies | 18,620 | -0- | -0- | 18,620 |
| Deferred loans forgiven | 16,600 | -0- | -0- | 16,600 |
| Professional fees | 33,323 | -0- | -0- | 33,323 |
| Insurance | 9,205 | -0- | -0- | 9,205 |
| Other operating expenses (SCHEDULE IV) | 36,239 | -0- | -0- | 36,239 |
| Office equipment | 1,432 | -0- | -0- | 1,432 |
| Total expenses | 435,292 | -0- | -0- | 435,292 |
| Changes in net assets | 62,410 | 1,317 | 129,886 | 193,613 |
| Replating net assets | 137,536 | 8,257 | 1,814,399 | 1,960,192 |
| Ending net assets | \$ 199,946 | \$ 9,624 | \$ 1,944,283 | \$ 2,153,853 |

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

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1997

| | |
|--|-------------|
| Cash Flows from Operating Activities: | |
| Changes in net assets | \$191,613 |
| Adjustments to reconcile | |
| changes in net assets to cash | |
| provided by operating activities: | |
| Gain on sale of real estate | (11,007) |
| Deferred loan forgiveness | 16,600 |
| Depreciation expense | 18,478 |
| Increase in gain receivable | (102,554) |
| Decrease in other receivables | 15,268 |
| Increase in accounts payable | 8,088 |
| Decrease in interest payable | (2,201) |
| Decrease in accrued expenses | (31,907) |
| Increase in construction reserves | 191,599 |
| Decrease in client insurance reserve | -28,312 |
| Net cash provided by operating activities | 211,859 |
| Cash Flows from Investing Activities: | |
| Increase in mortgage loans receivable | (376,963) |
| Purchase of property and equipment | (2,136) |
| Increase in other real estate owned | -632,852 |
| Net cash used in investing activities | (1,011,951) |
| Cash Flows From Financing Activities: | |
| Principal payment on notes payable | (8,789) |
| Proceeds from notes payable | 67,130 |
| Increase in due to NHOA | 216,055 |
| Net cash provided by financing activities | 174,406 |
| Increase in cash and cash equivalents | 162,943 |
| Cash and cash equivalents-beginning of year | 596,386 |
| Cash and cash equivalents-end of year | \$759,329 |
| Interest paid in cash during 1997 | \$ 6,684 |

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

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

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:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the NHSNO and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the NHSNO or/and the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

NOTE 2 - Summary of Significant Accounting Policies, Continued:

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the NHHNO. Generally, the donors of these assets permit the NHHNO to use all or part of the income earned on any related investments for general or specific purposes.

GENERAL

As of December 31, 1997, NHHNO administered the following funds, programs and grants:

General Fund

The General Fund, an unrestricted 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 NHHNO and certain expenditures that are not budgeted or permitted in other programs and/or grants.

Frost Street Project Fund

The Frost Street Project fund is a temporarily restricted fund that was established to account for various projects in the Frost Neighborhood.

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

NOTE 2 - Summary of Significant Accounting Policies, Continued:

GENERAL, CONTINUED

Revolving Funds

The Revolving Loan Funds, permanently restricted funds, represent all programs and grants as described below.

Community Development Block Grant

This program represents funds established through a grant agreement with the City of New Orleans. Annual contracts provide funds for NBSNO 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 provided funds for NBSNO to use for purposes of providing loans to 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 NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued:

GENERAL, CONTINUED

Neighborhood Housing Services of America (NHSA)
Fund

This program represents the activities and accounts of NHSA. Through an agreement between NHOHO and NHSA (See NOTE 2), certain mortgages have been sold to NHSA with the loans are being serviced by NHOHO.

Brown Foundation

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

Open Door

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

First Time Homeowner's Program (FTHM)

This program represents funds established through a grant agreement with the City of New Orleans. The purpose of program is to provide loans to low-income individuals who are seeking to purchase a home for the first time.

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

NOTE 3 - *Summary of Significant Accounting Policies, Continued:*

Cash and Cash Equivalents

NHSNO considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Estimates

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

Contributions and Grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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 loss 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.

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

NOTE 2 - Summary of Significant Accounting Policies, Continued:

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.

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.

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 \$780,166 at December 31, 1997.

Loans Serviced for Brown Foundation

NHSNO serviced loans for the Brown Foundation with a total principal balance of \$582,061 at December 31, 1997.

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

NOTE 4 - Allowance for Uncollectible Loans:

The following is an analysis of the allowance for uncollectible loans as of December 31, 1993:

| | CSHG | NRC | NHSF | TOTAL |
|--|------------------|----------------|----------------|------------------|
| Beginning balance | \$ 93,483 | \$8,715 | \$4,243 | \$106,441 |
| Loans written-off | - | - | - | - |
| Recovery of loans previously written-off | - | - | - | - |
| Ending balance | <u>\$ 93,483</u> | <u>\$8,715</u> | <u>\$4,243</u> | <u>\$106,441</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.

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.

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

NOTE 7 - Notes Payable:

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

| | |
|---|------------------------|
| 9% note payable maturing January 1, 1999 | \$ 4,791 |
| 2.5% revolving line-of-credit note commencing on July 16, 1996 and continuing until the note is paid in full. This loan is secured by a collateral mortgage note in the amount of \$60,000 | 5,000 |
| 4.0% revolving line-of-credit commencing December 31, 1997 and continuing until the note is paid in full. This loan is secured by real property. | 67,350 |
| Total | <u>\$77,141</u> |

NOTE 8 - Property, Furniture and Equipment:

At December 31, 1997, 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 |
| Buildings | 117,260 | 14,064 | 103,196 |
| Furniture, fixtures and equipment | 32,832 | 25,124 | 7,708 |
| | <u>\$171,171</u> | <u>\$39,188</u> | <u>\$131,983</u> |

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

NOTE 9 - Fair Values of Financial Instruments:

The fair values of financial instruments have been determined by NHSNO utilizing available market information and appropriate valuation methodologies. NHSNO considers the carrying amounts of cash, unconditional promises to give 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, 1997:

General Fund

NRC provided \$71,260 of expendable grants during the year to defray operating expenses incurred by the NHSNO through December 31, 1997.

NRC provided a \$25,000 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 \$3,138 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, 1997, \$3,078 was transferred to the General Fund.

For the year ended December 31, 1997, CDBG was authorized to transfer \$95,385 in funds to the general fund to reimburse the general fund for CDBG expenses.

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

NOTE 12 - Concentration of Credit Risk:

The NHHND 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, 1993, NHHND's cash on deposit with financial institutions exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) by \$310,422.

NOTE 13 - Interim Financing:

During 1993, the Neighborhood Reinvestment Corporation Fund and the Neighborhood Housing Improvement Fund provided interim financing for certain borrowers who have obtained commitments for permanent financing from the First Time Homeowner's Program (HOMIE).

NOTE 14 - Grant Receivable

Grant receivable at December 31, 1993 represents funds due from the City of New Orleans for the disbursement of approved First Time Homeowner's Program loans.

SUPPLEMENTARY INFORMATION

SCHEDULE I

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1997**

| | SUPPORT | PROGRAM SERVICES | | Total |
|--|------------------------------|--|--|------------|
| | Management and General | Construction Management Assistance | Home Ownership and Lending Assistance | |
| EXPENSES | | | | |
| Salaries and related expenses | | | | |
| Salaries | \$ 77,954 | \$ 70,711 | \$ 80,000 | \$ 248,445 |
| Employee benefits | 8,511 | 8,225 | 8,190 | 26,426 |
| Payroll taxes | 7,885 | 7,265 | 7,368 | 22,118 |
| Total salaries and related expenses | 93,350 | 86,201 | 95,558 | 294,109 |
| Other: | | | | |
| Annual report, meeting and luncheon | 1,000 | 1,000 | 1,000 | 3,100 |
| Insurance | 3,000 | 3,000 | 3,000 | 9,200 |
| Maintenance and repairs | 2,145 | 2,144 | 2,145 | 6,604 |
| Office supplies | 3,840 | 3,840 | 3,840 | 10,620 |
| Freight and shipping | 1,157 | 1,158 | 1,158 | 3,469 |
| Professional fees | 11,108 | 11,108 | 11,107 | 33,323 |
| Telephone | 2,477 | 2,477 | 2,477 | 7,431 |
| Staff and board training and traveling | 2,068 | 2,068 | 2,070 | 6,206 |
| Office equipment | 477 | 477 | 478 | 1,432 |
| Inspection costs | -0- | 10,499 | -0- | 10,499 |
| Interest | 228 | 228 | 228 | 684 |
| Utilities | 1,958 | 1,958 | 1,959 | 5,875 |
| Other expenses | 3,800 | 3,800 | 3,801 | 11,410 |
| Housing assistance grants | -0- | -0- | 6,800 | 6,800 |
| Entirety loans forgiven | -0- | -0- | 15,600 | 15,600 |
| Real estate development | -0- | -0- | 1,731 | 1,731 |
| Total other expenses before depreciation | 33,000 | 43,001 | 56,730 | 132,731 |
| Depreciation expense | 3,493 | 3,493 | 3,493 | 10,479 |
| Total expenses | 129,843 | 142,695 | 162,662 | 435,200 |

See Independent Auditors' Report on Supplementary Information.

**SCHEIDT &
PARTNERS**

Page 1 of 2

**SCHEIDT & PARTNERS HOLDING CORPORATION OF NEW JERSEY, INC.
SCHEDULE OF FINANCIAL POSITIONS - FIDUCIARY TRUST ACCOUNTS
FOR PERIOD ENDING 12/31/05**

| | COMMUNITY DEVELOPMENT BANK GROUP | | NATIONAL ENDOWMENT FOR THE ARTS | | NATIONAL ENDOWMENT FOR THE HUMANITIES | | NATIONAL ENDOWMENT FOR THE ARTS | | NATIONAL ENDOWMENT FOR THE HUMANITIES | | TOTAL |
|-------------------------------------|----------------------------------|-------------|---------------------------------|-------------|---------------------------------------|-------------|---------------------------------|-------------|---------------------------------------|-------------|--------------|
| | ASSETS | LIABILITIES | ASSETS | LIABILITIES | ASSETS | LIABILITIES | ASSETS | LIABILITIES | ASSETS | LIABILITIES | |
| Cash | \$ 14,219 | \$ 0 | \$ 0 | \$ 0 | \$ 14,792 | \$ 0 | \$ 14,792 | \$ 0 | \$ 14,792 | \$ 0 | \$ 14,792 |
| Big Iron other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Management investment advisory fees | 801,144 | 0 | 788,384 | 0 | 200,860 | 0 | 200,860 | 0 | 200,860 | 0 | 2,015,100 |
| Accounts receivable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accounts payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net property and equipment | 14,142 | 0 | 0 | 0 | 13,948 | 0 | 13,948 | 0 | 13,948 | 0 | 13,948 |
| Other real estate owned | 0 | 0 | 0 | 0 | 5,878 | 0 | 5,878 | 0 | 5,878 | 0 | 6,078 |
| Grant receivable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Assets | \$ 1,011,505 | \$ 0 | \$ 800,000 | \$ 0 | \$ 350,478 | \$ 0 | \$ 350,478 | \$ 0 | \$ 350,478 | \$ 0 | \$ 1,011,505 |

See Independent Auditor's Report for Supplementary Information

MEMORANDUM FOR THE BOARD OF DIRECTORS OF NEW ORLEANS, INC.
 SCHEDULE OF ACTIVITIES - FIDUCIARILY RESTRICTED FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1987

| | PERFORMANCE | | | | | |
|--|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | CONSTITUENT DEVELOPMENT BLOCK EAST FUND | ACQUISITION PROGRAMS | ACQUISITION PROGRAMS | ACQUISITION PROGRAMS | ACQUISITION PROGRAMS | ACQUISITION PROGRAMS |

REVENUES AND EXPENSES
 Cash
 No amount from operations
 Expenses of the operations

| | | | | | | |
|-----------|----------|------|------|-----------|------|-----------|
| \$ 1,000 | \$ - | \$ - | \$ - | \$ 11,000 | \$ - | \$ 11,000 |
| (81,500) | (10,200) | - | - | (100) | - | (81,800) |
| (81,500) | (10,200) | - | - | 10,900 | - | (80,800) |
| (81,500) | (10,200) | - | - | 11,000 | - | (80,700) |
| (81,500) | (10,200) | - | - | 11,000 | - | (80,700) |
| 1,000,000 | 411,000 | - | - | 250,000 | - | 1,661,000 |
| 1,000,000 | 411,000 | - | - | 250,000 | - | 1,661,000 |

Total revenues
 Changes in net assets
 Beginning net assets
 Ending net assets

SCHEDULE IV

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS
SCHEDULE OF OTHER OPERATING EXPENSES-UNRESTRICTED
FOR THE YEAR ENDED DECEMBER 31, 1997

OTHER OPERATING EXPENSES:

| | |
|--|-----------------|
| Telephone | \$ 3,431 |
| Postage and shipping | 3,468 |
| Annual report, meeting and luncheon | 3,196 |
| Maintenance and repairs | 6,424 |
| Real estate development | 1,771 |
| Staffing and board training and travel | 6,206 |
| Inspection costs | 18,499 |
| Utilities | 5,877 |
| Other expenses | <u>11,416</u> |
| Total | \$26,728 |

See Independent Auditors' Report on Supplementary Information.

SCHEDULE Y

**NEIGHBORHOOD HOUSING SERVICES OF
NEW ORLEANS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 1997**

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | GRANTOR CONTRACT NUMBER | FEDERAL CFDA NUMBER | FEDERAL EXPENDITURES |
|--|-------------------------------|---------------------------|-------------------------|
| U.S. Department of Housing and Urban Development | | | |
| <i>Pass through City of New Orleans Office of Housing and Urban Affairs:</i> | | | |
| <i>Community Development</i> | | | |
| <i>Block Grant - loan grant</i> | CD #10-050 (95) | 14-218 | \$ 138,656 |
| <i>First-Time Homeowner's Program</i> | 95-DHND-008 95-DHND-078 | 14-229 | 245,110 |
| <i>Total U.S. Department of Housing and Urban Development</i> | | | <u>383,766</u> |
| Neighborhood Reinvestment Corporation | | | |
| <i>A Quasi-Governmental Agency</i> | | | |
| <i>Capital Funds Grant</i> | N/A | N/A | 77,324 |
| <i>Dependable Funds Grant</i> | N/A | N/A | 18,200 |
| <i>Total Neighborhood Reinvestment Corporation</i> | | | <u>195,524</u> |
| Total Federal Awards | | | \$ 579,290 |

N/A - Not Available

See Independent Auditors' Report on Supplementary Information.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - Purpose of the Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of the **Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** for the year ended December 31, 1997.

NOTE 2 - Basis of Accounting:

The accompanying schedule of expenditures of federal awards is presented utilizing the accrual basis method of accounting. The value of new loans made have been included as federal expenditures on the accompanying schedule of expenditures of federal awards.

NOTE 3 - Federal Expenditures:

Federal expenditures are reported on the schedule of expenditures of federal awards as follows:

| | Unrestricted | Permanently Restricted | | | Total |
|----------------|------------------|------------------------|-------------------|------------------|-------------------|
| | | CDBG | HOME | BHC | |
| Expenditures | \$ 78,300 | \$ 95,365 | \$ 30 | \$ 512 | \$ 174,107 |
| New loans made | <u> -0-</u> | <u>33,281</u> | <u>245,089</u> | <u>36,812</u> | <u>315,182</u> |
| | <u>\$ 78,300</u> | <u>\$ 128,646</u> | <u>\$ 245,119</u> | <u>\$ 37,324</u> | <u>\$ 429,391</u> |

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of **Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** as of and for the year ended December 31, 1997, and have issued our report thereon dated June 3, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether NHSNO's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NIBSD's internal control over financial reporting 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 over financial reporting. Our consideration of the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of NIBSD in a separate letter dated June 3, 1998.

This report is intended for the information of the Board of Directors, management, the State of Louisiana, Legislative Auditor and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruno & Tervalon

**BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS**

June 3, 1998

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Neighborhood Housing Services of New Orleans, Inc. (NHSNO) with the types of compliance requirements described in the *U.S. of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1997. NHSNO's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of NHSNO's management. Our responsibility is to express an opinion on NHSNO's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audit of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NHSNO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis of our opinion. Our audit does not provide a legal determination of NHSNO's compliance with these requirements.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133,
Continued**

In our opinion, NRSNO complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1997.

Internal Control Over Compliance

The management of NRSNO is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered NRSNO's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 over compliance and its operation that we consider to be material weaknesses.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133,
Continued

This report is intended for the information of the Board of Directors, management, the State of Louisiana, Legislative Auditor and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 3, 1998

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1997**

We have audited the financial statements of **Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** as of and for the year ended December 31, 1997, and have issued our report thereon dated June 3, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit of the general purpose financial statements as of December 31, 1997 resulted in an unqualified opinion.

1. Summary of Auditor's Results

- A. Reportable conditions in internal control were disclosed by the audit of the financial statements: No; Material weaknesses: No.
- B. Noncompliance which is material to the financial statements: No.
- C. Reportable conditions in internal control over major programs: No; Material weaknesses: No.
- D. The type of report issued on compliance for major programs: Unqualified Opinion.
- E. Any audit findings which are required to be reported under section 501(a) of OMB Circular A-133: No.
- F. Major program: U.S. Department of Housing and Urban Development, First-Time Homeowner's Program, CFDA 14.228.
- G. Dollar threshold used to distinguish between Type A and Type B programs: \$250,000.
- H. Auditor qualified as a law-firm auditor under section 550 of OMB Circular A-133: Yes.
- I. A management letter was issued: Yes.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
FOR THE YEAR ENDED DECEMBER 31, 1997**

3. Financial Statement Findings

No matters were reported.

3. Federal Award Findings and Questioned Costs

Not applicable.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

EXIT CONFERENCE

The audit report was discussed at a meeting held on June 19, 1998 and attended by:

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

| | | |
|--------------------------|----|--------------------|
| Mr. Lauren Anderson | -- | Executive Director |
| Mr. Richard C. Ainsworth | -- | President |
| Mr. Ronald J. Hardee | -- | Treasurer |

BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS

| | | |
|-------------------------|----|------------|
| Mr. Lawrence Jones, CPA | -- | Supervisor |
|-------------------------|----|------------|

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 5, 1998

Bruno

CERTIFIED PUBLIC ACCOUNTANTS

& Tervalon

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INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

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

We have audited the financial statements of Neighborhood Housing Services of New Orleans, Inc. (NHSNO) for the year ended December 31, 1997 and have issued our report thereon dated June 3, 1998.

In planning and performing our audit for the 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.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

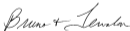
(Continued)

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

Page -2-

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.

This report is intended for the information of the Board of Directors, management, the Louisiana Legislative Auditor, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 3, 1998

Bruno

CERTIFIED PUBLIC ACCOUNTANTS

& Tervalon

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
CURRENT YEAR COMMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

53.1 Cash Receipts

We noted during our audit that the person responsible for the collection and deposit preparation of loan payments is the same person maintaining detail loans receivable.

We recommend that NHBNO establish procedures to segregate the responsibilities for maintaining detail loans receivable records from collection and deposit preparation functions.

53.2 Title Insurance Coverage

During our 1997 loan file review, we noted one (1) instance in which the borrower's second mortgage of \$20,000 was covered by only \$10,000 of title insurance.

We recommend that NHBNO review and update as considered necessary its current procedures relating to title insurance coverage to ensure that title insurance adequately covers the mortgage.