

**NEIGHBORHOOD HOUSING SERVICES
OF NEW ORLEANS, INC.
(A NONPROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NEIGHBORHOOD HOUSING SERVICES
OF NEW ORLEANS, INC.

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Neighborhood Housing Services of New Orleans, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Housing Services of New Orleans, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payments to the Executive Director and the Statement of Financial Position – NeighborWorks America ® Capital Fund (Unaudited) Detail of ‘Duc from Operating Account’ in the Statement of Financial Position –NeighborWorks America ® Capital Fund (Unaudited) on pages 21-22 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bernard & Franks

Metairie, Louisiana
June 30, 2019

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS	<u>2018</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 79,878
Restricted cash	31,131
Accounts receivable, net of allowance for doubtful accounts	7,515
Mortgage loans receivable, net current portion	<u>6,778</u>
Total current assets	<u>\$ 125,302</u>
OTHER ASSETS	
Mortgage loans receivable, net, less current portion	\$ 23,015
Property and equipment, less accumulated depreciation	55,785
Investment in limited liability company	83,175
Real estate construction in progress	13,125
Real estate held for sale/development	28,279
Deposits	<u>1,385</u>
Total other assets	<u>\$ 204,764</u>
TOTAL ASSETS	<u><u>\$ 330,066</u></u>
LIABILITIES AND NET ASSETS	
Accounts payable and accrued expenses	\$ 67,920
Construction escrow	12,099
Client insurance escrow	17,401
Current portion of long-term debt	<u>13,750</u>
Total Current Liabilities	<u>\$ 111,170</u>
LONG-TERM LIABILITIES	
Long-term debt, less current portion	<u>\$ 56,250</u>
Total Long-Term Liabilities	<u>\$ 56,250</u>
NET ASSETS	
Without donor restrictions	\$ (509,309)
With donor restrictions	<u>671,955</u>
Total net assets	<u>\$ 162,646</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 330,066</u></u>

See notes to the financial statements.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR DECEMBER 31, 2018**

	Without donor restrictions	With donor restrictions	Total
Operating revenues, gains and other support:			
Contributions	\$ 69,788	\$ -	\$ 69,788
NeighborWorks America grant	90,450	-	90,450
Other grants	10,001	75,000	85,001
Fundraising	18,902	-	18,902
Rental income	20,859	-	20,859
Proceeds from the sale of property	435,000	-	435,000
Less: Cost of sales	(328,651)	-	(328,651)
Loan charges and fees	39,553	-	39,553
Loan repayment and interest	37,656	-	37,656
Other revenues	41,824	-	41,824
Net assets released from restrictions	117,632	(117,632)	-
Total operating revenues, gains and other support	<u>\$ 553,014</u>	<u>\$ (42,632)</u>	<u>\$ 510,382</u>
Operating expenses:			
Property	\$ 222,902	\$ -	\$ 222,902
Home ownership	190,750	-	190,750
General and administration	515,127	-	515,127
Fund raising	14,329	-	14,329
Total operating expenses	<u>\$ 943,108</u>	<u>\$ -</u>	<u>\$ 943,108</u>
Operating revenues and support in excess of operating expenses	\$ (390,094)	\$ (42,632)	\$ (432,726)
Net assets, beginning of the year	<u>(119,215)</u>	<u>714,587</u>	<u>595,372</u>
Net assets, end of the year	<u>\$ (509,309)</u>	<u>\$ 671,955</u>	<u>\$ 162,646</u>

See notes to the financial statements.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services		Supporting Services		Total
	Property	Home Ownership	General and Administration	Fundraising	
Accounting	\$ -	\$ -	\$ 19,600	\$ -	\$ 19,600
Advertising and marketing	-	7,692	7,104	-	14,796
Bad debt	-	10,064	-	-	10,064
Bank charges	189	-	1,802	-	1,991
Computer services and supplies	-	3,604	23,577	-	27,181
Cost of sales	-	328,651	-	-	328,651
Credit reports	-	8,358	-	-	8,358
Depreciation	-	-	33,059	-	33,059
Dues	-	155	1,640	-	1,795
Education	-	99	-	-	99
Employee benefits	568	-	32,748	-	33,316
Fundraising	-	-	-	14,329	14,329
Insurance	2,512	805	72,275	-	75,592
Interest	-	-	15,182	-	15,182
Office expense	3,129	4,710	3,980	-	11,819
Office supplies	2,415	7,659	2,357	-	12,431
Other expense	550	20,786	13,496	-	34,832
Payroll service fees	-	-	4,454	-	4,454
Payroll taxes	-	-	29,520	-	29,520
Postage and delivery	-	11	477	-	488
Professional	2,802	25,785	21,617	-	50,204
Real estate development	16,121	-	-	-	16,121
Repairs and maintenance	6,387	500	1,463	-	8,350
Salary and wages	125,527	95,684	172,001	-	393,212
Security	860	-	1,150	-	2,010
Staff and board training	-	797	1,190	-	1,987
Taxes and licenses	8,721	180	7,230	-	16,131
Telephone	23,283	-	5,826	-	29,109
Travel	132	3,861	43,114	-	47,107
Utilities	29,706	-	-	-	29,706
Workers compensation	-	-	265	-	265
Less expenses (cost) deducted from revenues on statement of activities	-	(328,651)	-	-	(328,651)
Total expenses, net of cost of sales	<u>\$ 222,902</u>	<u>\$ 190,750</u>	<u>\$ 515,127</u>	<u>\$ 14,329</u>	<u>\$ 943,108</u>

See notes to the financial statements.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ (432,726)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	33,059
Bad debt expense	10,064
Gain on the sale of real estate inventory	(262,353)
Gain on the sale of real estate construction in progress	
Changes in operating assets and liabilities:	
Accounts receivable	51,030
Due from employee	5,528
Real estate inventory	125,452
Prepaid expenses	16,477
Accounts payable and accrued expenses	(16,184)
Construction escrow	(167,677)
Client insurance escrow	8,519
Net Cash Provided By Operating Activities	\$ (628,811)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Collections on mortgage loans	\$ 154,775
Release of restricted cash	138,429
Proceeds from the sale of real estate construction in progress	263,353
Net Cash Provided By Investing Activities	\$ 556,557
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(72,254)
 CASH AND CASH EQUIVALENTS - Beginning of year	\$ 152,132
 CASH AND CASH EQUIVALENTS- End of year	\$ 79,878
 NONCASH ITEMS	
Exchange of property and debt for an investment in a limited liability company:	
Net book value of property transferred	\$ 847,222
Debt transferred with property	\$ 764,047
Investment in limited liability company	\$ 83,175

See notes to the financial statements.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Neighborhood Housing Services of New Orleans, Inc. (the Organization) is a non-profit organization established to revitalize declining neighborhoods and provide affordable housing opportunities. Businesses and local government working together can stop decline, promote reinvestment, restore pride and confidence, and re-establish a sense of neighborhood self-reliance within the Organization's neighborhoods and the broader community. The Organization's major sources of revenue are contributions, fees, grants and proceeds from the sale of property. Its major services are loans and rehabilitation of property.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

All cash-related items having a maturity of three months or less from the original maturity date and not restricted in use are classified as cash and cash equivalents.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivables are stated at the amount management expect to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and amortization and occupancy, which are allocated on a square footage basis. Telephone costs are allocated based on line counts by functional category.

Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 expense. Loans are charged against the reserve for loan losses when management believes that the collectability 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 collectability of past due loans and a provision for current loans that management believes will be uncollectible based on historical trends. The allowance for doubtful accounts for loan losses was \$12,976 as of December 31, 2018.

The allowance for pass-through mortgage loans receivable is described more fully in Note 5.

Property and Equipment

The Organization capitalizes property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five years for furniture and vehicles to thirty years for buildings.

Real Estate Inventory, Real Estate Construction in Progress and Real Estate Held for Sale/Development

Real estate inventory represents properties that are completed and available for sale or will be available for sale shortly after year-end. Real estate construction in progress represents properties that have started but not yet completed renovations/repairs and are not yet available for sale. Real estate inventory and real estate construction in progress are carried at cost if purchased or estimated fair value if donated plus additions for renovations/repairs done in preparation for the sale of the property.

Real estate held for sale/development represents properties expected to be renovated/repaired in order to be sold at a later date. Real estate held for sale/development is carried at cost if purchased or estimated fair value if donated.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in Limited Liability Company

The investment in Limited Liability Company is recorded on the financial statements using the equity method of accounting. Under the equity method, investments are initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Organization's share of the profit and loss and other comprehensive income of the limited liability company. If the Organization's share of the profit or loss exceeds the Organization's interest in the limited liability company, the Organization will discontinue recognizing its share of further losses. Additional losses are recognized only to the extent that the Organization has incurred legal or constructive obligations or made payments on behalf of the limited liability company.

When necessary, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized would form part of the carrying amount of the investment. Presently, management asserts that the value of the net assets of the limited liability company exceed the asset value.

Client Insurance

The Organization collects insurance payments from certain homeowners to make the annual property tax payment to the City of New Orleans. The client insurance escrow as of December 31, 2018 was \$17,401.

Construction Escrow

The Organization also manages construction loans that are awarded to the homeowner. The funds are given to the Organization by the bank and requests for draws are funded and approved by the Organization. The construction escrow as of December 31, 2018 was \$11,685.

Donated Materials, Services, and Supplies

Noncash donations are recorded as contributions at their fair value at the date of the donations. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to certain limits. The Organization has not experienced any losses in such accounts. The Organization has no policy requiring collateral or other security to support its deposits.

As of December 31, 2018, there were no accounts in excess of federally insured limits. The Organization provides mortgage assistance primarily to low and moderate-income individuals. The loans are secured by first and second mortgages on residential real estate. Mortgage loans receivable is a concentration of credit risk.

Restricted Cash

The Organization restricts cash from all repayments of loans that are required to be held for the purpose of distributing funds to qualified homeowners. The restricted cash for year ended December 31, 2018 was \$31,131.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (*Topic 842*), which requires that lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for the Organization for the year ending December 31, 2019. The adoption of this standard is expected to result in the Organization's recognizing right-of-use assets and lease liabilities for some leases currently accounted for as operating leases under the legacy lease accounting guidance. Management is evaluating the impact of this standard on the Organization's financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

Major classifications of property and equipment as of December 31, 2018 are as follows:

	<u>2018</u>
Land	\$ 40,474
Buildings & improvements	<u>101,917</u>
	\$ 142,391
Less: Accumulated depreciation	<u>(58,327)</u>
	<u>\$ 84,064</u>

Depreciation expense for the year ended December 31, 2018 was \$33,059.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 - LOANS SERVICED

The Organization services loans for the Brown Foundation with total principal balance as of December 31, 2018 of \$19,779. As these loans are repaid, the amounts collected are due to the Brown Foundation. Thus, these loans are not reflected as an asset nor is the related amount due reflected as a liability on the statement of financial position.

NOTE 4 - MORTGAGE LOANS RECEIVABLE

The Organization assists homeowners by providing mortgage loans at various fixed interest rates. The Organization also provides second mortgage loans that are due in full upon sale of the house or death of the borrower.

The future maturities of the mortgage loans receivable are as follows:

2019	\$ 6,778
2020	5,725
2021	3,878
2022	3,465
2023	2,900
Thereafter	<u>7,047</u>
Total	<u>\$ 29,793</u>

The following summarizes the payment status of the mortgage loans as of December 31, 2018:

Current	\$18,899
Over 90 days past due	10,894

NOTE 5 - PASS-THROUGH MORTGAGE LOANS RECEIVABLE

The Organization acts as a pass-through for various grant funds that are received by the Organization to be loaned too low to moderate income individuals through soft second mortgage agreements. As these soft second mortgages are repaid, the funds are restricted for the use of additional soft second mortgage agreements for qualified individuals. As these funds are not allowed to be used for the operations of the Organization, management has recorded an allowance for the entire balance of each agreement. Below is a brief description of the loan programs:

Qatar - The State of Qatar gifted to the Organization an amount of \$3,095,962 in the form of a restricted grant to provide second mortgages (up to \$25,000 each) for the purchase of affordable housing in the New Orleans area for low and moderate-income Hurricane Katrina victims. These mortgages are noninterest bearing and are due in full upon the sale of the house, refinancing, or death of the borrower.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 - PASS-THROUGH MORTGAGE LOANS RECEIVABLE (continued)

Home/Neighborhood Revitalization - The HOME Investment Partnerships Program (HOME) provides formula grants to states and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people.

Activity for these programs during the year end December 31, 2018 was as follows:

	Qatar	Home/ Neighborhood Revitalization
Mortgages outstanding, beginning of year	\$ 2,852,512	\$ 1,932,830
Mortgages issued	-	-
Mortgages forgiven	-	-
Mortgages repaid	<u>(25,000)</u>	<u>(163,673)</u>
Mortgages outstanding, end of year	2,827,512	1,769,157
Allowance	<u>(2,827,512)</u>	<u>(1,739,364)</u>
Net mortgages receivable	<u>\$ -</u>	<u>\$ 29,793</u>

The receivables noted in the table above are included in mortgage loans receivable balances on the statement of financial position.

NOTE 6 - COMMUNITY DEVELOPMENT BLOCK MORTGAGES RECEIVABLE

The Organization was awarded a Community Development Block Grant contract through the City of New Orleans to provide mortgages to low-income families. The grant is considered to be an exchange transaction. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. The balance due from the related mortgages receivable at year-end of \$1,007 is included in mortgage loans receivable in the statement of financial position.

NOTE 7 - LONG-TERM DEBT

At December 31, 2018, the Organization had an outstanding loan of \$70,000 payable to a financial institution with monthly installments of \$2,500, beginning August 1, 2015, bearing interest at a rate of 0%. This note is unsecured with an original maturity of July 31, 2020.

A new agreement with the lender requires the Organization to make a \$5,000 payment in May 2019. Subsequently, the Organization make monthly payments of \$1,250, October 31, 2023.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 7 - LONG-TERM DEBT (continued)

	<u>2018</u>
Long-term debt	\$ 70,000
Less current portion	<u>(13,750)</u>
Long-term debt, less current portion	<u>\$ 56,250</u>

The future maturities of long-term debt as of December 31, 2018 are as follows:

2019	\$ 13,750
2020	15,000
2021	15,000
2022	15,000
2023	<u>11,250</u>
	<u>\$ 70,000</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended December 31, 2018 are as follows:

Subject to expenditure of specified purpose:	
State of Qatar Gift	\$ 191,450
Open Door	40,924
NHIF Lending	57,029
Freddie Mac	39,471
Pratt-Stanton	<u>3,081</u>
Total net assets with donor restrictions	\$ 331,955
Endowment Net Assets with donor restrictions *	
Original donor-restricted endowment gift amounts and amounts required to be retained by donor	\$ 340,000
Accumulated investment gains on endowment funds	<u>-</u>
Total endowment funds classified as net assets with donor restrictions	\$ 340,000
Total net assets with donor restrictions	<u>\$ 671,955</u>
Releases from restrictions:	
Subject to expenditure of specified purpose	<u>\$ 117,632</u>

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS (continued)

*In accordance with the NeighborWorks America® Capital Fund agreement, the Organization is required to invest and use the endowment to provide mortgage loans to low-income qualifying individuals to purchase qualifying properties. In addition, the Organization can use the funds for capital projects.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

New Orleans Thrift Loan Consortium

The New Orleans Thrift Loan Consortium (NOTLC) is a collaboration among local financial institutions (collectively, the Member Banks) to establish a loan pool for second mortgages to low and moderate income first-time homebuyers and homeowners in need of rehabilitation. Effective November 30, 2001, Member Bank individually deposited \$50,000 at a 3.0% interest rate to the NOTLC for a total of \$400,000. The Member Banks were given the option to contribute additional funds in future years.

As a result of additional contributions by the Member Banks, the total loan consortium balance as of December 31, 2017 was \$600,000. No interest accrues on these loans until funds are loaned as second mortgages. The Organization originates and services second mortgages behind a first mortgage originated by the Member Banks. The second mortgages will be priced at 3.5% interest for 30-year terms, wherein the Organization will retain a 0.5% servicing fee.

According to the NOTLC agreement, the Organization should remit payments of interest only to each Member Bank semi-annually in January and July. All principal repayments will be recycled to the NOTLC loan pool for future originations. Depending upon market demand, NOTLC Member Banks may choose to recapitalize the loan pool from time to time. Conversely, a NOTLC Member Bank may withdraw its investment if the funds are not being used for the intended purpose, upon ninety-day notice to the Organization and the other Member Banks. As of the date that these financial statements were issued, interest payments are not being made to the Member Banks as required by the agreement. Also, no Member Banks have given notice of their withdrawal. According to the None agreement, the Organization is required to establish a loan loss reserve fund equal to the greater of 10% of the NOTLC funds or \$50,000 to be used to cover any second mortgage defaults. As of December 31, 2018, the Organization has not established this loan loss reserve fund as required by the NOTLC agreement. During the year ended December 31, 2016, the NOTLC expressed concern as to the use of funds originally lent to customers of the Organization as soft seconds, which may have been repaid to the Organization and not lent back to other customers as called for in the agreement. Under the terms of the agreement, all repaid funds are to be lent to new customers. Discussions as to the current status of the funds are ongoing, and, if Member Banks request repayment of their funds and the funds were used for operations instead of loaned again to new customers, the resolution could have a significant negative effect on the financial statements of the Organization. As the potential liability related to this issue is not able to be determined, there is no liability recorded in the statement of financial position as of December 31, 2018.

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 10 - OPERATING LEASES

The Organization leased apartments to various tenants primarily on a month-to-month basis. As of June 30, 2018, the Organization's leases were terminated. Total rental income for the year ended December 31, 2018 was \$20,859.

NOTE 11 - INVESTMENT IN LIMITED LIABILITY COMPANY

The Organization has transferred land and building located in New Orleans, Louisiana, with a carrying value of \$847,222 and the related mortgage debt in the amount of \$764,047 in exchange for a 30% interest in the limited liability company (LLC). The LLC will develop the land and building into offices and residential rental units. Operations for the development have not yet begun as of the year ended December 31, 2019 and as a result any earnings or losses were incurred by the LLC. The investment will be accounted for using the equity method of accounting. The land and building held in the investment LLC was valued by appraisal at \$3,090,000 in which the organization holds a 30% ownership interest.

NOTE 12 - NEIGHBORWORKS AMERICA

NeighborWorks America is a national network of more than 240 community development and affordable housing organizations. NeighborWorks America provided \$90,450 of expendable grants to be used for the operating needs of the Organization for the year ended December 31, 2018.

NOTE 13- LIQUIDITY

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at year-end:	
Cash and cash equivalents	\$ 79,878
Restricted cash	31,131
Accounts receivable, net of allowance for doubtful accounts	7,515
Mortgage loans receivable, net current portion	6,778
	<u>\$ 125,302</u>
Less those unavailable for general expenditures within one year, due to:	
Restricted Cash	\$ 31,131
Donor-restricted for specified purpose	42,552
	<u>\$ 73,683</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 51,619</u>

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13- LIQUIDITY (continued)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The Organization created a partnership through the formation of GCE NHS Freret Street, LLC. The partnership is intended to develop a residential and commercial building that will generate future cash flows for the Organization.

NOTE 14- COMPENSATION

The Board of Directors serves the Organization without compensation.

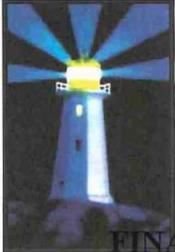
NOTE 15- RELATED PARTIES

During 2018, a board member loaned the funds to pay property taxes in the amount of \$4,160.

NOTE 16- SUBSEQUENT EVENTS

Management evaluated subsequent events through June 30, 2019, the date which the financial statements were available to be issued.

OTHER AUDITOR'S REPORTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Neighborhood Housing Services of New Orleans, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bernard & Franks

Metairie, Louisiana
June 30, 2019

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting

- Material Weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness _____ Yes X None reported

Noncompliance material to the financial statements noted? _____ Yes X No

Federal Awards

The Organization did not receive federal awards in excess of \$750,000 during the year ended December 31, 2018 and, therefore, is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Section II – Internal Control over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements**

Internal Control over Financial Reporting

There were no findings noted during the audit for the year ended December 31, 2018 related to internal control over financial reporting.

Compliance and Other Matters

No compliance findings material to the financial statements were reported during the audit for the financial statements for the year December 31, 2018.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER
PAYMENTS TO EXECUTIVE DIRECTOR**

FOR THE YEAR ENDED DECEMBER 31, 2018

Agency Head Name: Amy Baptiste, Executive Director

<u>Purpose:</u>	<u>Amount</u>
Salary	\$ 102,397
Benefits-insurance	3,072
Reimbursements	<u>7,299</u>
Total	<u>\$ 112,768</u>

NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.
SUPPLEMENTARY INFORMATION (UNAUDITED)
STATEMENT OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA® CAPITAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

ASSETS

Cash	\$	2,955
Due from Operating Account		323,920
Mortgage loans receivable		972,600
Allowance for uncollectible loans receivable		(972,600)
Deferred loans		283,956
Allowance for uncollectible loans		(283,956)
Other real estate owned		13,125
Total		\$ 340,000

NET ASSETS

Endowment with donor restrictions	\$	340,000
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DETAIL OF 'DUE FROM OPERATING ACCOUNT' IN THE
STATEMENT OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA® CAPITAL FUND

Balance at Beginning of Year	\$	273,875
Add:		
Transfer to Operating Funds		49,045
Current years sales of properties		1,000
Repayment of fully-reserved soft-second loan		-
Balance at End of Year		\$ 323,920