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

Financial Report

Years Ended April 30, 1998 and 1997

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 NOV 9 1998

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Darnall, Sikes & Frederick

(A Corporation of Certified Public Accountants)

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Independent Auditor's Report

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

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We have audited the accompanying statements of financial position of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a nonprofit organization) as of April 30, 1998 and 1997, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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We conducted our audits 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Housing Services of Lafayette, Louisiana, Inc. as of April 30, 1998 and 1997, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 1998, on our consideration of Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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Society of Louisiana
Certified Public Accountants

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations", and the supplemental information listed in the table of contents is presented for purposes of additional analysis and is 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 our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dannall, Sikes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana

July 27, 1998

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Statements of Financial Position
April 30, 1998 and 1997

	1998	1997
ASSETS		
Cash	\$ 61,994	\$ 45,711
Due from the Lafayette Consolidated Government	19,879	19,555
Prepaid expenses	2,206	1,919
Restricted assets:		
Cash	233,959	133,968
Loans receivable, net	812,405	673,720
Building, net of accumulated depreciation	20,636	22,967
Land	3,645	3,645
Equipment, net of accumulated depreciation	17,001	9,906
Other receivables	185	325
TOTAL ASSETS	\$ 1,171,910	\$ 911,716
LIABILITIES AND NET ASSETS		
LIABILITIES (PAYABLE FROM CURRENT ASSETS)		
Accounts payable and accrued liabilities	\$ 8,626	\$ 8,783
Other liabilities	9	-
Capital lease payable	2,846	4,680
	11,481	13,463
LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)		
Other liabilities	1,043	42
Tax and insurance payable	6,878	7,701
Loan collections due to others	5,492	3,014
Undisbursed loan proceeds	35,041	9,448
	48,454	20,205
Total liabilities	59,935	33,668
NET ASSETS		
Restricted	1,023,790	822,020
Unrestricted	88,185	56,028
Total net assets	1,111,975	878,048
TOTAL LIABILITIES AND NET ASSETS	\$ 1,171,910	\$ 911,716

The accompanying notes are an integral part of this financial statement.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Statements of Activities
Years Ended April 30, 1998 and 1997

	1998	1997
UNRESTRICTED NET ASSETS		
Support		
Passed through federal funds:		
Lafayette Consolidated Government	\$ 75,013	\$ 66,554
Other	63,100	68,000
Contributions	<u>2,233</u>	<u>3,500</u>
	<u>140,346</u>	<u>138,054</u>
Revenue		
Interest	1,286	-
Other	6,038	6,676
Fundraising	<u>2,702</u>	<u>10,721</u>
	<u>10,026</u>	<u>17,397</u>
Net assets released from restrictions	<u>19,955</u>	<u>10,714</u>
Total support, revenue and net assets released from restrictions	<u>170,327</u>	<u>166,165</u>
Expenses		
Personnel cost	87,590	101,453
Accounting and auditing	11,450	10,989
Legal	430	-
Contractual services	845	1,848
Depreciation	3,462	1,718
Insurance	4,913	6,619
Telephone and utilities	8,053	6,429
Dues & Subscription	338	-
Office supplies	8,472	8,010
Travel and seminars	2,354	4,676
Maintenance	2,173	2,572
Rent	2,200	1,950
Other	5,370	7,210
Interest	520	689
Fundraising	<u>-</u>	<u>768</u>
Total expenses	<u>138,170</u>	<u>154,931</u>
Increase in unrestricted net assets	<u>32,157</u>	<u>11,234</u>
TEMPORARILY RESTRICTED NET ASSETS		
Governmental grants	<u>173,000</u>	<u>115,000</u>
Revenue	42,410	31,574
Interest	<u>6,020</u>	<u>5,380</u>
Other	<u>48,430</u>	<u>36,954</u>

(Continued)

The accompanying notes are an integral part of this financial statement.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Statements of Activities (Continued)
Years Ended April 30, 1998 and 1997

Expenses		
Bad debt	(2,685)	2,679
Depreciation	2,330	2,331
Other	<u>60</u>	<u>70</u>
	<u>(295)</u>	<u>5,080</u>
Net assets released from restrictions:		
Restrictions satisfied by payments	<u>(19,955)</u>	<u>(10,714)</u>
Increase in temporarily restricted net assets	<u>201,770</u>	<u>136,160</u>
INCREASE IN NET ASSETS	233,927	147,394
NET ASSETS, beginning	<u>878,048</u>	<u>730,654</u>
NET ASSETS, ending	<u>\$ 1,111,975</u>	<u>\$ 878,048</u>

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Statements of Cash Flows
April 30, 1998 and 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 233,927	\$ 147,394
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	5,792	4,049
Bad debts	(2,685)	2,679
Donated assets included in support	-	(3,500)
(Increase) decrease in operating assets -		
Due from Lafayette Consolidated Government	(324)	(7,660)
Prepaid expenses	(287)	(52)
Other receivables	140	3,845
(Decrease) increase in liabilities -		
Accounts payable and accrued liabilities	(156)	(1,603)
Other liabilities	<u>28,257</u>	<u>(2,662)</u>
Net cash provided by operating activities	<u>264,664</u>	<u>142,490</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Loans issued	(260,146)	(338,866)
Loan payments received	124,148	144,705
Purchase of fixed assets	<u>(10,557)</u>	<u>(8,767)</u>
 Net cash used by investing activities	<u>(146,555)</u>	<u>(202,928)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under capital lease obligations	-	5,902
Principal payments under capital lease obligations	<u>(1,835)</u>	<u>(1,222)</u>
Net cash provided (used) by financing activities	<u>(1,835)</u>	<u>4,680</u>
 Net increase (decrease) in cash	116,274	(55,758)
 CASH, beginning	<u>179,679</u>	<u>235,437</u>
 CASH, ending	<u>\$ 295,953</u>	<u>\$ 179,679</u>
 Supplemental information:		
Interest expense	<u>\$ 520</u>	<u>\$ 689</u>

The accompanying notes are an integral part of this financial statement.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

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

B. Basis of Presentation

Financial statement presentation follows the recommendations of the American Institute of Certified Public Accountants in its Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations.

C. Vacation and Sick Leave

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

D. Property and Equipment

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

Building	20 years
Furniture and equipment	5 – 7 years

E. Income Tax Status

The Organization qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Corporation has been determined by the Internal Revenue Service not be a private foundation within the meaning of Section 509(a) of the code.

F. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at April 30, 1998 and 1997.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Undisbursed Loan Proceeds

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

H. Restricted Assets

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

Additionally, all monies received through the grant programs and repayments of principal amounts of loans receivable are restricted for use in funding additional loans in target areas. The balances in each of the grant programs' cash accounts and the net loans receivable as of the financial statement date are shown as restricted assets in the statement of financial position with an offsetting amount reported as restricted net assets.

I. Loans, Allowance for Loan Losses and Interest Income

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

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Use of 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 disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Classification of Financial Statement Presentation

Certain reclassifications have been made to the 1997 financial statements to conform with the 1998 financial statement presentation. Such reclassifications have had no effect on the change in net assets for 1997.

L. Programs

To insure observance of limitations and restrictions placed on the use of resources available to the Corporation, the accounts of the Corporation are maintained in four separate programs. This procedure allows resources for various purposes to be classified for accounting and reporting purposes into programs established according to their nature and purpose. Separate accounts are maintained for each program.

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

Operating Program

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

Community Development Block Grant Revolving Loan Program

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

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Neighborhood Reinvestment Corporation Revolving Loan Program

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

H.O.M.E. Revolving Loan Program

The H.O.M.E. Revolving Loan Program is used to account for funds received from the United States Department of Housing and Urban Development through the Lafayette Consolidated Government to provide affordable housing to first-time home buyers in accordance with the provisions and regulations of the Crantston-Gonzales National Affordable Housing Act of 1990.

NOTE 2 LOANS RECEIVABLE

The loans receivable are comprised of loans to homeowners in a specific geographical area who desired to improve their homes or purchase homes, but were unable to obtain financing at a conventional financial institution and are stated at the principal amounts outstanding at the financial statement date. The following summary reflects activities in the loan accounts for the various funds for the year ending April 30, 1998:

	<u>CDBG</u>	<u>NRC</u>	<u>H.O.M.E.</u>	<u>TOTAL</u>
Balance, beginning of year	\$ 301,403	\$ 223,444	\$ 180,870	\$ 705,717
Loans made during the year	62,469	92,718	104,959	260,146
Payments received during the year	<u>(59,290)</u>	<u>(61,759)</u>	<u>(3,099)</u>	<u>(124,148)</u>
Balance, end of year	304,582	254,403	282,730	841,715
Less: Allowance for loan losses	<u>(13,033)</u>	<u>(12,495)</u>	<u>(3,782)</u>	<u>(29,310)</u>
Loans, net	<u>\$ 291,549</u>	<u>\$ 241,908</u>	<u>\$ 278,948</u>	<u>\$ 812,405</u>

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

NOTE 2 LOANS RECEIVABLE (CONTINUED)

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

	CDBG	NRC	H.O.M.E.	TOTAL
Balance, beginning of year	\$ 19,135	\$ 10,327	\$ 2,535	\$ 31,997
Provision charged to operation	<u>(6,102)</u>	<u>2,168</u>	<u>1,247</u>	<u>(2,687)</u>
Balance, end of year	<u>\$ 13,033</u>	<u>\$ 12,495</u>	<u>\$ 3,782</u>	<u>\$ 29,310</u>

Management is of the opinion that the allowance for loan losses account at April 30, 1998 and 1997, is sufficient to cover any possible loan losses.

NOTE 3 LOANS SERVICED FOR OTHERS

NHS and Neighborhood Housing Services of America, Inc. (NHSA) have entered into a purchase service contract agreement whereby NHS is paid the principal amount of the loan balance at the time of the purchase and a monthly commission of .03125% of the outstanding balance of the loan for servicing the loan. Should any of these loans become over 90 days delinquent, NHS must repurchase the delinquent loan or replace it with another acceptable loan or loans. The total balance of such loans at April 30, 1998 and 1997 is \$373,056 and \$339,413, respectively.

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

1988	\$ 87,447
1989	130,430
1990	-
1991	118,883
1992	82,140
1993	-
1994	-
1995	98,884
1996	32,492
1997	-
1998	<u>39,460</u>
	<u>\$ 589,736</u>

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

NOTE 4 BUILDING AND EQUIPMENT

Building and equipment consist of the following:

	1998	1997
Land	\$ 3,645	\$ 3,645
Building	46,615	46,615
Equipment	18,713	8,157
Equipment held under capital lease	5,902	5,902
	74,875	64,319
Less: Accumulated depreciation	33,593	27,801
	\$ 41,282	\$ 36,518

NOTE 5 CAPITAL LEASE

In October 1997, the Organization entered into a capital lease expiring in 2000. The asset and related liability under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is depreciated over its useful life. Depreciation of the asset under capital lease is included in depreciation expense for the year ended April 30, 1998.

Minimum future lease payments under this capital lease as of April 30, 1998, are as follows:

Year ended April 30,

1999	\$ 2,336
2000	779
Total minimum lease payments	3,115
Less: amount representing interest	(269)
Present value of net minimum lease payments	\$ 2,846

NOTE 6 FEDERAL AWARD PROGRAMS

The Organization receives revenues from various Federal grant programs which are subject to final review and approval as to allowability of expenses by the respective grantor agencies. These programs are audited in accordance with the Single Audit Act Amendments of 1996. Any settlements or expenses arising out of a final review are recognized in the period in which agreed upon by the agency and the Organization. Also, it is management's opinion that any audits by the grantor agencies would not produce disallowed program costs and liabilities to such an extent that they would materially affect the Organization's financial position.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Notes to Financial Statements

NOTE 7 ECONOMIC DEPENDENCY

The Organization receives the majority of its revenue from funds provided through grants with the United States Department of Housing and Urban Development. The grant amounts are appropriated each year by the federal government. If significant budget cuts are made at the federal level, the amount of the funds Neighborhood Housing Services of Lafayette, Louisiana, Inc. receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Organization will receive in the next fiscal year.

**INTERNAL CONTROL, COMPLIANCE
AND
OTHER GRANT INFORMATION**



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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

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The Board of Directors
Neighborhood Housing Services
of Lafayette, Louisiana, Inc.
Lafayette, Louisiana

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We have audited the financial statements of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a non-profit organization), as of and for the year ended April 30, 1998, and have issued our report thereon dated July 27, 1998. We have conducted our audit 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 Non-Profit Organizations".

Compliance

As part of obtaining reasonable assurance about whether Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s general purpose financial statements are free of material misstatement, 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 those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Neighborhood Housing Services of Lafayette, Louisiana, Inc.'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could

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adversely affect Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-2, 98-3, 98-4, and 98-6.

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. Our 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, we believe the reportable conditions described in the schedule of findings and questioned cost as items 98-2, 98-3, 98-4 and 98-6 are material weaknesses.

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

Dannall, Sikes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana

July 27, 1998



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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance In Accordance with OMB Circular A-133

The Board of Directors
Neighborhood Housing Services
of Lafayette, Louisiana, Inc.
Lafayette, Louisiana

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Abbeville, LA 70510
318.893.5470

Compliance

We have audited the compliance of Neighborhood Housing Services of Lafayette, Louisiana, Inc. (a non-profit organization), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended April 30, 1998. Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s major federal programs are 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 programs is the responsibility of Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s management. Our responsibility is to express an opinion on Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s compliance based on our audit.

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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, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s compliance with those requirements.

In our opinion, Neighborhood Housing Services of Lafayette, Louisiana, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended April 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 98-1 and 98-5.

Member of
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Internal Control Over Compliance

The management of Neighborhood Housing Services of Lafayette, Louisiana, Inc. 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 Neighborhood Housing Services of Lafayette, Louisiana, Inc.'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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1, 98-5, and 98-6.

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. Our 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, we consider the reportable conditions described above as items 98-1, 98-5, and 98-6 to be material weaknesses.

This report is intended for the information of the board of directors, management and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Darnall, Sikes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana

July 27, 1998

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Schedule of Expenditures of Federal Awards
Year Ended April 30, 1998

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Revenue Recognized</u>	<u>Disbursements / Expenditures</u>
<u>Federal Assistance Programs</u>			
United States Department of Housing and Urban Development:			
Passed through the Lafayette Consolidated Government -			
Community Development Block Grant - Entitlement	14.218	\$ 73,574	\$ 73,574
HOME Investment Partnership Program	N/A	123,000	123,000
United States Congress:			
Passed through Neighborhood Reinvestment Corporation	N/A	<u>114,539</u>	<u>114,539</u>
		<u>\$ 311,113</u>	<u>\$ 311,113</u>

NOTE 1 BASIS OF PRESENTATION

The above schedule of expenditures of federal awards includes the federal grant activity of Neighborhood Housing Services of Lafayette, Louisiana, Inc. and is presented on the same basis of accounting as described in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations".

OTHER SUPPLEMENTAL INFORMATION

NEIGHBORHOOD HOUSING SERVICES OF
LAFAYETTE, LOUISIANA, INC.

Schedule of Findings and Questioned Costs (Continued)
Year Ended April 30, 1998

Finding:

Neighborhood Housing Services of Lafayette, Louisiana, Inc. failed to maintain an adequate inventory listing as required. The listing maintained failed to include acquisition date, funding source and cost.

Recommendation:

Neighborhood Housing Services of Lafayette, Louisiana, Inc. should begin to maintain an adequate inventory listing that contains all required information.

98-5 Inadequate Loan Production

Criteria:

In accordance with grant agreements and the size of the staff, the Organization was required to complete thirty eligible housing projects during the fiscal year ended April 30, 1998.

Finding:

NHS failed to completed the required housing projects during the fiscal year.

Recommendation:

The Board of Directors should develop an action plan which outlines the method to be used in order to comply with the required productivity guidelines. Measurable goals must be established and a tracking mechanism must be developed in order to ensure that productivity is on schedule. This should be reviewed quarterly.

98-6 Internal Control Over Escrow Deposits

See description of finding in Part 2.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Summary Schedule of Prior Year Findings
Year Ended April 30, 1998

97-1 Loan Subsidiary Ledgers

Finding:

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

Recommendation:

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

Follow-up:

During the current audit, a drastic improvement was noted, however, a few discrepancies were still noted, therefore, the finding will be noted again in the current year as finding 98-3.

NEIGHBORHOOD HOUSING SERVICES OF
LAFAYETTE, LOUISIANA, INC.

Schedule of Findings and Questioned Costs
Year Ended April 30, 1998

Part 1 Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report

An unqualified opinion has been issued on Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s financial statements as of and for the year ended April 30, 1998.

Reportable Conditions – Financial Reporting

Four reportable conditions in internal control over financial reporting were disclosed during the audit of financial statements and are reported in Part 2 of this report as items 98-2, 98-3, 98-4, and 98-6. All are considered to be material weaknesses.

Material Noncompliance – Financial Reporting

There were no instances of noncompliance material to the financial statements disclosed during the audit of the financial statements.

FEDERAL AWARDS

Major Program Identification

Neighborhood Housing Services of Lafayette, Louisiana, Inc., at April 30, 1998 had two major programs: Community Development Block Grant – Entitlement and HOME Investment Partnership Program, both which receive funds from the United States Department of Housing and Urban Development which passes through the Lafayette Consolidated Government.

Low-Risk Auditee

Neighborhood Housing Services of Lafayette, Louisiana, Inc. is not considered a low-risk auditee for the year ended April 30, 1998.

Major Program – Threshold

The dollar threshold to distinguish Type A and Type B programs is \$300,000 for the year ended April 30, 1998.

Auditor's Report – Major Programs

An unqualified opinion has been issued on Neighborhood Housing Services of Lafayette, Louisiana, Inc.'s compliance for its major programs as of and for the year ended April 30, 1998.

NEIGHBORHOOD HOUSING SERVICES OF
LAFAYETTE, LOUISIANA, INC.

Schedule of Findings and Questioned Costs (Continued)
Year Ended April 30, 1998

Reportable Conditions – Major Programs

There were three reportable conditions noted during the audit of the major federal programs. These are shown in Part 3 as items 98-1, 98-5, and 98-6. All are considered material weaknesses.

Compliance Findings Relate to Major Programs

Two audit findings relative to the major federal award programs for Neighborhood Housing Services of Lafayette, Louisiana, Inc. are reported in Part 3 of this report as items 98-1 and 98-5.

Part 2 Findings Relating to an Audit in Accordance with Government Auditing Standards

98-2 Finding Related to Cash Accounts

Finding:

Several of the cash account bank reconciliations did not reconcile to the general ledger. There was also one instance noted during the audit where a check was never recorded on the manual cash disbursements journal which is provided to the outside accountant to record the monthly disbursements, therefore, it was never posted by the outside accountant nor recorded on the general ledger which is generated by the outside accountant.

Recommendation:

Care should be taken to insure that all checks written are recorded on the cash disbursements journal to insure that the outside accountant has included all disbursements on the general ledger. Bank reconciliation balances prepared by Neighborhood Housing Services of Lafayette, Louisiana, Inc. should also be compared to the related general ledger cash accounts on a monthly basis with any differences being reconciled at that time.

98-3 Loan Subsidiary Ledgers

Finding:

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

Recommendation:

Any time an error in posting to the cash receipts journal is noted that affects the loan balances, the correction being made on the loan ledger should also be made to the general ledger. Neighborhood Housing Services of Lafayette, Louisiana, Inc. should research the cost of implementing a computerized loan ledger system which would eliminate all errors associated with manual transactions.

NEIGHBORHOOD HOUSING SERVICES OF
LAFAYETTE, LOUISIANA, INC.

Schedule of Findings and Questioned Costs (Continued)
Year Ended April 30, 1998

98-4 Loan File Documentation

Finding:

While reviewing the loan files, it was noted that several of the files lacked the proper documentation as set forth in the loan policy, specifically, proof of current homeowner's insurance was missing.

Recommendation:

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

98-6 Internal Control Over Escrow Amounts

Criteria:

Under an escrow agreement between the Organization and the client, the client remits monthly, a portion of their homeowner's insurance premiums, and annually when the policy renews, NHS is responsible for payment of the renewal premium to the carrier.

Finding:

An instance occurred during the year where NHS collected insurance premiums from a client through an escrow agreement yet failed to pay the renewal premium to the insurance carrier thus causing a lapse in coverage. During this lapse, an accident occurred and NHS was held responsible for the damages.

Recommendation:

Procedures should be implemented to more closely monitor the collection and subsequent disbursement of escrow amounts to insure that all amounts are remitted timely.

Part 3 Findings and Questioned Costs Relating to the Federal Programs

The following two findings were noted in the monitoring report of the pass through agency.

98-1 Inadequate Equipment Inventory

Criteria:

As required by grant agreements, the Organization is required to maintain an equipment inventory listing, including certain required information.

NEIGHBORHOOD HOUSING SERVICES OF
LAFAYETTE, LOUISIANA, INC.

Schedule of Findings and Questioned Costs (Continued)
Year Ended April 30, 1998

Finding:

Neighborhood Housing Services of Lafayette, Louisiana, Inc. failed to maintain an adequate inventory listing as required. The listing maintained failed to include acquisition date, funding source and cost.

Recommendation:

Neighborhood Housing Services of Lafayette, Louisiana, Inc. should begin to maintain an adequate inventory listing that contains all required information.

98-5 Inadequate Loan Production

Criteria:

In accordance with grant agreements and the size of the staff, the Organization was required to complete thirty eligible housing projects during the fiscal year ended April 30, 1998.

Finding:

NHS failed to completed the required housing projects during the fiscal year.

Recommendation:

The Board of Directors should develop an action plan which outlines the method to be used in order to comply with the required productivity guidelines. Measurable goals must be established and a tracking mechanism must be developed in order to ensure that productivity is on schedule. This should be reviewed quarterly.

98-6 Internal Control Over Escrow Deposits

See description of finding in Part 2.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Management's Corrective Action Plan For
Current Year Findings
Year Ended April 30, 1998

Response to finding 98-1:

Neighborhood Housing Services of Lafayette, Louisiana, Inc. has made the necessary revisions to the equipment inventory listing to adhere to the requirements in the grant agreements. A copy was submitted to the Lafayette Consolidated Government on July 22, 1998.

Response to finding 98-2:

Procedures have been implemented to insure that the bank reconciliations are compared to the general ledger monthly with any differences reconciled and all activity is posted to the manual cash disbursements journal provided to the outside accountant.

Response to finding 98-3:

The Organization has purchased and installed a computerized loan ledger system, which should eliminate all discrepancies caused by the transactions being manually recorded in the past. All loans and related information will be completely entered into the new system by November, 1998.

Response to finding 98-4:

The Organization plans to establish a loan review committee to perform due diligence on loan files within one month of the loan closing date. Checklists have been developed and implemented to insure that all required documents have been obtained.

Response to finding 98-5:

Management has provided to the pass through agency a "Plan and Assessment of Loans Closed" indicating the reason for the low volume of loans is due to a lack of funding made available by the funding source.

Response to finding 98-6:

The computerized loan ledger system purchased and installed by the Organization generates a report which allows escrow balances to be closely monitored. All loans and related information will be completely entered into the new system by November, 1998.

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Combining Statement of Financial Position
April 30, 1998

	Operating Fund	CDBG Revolving Loan Fund
ASSETS		
Cash	\$ 61,994	\$ -
Due from the Lafayette Consolidated Government	19,879	-
Prepaid expenses	2,206	-
Restricted assets:		
Cash	47,411	41,368
Building, net of accumulated depreciation	-	20,636
Due from other funds	-	2,922
Loans receivable, net	-	291,549
Land	3,645	-
Equipment, net of accumulated depreciation	17,001	-
Other receivables	185	-
Due from other funds	1,552	-
TOTAL ASSETS	\$ 153,873	\$ 356,475
LIABILITIES AND NET ASSETS		
LIABILITIES (PAYABLE FROM CURRENT ASSETS)		
Accounts payable and accrued liabilities	\$ 8,626	\$ -
Due to other funds	6,796	-
Other liabilities	9	-
Capital lease payable	2,846	-
	18,277	-
LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)		
Other liabilities	-	1,038
Due to other funds	-	1,082
Tax and insurance payable	6,878	-
Loan collections due to others	5,492	-
Undisbursed loan proceeds	35,041	-
	47,411	2,120
TOTAL LIABILITIES	65,688	2,120
NET ASSETS		
Restricted	-	354,355
Unrestricted	88,185	-
Total net assets	88,185	354,355
TOTAL LIABILITIES AND NET ASSETS	\$ 153,873	\$ 356,475

NRC Revolving Loan Fund	H.O.M.E. Revolving Loan Fund	Eliminations of Interfund Balances	Totals
\$ -	\$ -	\$ -	\$ 61,994
-	-	-	19,879
-	-	-	2,206
77,486	67,694	-	233,959
-	-	-	20,636
1,614	2,260	(6,796)	-
241,908	278,948	-	812,405
-	-	-	3,645
-	-	-	17,001
-	-	-	185
-	-	(1,552)	-
<u>\$ 321,008</u>	<u>\$ 348,902</u>	<u>\$ (8,348)</u>	<u>\$ 1,171,910</u>
\$ -	\$ -	\$ -	\$ 8,626
-	-	(6,796)	-
-	-	-	9
-	-	-	2,846
-	-	(6,796)	11,481
5	-	-	1,043
248	222	(1,552)	-
-	-	-	6,878
-	-	-	5,492
-	-	-	35,041
<u>253</u>	<u>222</u>	<u>(1,552)</u>	<u>48,454</u>
<u>253</u>	<u>222</u>	<u>(8,348)</u>	<u>59,935</u>
320,755	348,680	-	1,023,790
-	-	-	88,185
<u>320,755</u>	<u>348,680</u>	<u>-</u>	<u>1,111,975</u>
<u>\$ 321,008</u>	<u>\$ 348,902</u>	<u>\$ (8,348)</u>	<u>\$ 1,171,910</u>

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Combining Statement of Activities
April 30, 1998

	Operating Fund	CDBG Revolving Loan Fund	NRC Revolving Loan Fund	H.O.M.E. Revolving Loan Fund	Totals
UNRESTRICTED NET ASSETS					
Support					
Passed through federal funds:					
Lafayette Consolidated Government	\$ 75,013	\$ -	\$ -	\$ -	\$ 75,013
Other	63,100	-	-	-	63,100
Contributions	<u>2,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,233</u>
	<u>140,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,346</u>
Revenue					
Interest	1,286	-	-	-	1,286
Other	6,038	-	-	-	6,038
Fundraising	<u>2,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,702</u>
	<u>10,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,026</u>
Net assets released from restrictions	<u>19,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,955</u>
Total support, revenue and net assets released from restrictions	<u>170,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,327</u>
Expenses					
Personnel cost	87,590	-	-	-	87,590
Accounting and auditing	11,450	-	-	-	11,450
Legal	430	-	-	-	430
Bad debts	-	-	-	-	-
Contractual services	845	-	-	-	845
Depreciation	3,462	-	-	-	3,462
Insurance	4,913	-	-	-	4,913
Telephone and utilities	8,053	-	-	-	8,053
Dues & subscriptions	338	-	-	-	338
Office supplies	8,472	-	-	-	8,472
Travel and seminars	2,354	-	-	-	2,354
Maintenance	2,173	-	-	-	2,173
Rent	2,200	-	-	-	2,200
Interest	520	-	-	-	520
Other	<u>5,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,370</u>
Total expenses	<u>138,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>138,170</u>
Increase in unrestricted net assets	<u>32,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,157</u>
TEMPORARILY RESTRICTED NET ASSETS					
Governmental grants	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>123,000</u>	<u>173,000</u>
Revenue					
Interest	-	15,580	11,024	15,806	42,410
Other	<u>-</u>	<u>905</u>	<u>4,190</u>	<u>925</u>	<u>6,020</u>
	<u>-</u>	<u>16,485</u>	<u>15,214</u>	<u>16,731</u>	<u>48,430</u>

(Continued)

NEIGHBORHOOD HOUSING SERVICES
OF LAFAYETTE, LOUISIANA, INC.

Combining Statement of Activities (Continued)
April 30, 1998

	Operating Fund	CDBG Revolving Loan Fund	NRC Revolving Loan Fund	H.O.M.E. Revolving Loan Fund	Totals
Expenses					
Bad debt	-	(6,102)	2,169	1,248	(2,685)
Depreciation	-	2,330	-	-	2,330
Other	-	-	60	-	60
Total expenses	-	(3,772)	2,229	1,248	(295)
Net assets released from restrictions:					
Restrictions satisfied by payments	-	(2,436)	(13,015)	(4,504)	(19,955)
Increase in temporarily restricted net assets	-	17,821	49,970	133,979	201,770
INCREASE IN NET ASSETS	32,157	17,821	49,970	133,979	233,927
NET ASSETS, beginning	56,028	336,534	270,785	214,701	878,048
NET ASSETS, ending	<u>\$ 88,185</u>	<u>\$ 354,355</u>	<u>\$ 320,755</u>	<u>\$ 348,680</u>	<u>\$ 1,111,975</u>