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DESIRE COMMUNITY HOUSING CORPORATION

Financial and Compliance Audit
Together With

INDEPENDENT AUDITOR'S REPORT

For the Year ended December 31, 1997

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

Release Date AUG 26 1998

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Independent Auditor's Report

To the Board Of Directors
Desire Community Housing Corporation

I have audited the accompanying statement of financial position of the Desire Community Housing Corporation as of December 31, 1997 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Desire Community Housing Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

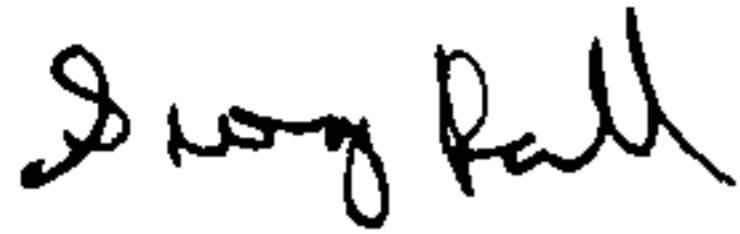
I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desire Community Housing Corporation 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.

In accordance with Government Auditing Standards, I have also issued my report dated June 26, 1998 on my consideration of Desire Community Housing Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Desire Community Housing Corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non Profit Organizations, and is not a required part of the basic financial statements. Also, the supplementary schedules of functional expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing

expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



George Rabb
Certified Public Accountant
June 26, 1998

Desire Community Housing Corporation
Statement of Financial Position
December 31, 1997

Assets	
Current Assets	
Cash and cash equivalents (note b)	\$ 286,119
Accounts receivable (note c)	12,885
Contracts receivable (note d)	250,525
Mortgages receivable	114,918
Other receivables	657
Total Current Assets	665,104
 <i>Property, plant and equipment</i>	
Net of accumulated depreciation of \$321,712(notes b and e)	2,606,535
 <i>Other Assets</i>	
	371
Total Assets	\$ 3,272,010
 Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 109,302
Tenant security deposits	4,504
Notes payable (note f)	532,859
Mortgages payable (note g)	11,184
Total Current Liabilities	657,849
 <i>Long-term Debt</i>	
Mortgages payable (note g)	70,560
Total Long-term Debt	70,560
Total Liabilities	728,409
 <i>Contingencies (note k)</i>	
<i>Net Assets (note b)</i>	
Net Assets- Unrestricted	2,543,601
Total Net Assets	2,543,601
Total Liabilities and Net Assets	\$ 3,272,010

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

Desire Community Housing Corporation
Statement of Activity
For the Year Ended December 31, 1997

	Unrestricted
Revenues	
Grants	\$ 305,618
Contracts	2,569,888
Gain on Sale of Asset (note i)	48,225
Rental Income	127,506
Contributions and Donations (note h)	17,324
Interest Income	7,107
Other income	14,617
Total Revenue	3,090,285
Expenses	
Housing and Community Development	1,376,101
Supporting Services	197,056
Total Expenses	1,573,157
Change in Net Assets	1,517,128
Net Assets, Beginning of Year	1,026,473
Net Assets, End of Year	\$ 2,543,601

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

Desire Community Housing Corporation
Statement of Cash Flows
For the year Ended December 31, 1997

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets		\$ 1,517,128
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	55,126	
Increase in Accounts Receivable	(164,704)	
Decrease in Contracts Receivable	11,291	
Increase in Mortgages Receivable	(52,152)	
Decrease in Accounts Payable	(34,734)	
Increase in Tenant Security Deposits	694	
Total Adjustments		(184,479)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,332,649
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Lines of Credit	1,198,845	
Payment on Lines of Credit	(659,129)	
Payment of Mortgage Debt	(2,466)	
NET CASH PROVIDED BY FINANCING ACTIVITIES		537,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,705,195)	
CASH FLOWS USED IN INVESTING ACTIVITIES		(1,705,195)
NET INCREASE IN CASH AND CASH EQUIVALENTS		164,704
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		121,415
CASH AND CASH EQUIVALENTS AT END OF YEAR		\$ 286,119

The accompanying notes are an integral part of these financial statements

DESIRE COMMUNITY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE A - Organization

Desire Community Housing Corporation (the Agency) was organized primarily to provide affordable housing to low and moderately low income individuals through acquisition, construction, rehabilitation and housing assistance programs.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Accounting

The accompanying financial statements and the supplemental information have been prepared in accordance with generally accepted accounting principles. They are presented on the accrual basis of accounting. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during a reported period. Actual results could differ from those estimates.

2. Basis of Reporting

The Agency has adopted SFAS No.117 which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net assets categories (i.e. unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) accordingly to external donor imposed restrictions.

A description of the three (3) net assets categories is as follows:

Unrestricted Net Assets include the following:

Unrestricted Net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred *in conducting the mission of the Agency are included in this category.* The Agency has determined that any donor imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the Agency, and therefore, the Agency's policy is to record these assets as unrestricted.

DESIRE COMMUNITY HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997

2. Basis of Reporting, Continued

Temporarily restricted net assets include realized gains and losses, investment income and gifts, appropriations and contributions for which donor imposed restrictions have not been met.

Permanently restricted net assets are contributions which are required by the donor imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted assets until utilized for donor imposed restrictions.

At December 31, 1997, the Agency did not have any permanently restricted or temporarily restricted net assets.

3. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

4. Property, Plant and Equipment

Property, Plant and Equipment is stated at cost, if purchased, or at fair market value at the date of gift, if donated.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on the straight-line method. Depreciation expense for the year ended December 31, 1997 totaled \$55,126.

5. Revenue Recognition

For financial reporting purposes, the Agency recognize revenues as earned.

6. Functional Allocation of Expenses

The costs of providing for various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

DESIRE COMMUNITY HOUSING CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1997

NOTE C Accounts Receivable

The Agency considers accounts receivable to be fully collectible. The balance consists principally of payments due under rental contracts.

Note D Contracts Receivable

The Agency contracts with various funding sources. At December 31, 1997, there were receivables from various reimbursable programs such as Project Independence, Health and Human Services, Owner Occupied Rehabilitation and the Child Care Food program. There also were receivables from renovation type programs such as the Bayou Apartments.

NOTE E Property, Plant and Equipment

	Land	Furn & Fix	Office Equip	Vehicles	Accu. Depr.	Net Amount
12-31-96	\$1,264,936	\$13,533	\$33,409	\$5,000	\$(269,968)	\$1,046,910
Addit.	1,702,093	3,102	0	0	(55,126)	1,650,069
Deletions	78,063	0	15,763	0	3,382	97,208
12-31-97	<u>\$2,888,966</u>	<u>\$16,635</u>	<u>\$17,646</u>	<u>\$5,000</u>	<u>\$(321,712)</u>	<u>\$2,606,535</u>

NOTE F Notes Payable consist of the following at 12-31-97 for the following loans which are due on demand:

Linden and Wales (First Commerce)	\$21,103
Notes payable at the Community Development Agency for interim financing at a floating rate (a credit line)	
Linden and Wales (Hibernia)	
A fixed rate of 8.750%, line of credit for \$250,000	160,550
Liberty Terrace (Hibernia)	
A fixed rate of 8.50%, line of credit	151,255
Bayou Apartments (Bank One)	
A fixed rate of 9.75% line of credit for \$200,000	
	<u>199,951</u>
Total	<u>\$532,859</u>

DESIRE COMMUNITY HOUSING CORPORATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE G Mortgages Payable

The Agency has two mortgages totaling \$81,744 as of December 31, 1997. The mortgages have an annual percentage rate of 13.5 with a balloon payment due 6-99.

NOTE H - Contributions and Donations

DCHC receives funds from raffles and other fund raisers for the annual Christmas party. Additional funds are used for insurance items for the Agency. During 1997, DCHC received \$17,324.

NOTE I - Gain on Sale of Asset

The Agency has renovated properties for the express purpose of resale. This process is part of the overall Agency's purpose. The Agency provides counseling to low income individuals seeking home ownership. Part of their function is to develop an inventory of homes affordable to this targeted market. In 1997, DCHC sold one property for \$48,225.

NOTE J - Contract Services

The Agency maintains contracts with various building construction and renovation contractors to maintain and renovate it's properties.

NOTE K - CONTINGENCIES

The organization is a defendant in two suits with the total demand being approximately \$100,000. In management's opinion their is limited exposure to responsibility in the matters and as such no loss provision has been recorded in the financial statements.

NOTE L - CONCENTRATION OF CREDIT RISKS

During the year the bank balance of a single or aggregate accounts may exceed the FDIC secured limit of \$100,000. At 12-31-97, the Agency had credit risks as follows:

	Account	Account
Cash Balance	\$164,383	\$215,851
FDIC Security	<u>100,000</u>	<u>100,000</u>
Credit Risks	<u>\$64,383</u>	<u>\$115,851</u>

DESIRE COMMUNITY HOUSING CORPORATIONS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE M - ECONOMIC DEPENDENCY

The Agency received the majority of its revenues from funds provided through contracts administered by the Federal Government, the State of Louisiana and the City of New Orleans. The contract amounts are appropriated each year by the federal and state governments. If significant budget cuts are made at the federal and/or state level, the amount of the funds the Agency receives could be reduced significantly and have an adverse impact on its operation. At the time of completion of the audit of the Agency's financial statements, management was not aware of any actions taken that would adversely affect the amount of funds the Agency will receive in the next year.

NOTE N - RELATED PARTY TRANSACTIONS

Desire Community Housing Corporation leases facilities to programs administered by the Agency. These leases total \$8,170 for the year ended 12-31-96. Management is of the opinion that these leases are comparable to rental costs charged by other lessors.

<u>Lessor</u>	<u>Lessee</u>	<u>Annual Rental</u>
Gordon Plaza Apartments	Administration	\$8,170

Supplementary Information

DESIRE COMMUNITY HOUSING CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 1997

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA or Other Number	Pass-Through Entity's Number	Activity
U.S. Department of Agriculture			
Passed Through the State of Louisiana's			
Department of Education:			
Food Distribution	10.550	N/A	\$52,726
U.S. Department of Health & Human Services			
Direct Programs:			
Headstart - Demonstration Grant	93.600	-	82,736
Passed Through the State of Louisiana's			
Department of Social Services:			
Project Independence- Head Start	93.600	N/A	7,541
Total Health & Human Services			90,277
U.S. Department of Housing and Urban Development:			
Passed Through the City of New Orleans			
CDBG-Entitlement and Small Cities Cluster			
Community Development Block Grants	14.218	Ho6g94000	286,249
Home Investment Partnerships Program	14.239	94-007	2,086,808
Hope Homeownership Program	14.247	N/A	40,571
Total Department of Housing and Urban Development			2,413,628
Total Expenditures of Federal Awards			\$2,556,631

N/A- Pass-Thru number is not available

See the Independent Auditor's Report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Program Services)
 For the Year Ended December 31, 1997

	Senior Ctr 96/97	Hope 3-93	Jasmine Street	Desi Flo City	Desi Flo Expansion	Desi Flo City Wide	Desi Flo Food
Operating Expenses							
Personal Services	\$22,140	\$0	\$0	\$92,978	\$44,936	\$30,968	\$30,244
Contractual Services	449	11,573	1,000	0	0	0	640
Space Costs	703	0	0	0	0	0	0
Materials & Supplies	1,262	0	201	0	4,165	0	21,353
Travel & Conferences	982	0	304	0	0	0	0
Other Operating Expenses	5,426	528	2,954	43	1,267	0	489
Total Expenses	\$30,962	\$12,101	\$4,459	\$93,021	\$50,368	\$30,968	\$52,726

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Program Services)
 For the Year Ended December 31, 1997

	Desi Flo Proj Indep	Desi Flo		Desi Flo Prog Income	HCD 96/97	Bayou Apts Rental	L & W		East Toulon
		State					Rental		
Operating Expenses									
Personal Services	\$6,231	\$4,976	\$0	\$72,792	\$3,321	\$4,319	\$0	\$0	
Contractual Services	850	350	0	1,300	3,248	1,200	1,000	1,000	
Space Costs	0	216	2,205	1,770	16,445	782	0	0	
Materials & Supplies	0	0	1,406	0	329	746	0	0	
Travel & Conferences	0	1,110	0	0	784	0	0	0	
Other Operating Expenses	460	2,688	2,387	2,382	5,063	4,720	785	785	
Total Expenses	\$7,541	\$9,340	\$5,998	\$78,244	\$29,190	\$11,767	\$1,785	\$1,785	

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Program Services)
 For the Year Ended December 31, 1997

	Hope 3 Eastview	United Way Shelter	HUD Disaster	HUD Grant	Liberty Terr Purchase	L & W Security	DCHC Virgillian
Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Personal Services	0	0	0	0	0	0	14,507
Contractual Services	0	3,001	0	0	0	0	0
Space Costs	0	0	0	0	0	0	0
Materials & Supplies	0	0	0	1,380	0	0	0
Travel & Conferences	0	0	0	0	0	0	0
Other Operating Expenses	100	111	49	0	12,293	15	1,427
Total Expenses	\$100	\$3,112	\$49	\$1,380	\$12,293	\$15	\$15,934

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Program Services)
 For the Year Ended December 31, 1997

	Lesseps Mortgage	L & W		DCHC		Bayou Apt		DCHC		Bayou Apts		OORS
		HB		Mazant		Security	HCD	Construction				
Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$51,790	\$0	
Personal Services	500	500	39,230	0	0	500	10,760	59,424				
Contractual Services	1,341	0	250	0	0	0	550	5,600				
Space Costs	0	0	199	0	0	150	0	0				
Materials & Supplies	2,505	0	0	0	0	1,954	0	0				
Travel & Conferences	4,483	2,859	4,356	119	153	26,355	145					
Other Operating Expenses												
Total Expenses	\$8,829	\$3,359	\$44,035	\$119	\$2,757	\$89,455	\$65,169					

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Program Services)
 For the Year Ended December 31, 1997

	Liberty Terr Phase 3	Hope 3 General	HCD 97/98	ROC Proj Year 1	Senior Ctr 97/98	Hope 3 Metropolitan	HUD Grant 97
Operating Expenses							
Personal Services	\$209,403	\$19,974	\$62,646	\$81,038	\$22,090	\$3,230	\$0
Contractual Services	70,921	1,200	6,500	10,400	1,000	0	0
Space Costs	0	1,904	1,572	2,371	0	0	0
Materials & Supplies	752	998	0	977	1,170	101	0
Travel & Conferences	2,184	0	0	4,955	1,319	0	1,206
Other Operating Expenses	134,973	2,369	1,234	1,962	3,316	0	0
Total Expenses	\$418,233	\$26,445	\$71,952	\$101,703	\$28,895	\$3,331	\$1,206

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Program Services)
 For the Year Ended December 31, 1997

	ROC Proj Year 2	Total Program Services
Operating Expenses		
Personal Services	\$49,919	\$812,995
Contractual Services	3,200	240,252
Space Costs	1,958	40,668
Materials & Supplies	1,077	34,886
Travel & Conferences	2,253	20,936
Other Operating Expenses	853	226,364
Total Expenses	\$59,260	1,376,101

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Supporting Services)
 For the Year Ended December 31, 1997

	General Fund	Desire Square	Gordon Plaza Management	Real Estate	DCHC Insurance	DCHC Holding	Desire Sq Renovations
Operating Expenses							
Personal Services	\$794	\$16,962	\$15,001	\$0	\$0	\$0	\$0
Contractual Services	9,243	3,760	1,400	0	2,600	0	0
Space Costs	1,270	22,949	306	0	0	0	0
Materials & Supplies	850	361	3,438	0	6,984	0	0
Travel & Conferences	1,986	0	6,902	40	0	0	0
Other Operating Expenses	27,611	45,773	13,766	0	6,842	0	8,218
Total Expenses	\$41,754	\$89,805	\$40,813	\$40	\$16,426	\$0	\$8,218

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
Schedule of Functional Expenses (Supportive Services)
For the Year Ended December 31, 1997

	Total
Operating Expenses	
Personal Services	\$32,757
Contractual Services	17,003
Space Costs	24,525
Materials & Supplies	11,633
Travel & Conferences	8,928
Other Operating Expenses	102,210
Total Expenses	\$197,056

See accompanying notes and Independent Auditor's report

Desire Community Housing Corporation
 Schedule of Functional Expenses (Supportive Services)
 For the Year Ended December 31, 1997

	Total
Operating Expenses	
Personal Services	\$32,757
Contractual Services	17,003
Space Costs	24,525
Materials & Supplies	11,633
Travel & Conferences	8,928
Other Operating Expenses	102,210
Total Expenses	<u>\$197,056</u>

See accompanying notes and Independent Auditor's report



INDEPENDENT AUDITOR'S 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
Desire Community Housing Corporation

I have audited the financial statements of Desire Community Housing Corporation as of and for the year ended December 31, 1997, and have issued my report thereon dated June 26, 1998. I conducted my 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 the Desire Community Housing Corporation's financial statements are free of material misstatement, I 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 those provisions was not an objective of my audit and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Desire Community Housing Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely effect Desire Community Housing Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned costs (Schedule II) as item 97-01.

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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is not a material weakness.

This report is intended for the information of management, the board of directors, the Legislative Auditor of the State of Louisiana, the City of New Orleans, and the U.S. Department of Housing and Urban Development. However, this report is a matter of public record, and its distribution is not limited.



George Rabb
Certified Public Accountant
New Orleans, La.
June 26, 1998



INDEPENDENT AUDITOR'S 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
Desire Community Housing Corporation

Compliance

I have audited the compliance of Desire Community Housing Corporation with the types of compliance requirements described in the U.S. OMB Circular A-133 Compliance Supplement that are applicable to its major program for the year ended December 31, 1997. Desire Community Housing Corporation's major federal program is identified in the summary of the independent 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 the Desire Community Housing Corporation's management. My responsibility is to express an opinion on Desire Community Housing Corporation's compliance based on my audit.

I conducted my 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 Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations". Those standards and OMB Circular A-133 require that I 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 Desire Community Housing Corporation's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Desire Community Housing Corporation's compliance with those requirements.

In my opinion, Desire Community Housing Corporation 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. However the results of my auditing procedure disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs (Schedule III) as item 97-02.

Internal Control over Compliance

The management of Desire Community Housing Corporation 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 my audit for the year ended December 31, 1997, I considered the Desire Community Housing Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted a certain matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect Desire Community Housing Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 97-02.

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 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. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is not a material weakness.

This report is intended for the information of management, the board of directors, the Legislative Auditor of the State of Louisiana, the City of New Orleans, and the U.S. Department of Housing and Urban Development. However, this report is a matter of public record, and its distribution is not limited.



George Rabb
Certified Public Accountant
New Orleans, La.

June 26, 1998

SCHEDULE I

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS
FOR THE YEAR ENDED DECEMBER 31, 1997

1. Type of report issued on the financial statements unqualified
2. Did the audit disclose any reportable conditions in internal control yes
3. Were any of the reportable conditions material weaknesses no
4. Did the audit disclose any noncompliance which is material to the financial statements no
5. Did the audit disclose any reportable conditions in internal control over major programs yes
6. Were any of reportable conditions in internal control over major programs material weaknesses no
7. Type of report issued on compliance for major programs unqualified
8. Did the audit disclose any audit findings which the independent auditor is required to report under OMB circular A-133 yes
9. The following is an identification of major programs.

<u>CFDA #</u>	<u>Name of Federal Program</u>
14.239	Home Investment Partnership Program
10. The Dollar threshold used to distinguish between Type A and B Programs as described in OMB Circular A-133, Section 520(b) is as follows:

<u>Program</u>	<u>Amount</u>
Type A	\$300,000
11. Did the auditee qualify as a low risk auditee under OMB Circular A-133, Section 530 no

SCHEDULE II

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 1997

97-01. Accounting Records

I noted during my audit that management of the Agency utilized a new accounting software package to record the 1997 accounting data. However, the lack of proper technical training in the use of the software package created numerous accounting errors resulting in the system not being fully operational.

I recommend that management of the Agency take immediate steps to properly train personnel in the use of the accounting software to ensure that accounting information is properly generated.

SCHEDULE III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1997

INTERNAL CONTROL OVER COMPLIANCE AND FEDERAL
COMPLIANCE, CONTINUED

Audit Finding Reference Number, CONTINUED

97-02 Equipment and Real Property Management

Cause

The Desire Community Housing Corporation has not developed procedures to ensure that a physical inventory was taken at least once every two years. Also the Desire Community Housing Corporation has been unable to tag equipment on a timely basis.

Questioned Costs

For purposes of this finding, I have not questioned any costs.

Effect

Non-compliance with federal regulations which stipulate that certain procedures must be established and adhered to with respect to equipment and real property.

Recommendation

I recommend that management of Desire Community Housing Corporation continue in its efforts to correct the noted deficiencies.



GEORGE RABB, P.C. Certified Public Accountant

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June 26, 1998

To the Senior Management
and The Board of Directors of
Desire Community Housing Corporation

In planning and performing my audit of the financial statements of Desire Community Housing Corporation for the year ended December 31, 1997, I considered the Organization's internal control over financial reporting to plan my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control over financial reporting.

However, during my audit, I noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect my report dated June 28, 1998, on the financial statements of Desire Community Housing Corporation.

I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized in the next pages.

I wish to thank the Director of Accounting and his department for their support and assistance during my audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Organization.

George Rabb CPA
New Orleans, La.

1. Budget

The agency did not maintain budgets for active programs.

2. Fixed Assets

The organization did not have a detail listing of the fixed assets. Further, the organization did not perform an annual inventory of fixed assets on hand for the audit period.

3. Tax Lien

The corporation had a tax lien for state unemployment tax in the amount of \$18,140.06, this levy was subsequently released during the audit period and the corporation paid prior period taxes with current period funds.

4. Accounting Records

The accounting records continued to be inadequate due in part to a new accounting system not being fully operational.

5. Interfund Receivables/Payables

My review of interfund balances revealed that interfund receivables and payables between programs are not reconciled on a regular basis. Interfund payables were controlled in the Liberty Terrace, Accounts Payable and the Payroll accounts only. These funds represent a small portion of the Interfund Activity.

6. Deficiency in Matching Share

The Agency is required to match funds in Desi Flo Child Care program. The Agency did raise funds, however the amount raised was not sufficient to meet targeted amounts.

7. Program Income Provisions not met

DCHC is required to return program income to the City. The agency sold property renovated and utilized the funds for other property purchases. DCHC should seek a written contract amendment.

CORRECTIVE ACTION PLAN
MANAGEMENT LETTER

1. Budget

The agency did not maintain budgets for active programs.

The organization is setting up budgets for all programs and plans to monitor these budgets on a monthly basis.

Estimated completion date 9-15-98

2. Tax Lien

The corporation had a tax lien for state unemployment tax in the amount of \$18,140.06, this levy was subsequently released during the audit period and the corporation paid prior period taxes with current period funds.

Issue in process of being corrected at 8-1-98

3. Interfund Receivables/Payables

My review of interfund balances revealed that interfund receivables and payables between programs are not reconciled on a regular basis. Interfund payables were controlled in the Liberty Terrace, Accounts Payable and the Payroll accounts only. These funds represent a small portion of the Interfund Activity.

The agency has provided us with material to correct the problem at 7-31-98

4. Deficiency in Matching Share

The Agency is required to match funds in Desi Flo Child Care program. The Agency did raise funds, however the amount raised was not sufficient to meet targeted amounts.

The Agency has attempted to improve this process which relates to budgeting and monitoring.

Estimated completion date 9-15-98

5. Program Income Provisions not met

DCHC is required to return program income to the City. The agency sold

property renovated and utilized the funds for other property purchases. DCHC should seek a written contract amendment.

The agency has requested from the City of New Orleans an amendment.

6. Lateness of Audit Report

DCHC is required to submit its audit report 180 days after the fiscal year end. The 1997 audit is 45 days late.

The Agency has improved the accounting records for 1998. We feel this and the maintenance of management to be key to this accomplishment.

The contact person for these improvements is Talmadge Mitchel 504-945-3758, Mitchel will also contact the Federal or pass through Agencies.

CORRECTIVE ACTION PLAN FINDINGS

1. Fixed Assets

The organization did not have a detail listing of the fixed assets. Further, the organization did not perform an annual inventory of fixed assets on hand for the audit period.

The organization is preparing to do a physical inventory at year end 12-31-98

2. Accounting Records

The accounting records continued to be inadequate due in part to a new accounting system not being fully operational.

Training was determined as the necessary component to eliminate this. The organization has scheduled several educational classes on the software.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 1997

Finding Title: General requirements

Schedule - Findings and Recommendations

Page # 41

Reference Number 1 Lateness in rent Collections
2 Property Tagging
3 Affirmative Action Plan

Program Name General Comment

CFDA Referred to several CFDA #'S

Status of Finding: All above findings uncorrected

Finding Title: Findings and Questioned Costs

Schedule - Findings and Questioned Costs

Page # 42

Reference Number 1 Lack of filing 1099's
2 Late filing of 990
3 Property Listing
4 Affirmative Action Plan

Program Name General Comment

CFDA Referred to several CFDA #'S

Status of Finding: All above findings uncorrected

Finding Title: Specific Requirements

Schedule - Findings and Questioned Costs (cont)

Page # 43

Reference Number 1 Disallowed Costs City of New Orleans

2 Payment of prior year cost in current year

3 Program Income not reported

Program Name General Comment

CFDA Referred to several CFDA #'S

Status of Finding: Items 1 & 2 corrected, #3 uncorrected