

ANNUAL FINANCIAL REPORT
VILLAGE DE JARDIN APARTMENTS
JUNE 30, 2018

VILLAGE DE JARDIN APARTMENTS

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JUNE 30, 2018

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Duplantier
Hrapmann
Hogan &
Maher, LLP

INDEPENDENT AUDITOR'S REPORT

William G. Stamm, CPA
Lindsay J. Calub, CPA, LLC
Guy L. Duplantier, CPA
Michelle H. Cunningham, CPA
Dennis W. Dillon, CPA
Grady C. Lloyd, III CPA

Heather M. Jovanovich, CPA
Terri L. Kitto, CPA

Michael J. O'Rourke, CPA
David A. Burgard, CPA
Clifford J. Giffin, Jr., CPA

A.J. Duplantier, Jr., CPA
(1919-1985)

Felix J. Hrapmann, Jr., CPA
(1919-1990)

William R. Hogan, Jr., CPA
(1920-1996)

James Maher, Jr., CPA
(1921-1999)

New Orleans

1615 Poydras Street,
Suite 2100
New Orleans, LA 70112
Phone: (504) 586-8866
Fax: (504) 525-5888

Northshore

1290 Seventh Street
Slidell, LA 70458
Phone: (985) 641-1272
Fax: (985) 781-6497

Houma

247 Corporate Drive
Houma, LA 70360
Phone: (985) 868-2630
Fax: (985) 872-3833

Napoleonville

5047 Highway 1
P.O. Box 830
Napoleonville, LA 70390
Phone: (985) 369-6003
Fax: (985) 369-9941

September 14, 2018

Louisiana Housing Corporation
Village de Jardin Apartments
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Village de Jardin Apartments, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Village de Jardin Apartments' basic financial statements as listed in the index to report.

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 misstatements, whether due to fraud or error.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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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 risk 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Village de Jardin Apartments as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements include only the activities of Village de Jardin Apartments and are not intended to present fairly the combined financial position, combined results of operations or combined cash flows of the Louisiana Housing Corporation in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the index to report, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018, on our consideration of Village de Jardin Apartments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village de Jardin Apartments' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Village de Jardin Apartments' internal control over financial reporting and compliance.

Duplantier, Hrapmann, Hogan & Maher, LLP

New Orleans, Louisiana

VILLAGE DE JARDIN APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

The Management's Discussion and Analysis of Village de Jardin Apartments' (the Complex) financial performance presents a narrative overview and analysis of the Complex's financial activities for the year ended June 30, 2018. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the Complex's financial statements.

FINANCIAL HIGHLIGHTS

- The Complex's net position was \$42,652,410 at June 30, 2018, which represents a 3% decrease from last fiscal year. The largest portion of the net position was \$42,029,938 and reflects the Complex's net investment in capital assets (building, furniture, and equipment). The Complex uses these capital assets to provide services to tenants.
- The Complex's total revenues increased by \$24,344, or 1%, total expenses decreased by \$14,968, or 1%, and consequently, change in net position from prior year increased by \$39,312, or 5%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Complex's basic financial statements. These financial statements consist of two sections - Management's Discussion and Analysis (this section) and basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the Complex as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the Complex is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Complex's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the Complex's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by *Government Accounting Standards*.

VILLAGE DE JARDIN APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE ENTITY

Condensed Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Current assets	\$ 635,292	\$ 576,265
Security deposits	58,150	57,900
Capital assets	42,029,938	43,277,233
Total assets	<u>42,723,380</u>	<u>43,911,398</u>
Deferred outflows of resources	<u>32,847</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 42,756,227</u>	<u>\$ 43,911,398</u>
Current liabilities	\$ 24,069	\$ 72,919
Security deposits	58,650	58,100
Total liabilities	<u>82,719</u>	<u>131,019</u>
Deferred inflows of resources	<u>21,098</u>	<u>2,063</u>
Net position		
Net investment in capital assets	42,029,938	43,277,233
Unrestricted	622,472	501,083
Total net position	<u>42,652,410</u>	<u>43,778,316</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 42,756,227</u>	<u>\$ 43,911,398</u>

CAPITAL ASSETS

At the end of fiscal year 2018, the Complex had \$42,029,938 net investment in capital assets. This amount represents a decrease of \$1,247,295 since last year resulting from depreciation expense. There were no additions or disposals of assets during fiscal year 2018.

NET POSITION

The Complex's net position includes contributions from owner for capital assets and operational revenues and expenses. The Complex's net position decreased from the prior year by \$1,125,906 primarily due to depreciation expense and distributions to owners.

VILLAGE DE JARDIN APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE ENTITY (Continued)

Condensed Statements of Revenues, Expenses,
and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 1,962,610	\$ 1,938,843
Operating expenses	<u>2,652,920</u>	<u>2,667,888</u>
Operating (loss)	(690,310)	(729,045)
Non-operating revenue	<u>577</u>	<u>-</u>
Change in net position	(689,733)	(729,045)
Net position - beginning of year	43,778,316	45,051,263
Contributions from owner	112,839	108,952
Distributions to owner	<u>(549,012)</u>	<u>(652,854)</u>
Net position - end of year	<u>\$ 42,652,410</u>	<u>\$ 43,778,316</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Monthly occupancy levels were steady around 99% over the fiscal year ended June 30, 2018. Management remains steadfast to maintaining the occupancy levels for the complex, and thus keeping corresponding rental receipts at a consistent level. Continued development of the surrounding New Orleans area infrastructure and owner involvement should provide for maintaining a high occupancy rate, along with a high level of operating revenues. Average rents in the New Orleans area increased by 8.28% over last year, which means affordable housing is a must in the area. Management expects that the results from operations for the fiscal year ending June 30, 2019, will provide for owner distributions near current levels.

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information can be addressed to:

Louisiana Housing Corporation
Carlos Dickerson, Chief Fiscal Officer
2415 Quail Drive
Baton Rouge, Louisiana 70808

VILLAGE DE JARDIN APARTMENTS
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

Current assets:

Cash on hand and in banks	\$ 625,907
Tenant receivables, net of allowance for doubtful accounts	9,385
Total current assets	635,292

Deposits held in trust:

Tenant security deposits	58,150
Total deposits held in trust	58,150

Capital assets:

Building	49,812,674
Furniture, fixtures, and equipment	191,911
	50,004,585
Less accumulated depreciation	7,974,647
Net capital assets	42,029,938

DEFERRED OUTFLOWS OF RESOURCES

Prepaid expenses	32,847
	32,847

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 42,756,227
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LIABILITIES

Current liabilities

Accounts payable	\$ 227
Accrued expenses	23,842
Total current liabilities	24,069

Tenant security deposits	58,650
Total liabilities	82,719

DEFERRED INFLOWS OF RESOURCES

Advanced rent	21,098
	21,098

NET POSITION

Net investment in capital assets	42,029,938
Unrestricted - board designated	505,677
Unrestricted	116,795
Total net position	42,652,410

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 42,756,227
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See accompanying notes.

VILLAGE DE JARDIN APARTMENTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Rental income	\$ 1,911,144
Tenant charges	51,466
Total operating revenues	<u>1,962,610</u>
OPERATING EXPENSES	
Administrative	49,961
Personnel services	261,787
Operating and maintenance	426,341
Utilities	443,660
Depreciation	1,247,295
Insurance	112,839
Bad debt expense	4,079
Management fees	106,958
Total operating expenses	<u>2,652,920</u>
Operating loss	(690,310)
NON-OPERATING REVENUE	
Interest income	577
Total non-operating revenues	<u>577</u>
Change in net position	(689,733)
NET POSITION - Beginning of year	43,778,316
Contributions from owner	112,839
Distributions to owner	<u>(549,012)</u>
NET POSITION - End of year	<u><u>\$ 42,652,410</u></u>

See accompanying notes.

VILLAGE DE JARDIN APARTMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:

Rental receipts	\$ 1,918,351
Other receipts	51,466
Tenant security deposits	300
	1,970,117

Cash paid for:

Administrative expenses	(49,961)
Personnel services	(261,787)
Operating and maintenance	(475,191)
Utilities	(476,507)
Insurance	(112,839)
Management fees	(106,958)
	(1,483,243)

Net cash provided by operating activities	486,874
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CASH FLOWS FROM INVESTING ACTIVITIES

Other non-operating revenues	577
Net cash provided by investing activities	577

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Contributions from owner	112,839
Distributions to owner	(549,012)
Net cash used in non-capital financing activities	(436,173)

Net change in cash	51,278
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Cash - Beginning of year	574,629
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CASH - END OF YEAR	\$ 625,907
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RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (690,310)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,247,295
Changes in operating assets and liabilities:	
Accounts receivable	(7,749)
Tenant security deposits	(250)
Prepaid expenses	(32,847)
Accounts payable	(41,252)
Accrued expenses	(7,598)
Liability for tenant security deposits	550
Deferred revenue	19,035
Net cash provided by operating activities	\$ 486,874

See accompanying notes.

VILLAGE DE JARDIN APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NATURE OF ORGANIZATION AND OPERATIONS:

Village de Jardin Apartments (the Complex) is a 224-unit apartment complex in New Orleans, Louisiana. The Complex was purchased on October 1, 1995, by the Louisiana Housing Corporation (LHC or the owner), the successor to the Louisiana Housing Finance Agency, at a cost of \$1 under the U.S. Department of Housing and Urban Development's Property Disposition Program. Under the terms of the purchase agreement, the owner is bound by certain use restrictions of the apartment complex, which primarily relate to low income housing. The Complex suffered significant damage in 2005 as a result of Hurricane Katrina and underwent renovations. The Complex resumed operations in April 2012. The Complex accepts rent certificates administered by the local housing authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

Since the Complex is owned by the Louisiana Housing Corporation, an instrumentality of the State of Louisiana, the financial statements of the Complex have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying financial statements present only the transactions of the Complex and do not present any of the assets, liabilities, and operations of the Louisiana Housing Corporation.

Basis of Accounting:

The Complex is considered a proprietary fund and is presented as a business-type activity. Proprietary fund types are used to account for activities that are similar to those found in the private sector where the determination of operating income and changes in net position is necessary or useful for sound financial administration. The GAAP used for proprietary funds are generally those applicable to similar businesses in the private sector (accrual basis accounting).

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

VILLAGE DE JARDIN APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Accounting: (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses are those expenses that are essential to the primary operations of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Complex's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Cash and Cash Equivalents:

The Complex's cash and cash equivalents include all highly liquid deposits and debt instruments acquired with original maturities of three months or less. The tenant security deposits have use restrictions and are not considered cash equivalents.

Tenant Receivables:

An allowance for uncollectible accounts is established based on prior experience and management's assessment for the collectability of those accounts. Accounts are considered past due on a contractual term. Management charges late fees on past due accounts but not interest. Allowance for doubtful accounts for the year ended June 30, 2018, was \$616.

Tenant Security Deposits:

Regulations of the LHC require that security deposits be segregated from the general funds of the Complex. Accordingly, the Complex holds all security deposit funds in a separate, interest-bearing account. As of June 30, 2018, the tenant security deposit liability was greater than the restricted cash for tenant security deposits by \$500.

VILLAGE DE JARDIN APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets:

Capital assets are carried at cost less accumulated depreciation. The Complex capitalizes all property and equipment with initial, individual costs greater than \$5,000. The cost of maintenance and repairs is charged to expense as incurred; significant repairs and betterments are capitalized. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	40 years
Furniture and equipment	5 years

Net Position:

In the Statement of Net Position, the difference between the Complex's assets and deferred outflows of resources and liabilities and deferred inflows of resources is recorded as net position. The three components of net position are as follows:

Net investment in capital assets - The category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes or other borrowings attributable to the acquisition, construction, or improvement of capital assets.

Restricted net position - Net positions that are restricted by external sources such as creditors, grantors, contributors, or by law are reported separately as restricted net position.

Unrestricted net position - Net positions that do not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows and Inflows of Resources:

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources that represents a consumption of net position that applies to future period(s) and will not be recognized as an outflow of resources (expense) until then. The Complex has one item that qualifies for reporting in this category, which is prepaid expenses.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources that represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Complex has one item that meets the criterion for this category, related to advanced rent.

VILLAGE DE JARDIN APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Rental Income:

The Complex receives rental income from units which are reserved for people with low and moderate incomes. Rental income is recognized as the rents are earned. Rental payments received in advance are reported as deferred inflows of resources. All leases between the Complex and its tenants are operating leases. Contract rent increases are prohibited without the approval of the LHC Board of Directors. The Complex derives substantially all of its revenues from its rental activities in New Orleans, Louisiana.

Tenant Charges:

Tenant charges are recognized as earned and consist of charges to tenants for gate access cards, late fees, NSF fees, application fees, cleaning fees, pet fees, laundry income, cable television income, and vending income.

Advertising:

The Complex expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2018, was \$6,979.

2. CASH AND CASH EQUIVALENTS:

At June 30, 2018, the Complex had cash and cash equivalents which were demand deposits at a local financial institution.

The deposit accounts are subject to custodial credit risk; that is, in the event of a bank failure, the funds may not be returned. To mitigate this risk, state law requires deposits to be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The fair value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 2018, the Complex's demand deposits (bank balances) were in excess of FDIC insurance or pledged collateral held by the Federal Reserve Bank in the amount of \$679,836.

VILLAGE DE JARDIN APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3. CAPITAL ASSETS:

Following is a summary of the changes in capital assets for the year ended June 30, 2018:

	Balance <u>June 30, 2017</u>	Additions	Disposals	Balance <u>June 30, 2018</u>
Furniture & fixtures	\$ 182,019	\$ -	\$ -	\$ 182,019
Buildings	49,812,674	-	-	49,812,674
Equipment	9,892	-	-	9,892
	<u>50,004,585</u>	<u>-</u>	<u>-</u>	<u>50,004,585</u>
Accumulated depreciation	<u>(6,727,352)</u>	<u>(1,247,295)</u>	<u>-</u>	<u>(7,974,647)</u>
Capital assets, net	<u>\$ 43,277,233</u>	<u>\$ (1,247,295)</u>	<u>\$ -</u>	<u>\$ 42,029,938</u>

Depreciation expense for the year ended June 30, 2018, was \$1,247,295.

4. MANAGEMENT FEES:

During the year ended June 30, 2016, the Complex entered into a management agreement with Latter and Blum Property Management, Inc. (LBPMI) to conduct services in connection with the leasing, management, and operation of the apartment complex. In exchange, the Complex shall pay LBPMI a monthly management fee equal to the greater of 5.5% of gross receipts collected or \$6,720 per month (\$30 per month per unit). The term of the agreement is for the period October 1, 2015 through June 30, 2018. For the year ended June 30, 2018, there was \$106,958 in management fees incurred.

5. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS:

The Complex's operations are concentrated in the multi-family real estate market. In addition, the Complex operates in a heavily regulated environment. The operations of the Complex are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD.

Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by or passed through HUD. Such changes may occur with little notice of inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Future operations could be affected by changes in economic or other conditions in the geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

VILLAGE DE JARDIN APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

6. UNRESTRICTED – BOARD DESIGNATED:

The Complex, although not required by an agreement or external sources but considered best practice, maintains a separate cash account designated for insurance and capital replacement. The Complex deposits \$250 per unit per year, or \$56,000 annually. The balance as of June 30, 2018, is \$505,677 and is reflected in net position as unrestricted – board designated.



Duplantier
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(1921-1999)

New Orleans
1615 Poydras Street,
Suite 2100
New Orleans, LA 70112
Phone: (504) 586-8866
Fax: (504) 525-5888

Northshore
1290 Seventh Street
Slidell, LA 70458
Phone: (985) 641-1272
Fax: (985) 781-6497

Houma
247 Corporate Drive
Houma, LA 70360
Phone: (985) 868-2630
Fax: (985) 872-3833

Napoleonville
5047 Highway 1
P.O. Box 830
Napoleonville, LA 70390
Phone: (985) 369-6003
Fax: (985) 369-9941

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

September 14, 2018

To the Board of Directors of
Louisiana Housing Corporation
Village de Jardin Apartments
Baton Rouge, Louisiana

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 Village de Jardin Apartments, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Village de Jardin Apartments' basic financial statements, and have issued our report thereon dated September 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Village de Jardin Apartments' 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 Village de Jardin Apartments' internal control. Accordingly, we do not express an opinion on the effectiveness of Village de Jardin Apartments' internal control.

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Members
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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 Village de Jardin Apartments' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village de Jardin Apartments' financial statements are free from material misstatements, 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. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying summary schedule of findings as item 18-01.

Management's Response to Findings

The Complex's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Complex's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Duplantier, Hrapmann, Hogan & Maher, LLP

New Orleans, Louisiana

VILLAGE DE JARDIN APARTMENTS
SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITOR'S RESULTS:

1. The opinion issued on the financial statements of Village de Jardin Apartments for the year ended June 30, 2018 was unmodified.
2. Internal Control

Material weaknesses: None noted
Significant deficiencies: None noted
3. Compliance

Noncompliance material to financial statements: One instance was noted and disclosed in accordance with *Government Auditing Standards* as required.
4. No management letter was issued.

FINDINGS REQUIRED TO BE REPORTED UNDER GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS:

Compliance with Laws and Regulations

18-01 FDIC and Pledged Collateral Coverage

During the audit of the Complex, it was noted that \$679,836 of cash balances held at year-end were not fully covered by FDIC insurance and pledged securities. The insufficient collateral was due to incorrect account set-up at the financial institution. Louisiana Revised Statute 49:321 requires that all cash balances held in the bank should be fully collateralized or otherwise secured throughout the year. Cash balances held in the bank that are not fully collateralized could result in a loss of funds. We recommend the Complex monitor cash bank balances and obtain additional pledge securities when necessary to secure cash balances at all times.

SUMMARY OF PRIOR YEAR FINDINGS:

None noted.



Louisiana Housing Corporation

Management Response to Audit Findings FY 2018 Audit (6/30/18)

18-01

Finding:

During the audit of the Corporation, it was noted that \$ 679,836 of cash balance at year end held were not fully covered by FDIC insurance and pledged securities.

Recommendation:

We recommend the Corporation monitor cash bank balances and obtain additional pledge securities when necessary to secure cash balance at all times.

Management Response:

The insufficient collateral was due to the account type designation placed on those funds at the initial set up on those deposits. We have contacted the bank and the correct designation has been placed on those accounts and those accounts will be fully collateralized as of the date of this response. We will get monthly updates on the status of those accounts with notification on those pledged balances from the banking holding those funds.

C. Dukerson

ANNUAL FINANCIAL REPORT
WILLOWBROOK APARTMENTS
JUNE 30, 2018

WILLOWBROOK APARTMENTS

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JUNE 30, 2018

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Duplantier
Hrapmann
Hogan &
Maher, LLP

INDEPENDENT AUDITOR'S REPORT

William G. Stamm, CPA
Lindsay J. Calub, CPA, LLC
Guy L. Duplantier, CPA
Michelle H. Cunningham, CPA
Dennis W. Dillon, CPA
Grady C. Lloyd, III CPA

Heather M. Jovanovich, CPA
Terri L. Kitto, CPA

Michael J. O'Rourke, CPA
David A. Burgard, CPA
Clifford J. Giffin, Jr., CPA

A.J. Duplantier, Jr., CPA
(1919-1985)

Felix J. Hrapmann, Jr., CPA
(1919-1990)

William R. Hogan, Jr., CPA
(1920-1996)

James Maher, Jr., CPA
(1921-1999)

New Orleans

1615 Poydras Street,
Suite 2100
New Orleans, LA 70112
Phone: (504) 586-8866
Fax: (504) 525-5888

Northshore

1290 Seventh Street
Slidell, LA 70458
Phone: (985) 641-1272
Fax: (985) 781-6497

Houma

247 Corporate Drive
Houma, LA 70360
Phone: (985) 868-2630
Fax: (985) 872-3833

Napoleonville

5047 Highway 1
P.O. Box 830
Napoleonville, LA 70390
Phone: (985) 369-6003
Fax: (985) 369-9941

September 14, 2018

Louisiana Housing Corporation
Willowbrook Apartments
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Willowbrook Apartments, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Willowbrook Apartments' basic financial statements as listed in the index to report.

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 misstatements, whether due to fraud or error.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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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 risk 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Willowbrook Apartments as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements include only the activities of Willowbrook Apartments and are not intended to present fairly the combined financial position, combined results of operations or combined cash flows of the Louisiana Housing Corporation in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the index to report, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018, on our consideration of Willowbrook Apartments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Willowbrook Apartments' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Willowbrook Apartments' internal control over financial reporting and compliance.

Duplantier, Hrapmann, Hogan & Maher, LLP

New Orleans, Louisiana

WILLOWBROOK APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

The Management's Discussion and Analysis of Willowbrook Apartments' (the Complex) financial performance presents a narrative overview and analysis of the Complex's financial activities for the year ended June 30, 2018. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the Complex's financial statements.

FINANCIAL HIGHLIGHTS

- The Complex's net position was \$24,340,072 at June 30, 2018, which represents a 4% decrease from last fiscal year. The largest portion of the net position was \$22,627,952 and reflects the Complex's net investment in capital assets (building, furniture, equipment, and sitework). The Complex uses these capital assets to provide services to tenants.
- The Complex's total revenues increased by \$16,860, or less than 1%, total expenses increased by \$114,804, or 4%, and consequently, change in net position decreased by \$97,944, or 28%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Complex's basic financial statements. These financial statements consist of two sections - Management's Discussion and Analysis (this section) and basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the Complex as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the Complex is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Complex's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the Complex's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by *Government Accounting Standards*.

WILLOWBROOK APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE ENTITY

Condensed Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Current assets	\$ 1,864,434	\$ 1,723,765
Security deposits	127,349	125,079
Capital assets	<u>22,627,952</u>	<u>23,757,032</u>
Total assets	<u>\$ 24,619,735</u>	<u>\$ 25,605,876</u>
Current liabilities	\$ 75,866	\$ 53,078
Security deposits	<u>129,609</u>	<u>128,964</u>
Total liabilities	<u>205,475</u>	<u>182,042</u>
Deferred inflows of resources	<u>74,188</u>	<u>56,284</u>
Net position		
Net investment in capital assets	22,627,952	23,757,032
Unrestricted	<u>1,712,120</u>	<u>1,610,518</u>
Total net position	<u>24,340,072</u>	<u>25,367,550</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,619,735</u>	<u>\$ 25,605,876</u>

CAPITAL ASSETS

At the end of fiscal year 2018, the Complex had \$22,627,952 net investment in capital assets. This amount represents a decrease of \$1,129,080 since last year resulting from depreciation expense of \$1,153,451 offset by additions of \$24,371 for the current fiscal year. There were no disposals of assets during fiscal year 2018.

NET POSITION

The Complex's net position includes contributions from owner for capital assets and operational revenues and expenses. The Complex's net position decreased from the prior year by \$1,027,478, primarily due to distributions to owner.

WILLOWBROOK APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE ENTITY (Continued)

Condensed Statements of Revenues, Expenses,
and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 3,586,140	\$ 3,525,871
Operating expenses	3,339,096	3,224,292
Operating income	<u>247,044</u>	<u>301,579</u>
Non-operating revenue	<u>4,828</u>	<u>48,237</u>
Change in net position	251,872	349,816
Net position - beginning of year	25,367,550	26,359,746
Contributions from owner	101,502	97,680
Distributions to owner	<u>(1,380,852)</u>	<u>(1,439,692)</u>
Net position - end of year	<u>\$ 24,340,072</u>	<u>\$ 25,367,550</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Monthly occupancy levels were steady around 94% over the fiscal year ended June 30, 2018. Management remains steadfast to maintaining the occupancy levels for the complex, and thus keeping corresponding rental receipts at a consistent level. Continued development of the surrounding New Orleans area infrastructure and owner involvement should provide for maintaining a high occupancy rate, along with a high level of operating revenues. Average rents in the New Orleans area increased by 8.28% over last year, which means affordable housing is a must in the area. Management expects that the results from operations for the fiscal year ending June 30, 2019, will provide for owner distributions near current levels.

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information can be addressed to:

Louisiana Housing Corporation
Carlos Dickerson, Chief Fiscal Officer
2415 Quail Drive
Baton Rouge, Louisiana 70808

WILLOWBROOK APARTMENTS
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

Current assets:

Cash on hand and in banks	\$ 1,793,847
Tenant receivables, net of allowance for doubtful accounts	69,542
Other receivables	45
Deposits	1,000
Total current assets	1,864,434

Deposits held in trust:

Tenant security deposits	127,349
Total deposits held in trust	127,349

Capital assets:

Building	34,235,688
Sitework	149,151
Furniture, fixtures, and equipment	129,222
	34,514,061
Less: accumulated depreciation	11,886,109
Net capital assets	22,627,952

TOTAL ASSETS \$ 24,619,735

LIABILITIES

Current liabilities:

Accounts payable	\$ 44,634
Accrued expenses	31,232
Total current liabilities	75,866

Tenant security deposits	129,609
Total liabilities	205,475

DEFERRED INFLOWS OF RESOURCES

Advanced rent	74,188
---------------	--------

NET POSITION

Net investment in capital assets	22,627,952
Unrestricted, board designated	1,668,497
Unrestricted	43,623
Total net position	24,340,072

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION \$ 24,619,735

See accompanying notes.

WILLOWBROOK APARTMENTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Rental income	\$ 3,484,753
Tenant charges	101,387
Total operating revenues	<u>3,586,140</u>
OPERATING EXPENSES	
Administrative	104,045
Personnel services	379,063
Operating and maintenance	877,069
Depreciation	1,153,451
Utilities	501,895
Insurance	101,502
Bad debt expense	26,009
Management fees	196,062
Total operating expenses	<u>3,339,096</u>
Operating income	<u>247,044</u>
NON-OPERATING REVENUES	
Miscellaneous income	4,828
Total non-operating revenues	<u>4,828</u>
CHANGE IN NET POSITION	251,872
NET POSITION - Beginning of year	25,367,550
Contributions from owner	101,502
Distributions to owner	<u>(1,380,852)</u>
NET POSITION - End of year	<u><u>\$ 24,340,072</u></u>

See accompanying notes.

WILLOWBROOK APARTMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:	
Rental receipts	\$ 3,481,133
Other receipts	101,419
	<u>3,582,552</u>
Cash paid for:	
Administrative expenses	(104,045)
Tenant security deposits	(1,625)
Personnel services	(379,063)
Operating and maintenance	(854,281)
Utilities	(501,895)
Insurance	(101,502)
Management fees	(196,062)
	<u>(2,138,473)</u>
Net cash provided by operating activities	<u>1,444,079</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Other non-operating revenues	4,828
Contributions from owner	101,502
Distributions to owner	(1,380,852)
Net cash used by non-capital financing activities	<u>(1,274,522)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(24,371)
Net cash used by capital financing activities	<u>(24,371)</u>

Net change in cash	145,186
Cash - beginning of year	1,648,661
CASH - END OF YEAR	<u>\$ 1,793,847</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 247,044
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,153,451
Changes in operating assets and liabilities:	
Accounts receivable	4,517
Tenant security deposits	(2,270)
Liability for tenant security deposits	645
Accounts payable	(6,943)
Accrued expenses	29,731
Deferred revenue	17,904
	<u>17,904</u>
Net cash provided by operating activities	<u>\$ 1,444,079</u>

See accompanying notes.

WILLOWBROOK APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NATURE OF ORGANIZATION AND OPERATIONS:

Willowbrook Apartments (the Complex) is a 408-unit apartment complex in New Orleans, Louisiana. The Complex was purchased on October 1, 1995, by the Louisiana Housing Corporation (LHC or the owner), the successor to the Louisiana Housing Finance Agency, at a cost of \$1 under the U.S. Department of Housing and Urban Development's Property Disposition Program. Under the terms of the purchase agreement, the owner is bound by certain use restrictions of the apartment complex, which primarily relate to low income housing. The Complex suffered significant damage in 2005 as a result of Hurricane Katrina and underwent renovations. The Complex resumed operations in May 2008. The Complex accepts rent certificates administered by the local housing authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

Since the Complex is owned by the Louisiana Housing Corporation, an instrumentality of the State of Louisiana, the financial statements of the Complex have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying financial statements present only the transactions of the Complex and do not present any of the assets, liabilities, and operations of the Louisiana Housing Corporation.

Basis of Accounting:

The Complex is considered a proprietary fund and is presented as a business-type activity. Proprietary fund types are used to account for activities that are similar to those found in the private sector where the determination of operating income and changes in net position is necessary or useful for sound financial administration. The GAAP used for proprietary funds are generally those applicable to similar businesses in the private sector (accrual basis accounting).

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

WILLOWBROOK APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Accounting: (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses are those expenses that are essential to the primary operations of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Complex's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Cash and Cash Equivalents:

The Complex's cash and cash equivalents include all highly liquid deposits and debt instruments acquired with original maturities of three months or less. The tenant security deposits have use restrictions and are not considered cash equivalents.

Tenant Receivables:

An allowance for uncollectible accounts is established based on prior experience and management's assessment for the collectability of those accounts. Accounts are considered past due on a contractual term. Management charges late fees on past due accounts but not interest. Allowance for doubtful accounts for the year ended June 30, 2018, was \$36,815.

Tenant Security Deposits:

Regulations of the LHC require that security deposits be segregated from the general funds of the Complex. Accordingly, the Complex holds all security deposit funds in a separate, interest-bearing account. As of June 30, 2018, the tenant security deposit liability was greater than the restricted cash for tenant security deposits by \$2,260.

WILLOWBROOK APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets:

Capital assets are carried at cost less accumulated depreciation. The Complex capitalizes all property and equipment with initial, individual costs greater than \$5,000. The cost of maintenance and repairs is charged to expense as incurred; significant repairs and betterments are capitalized. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings and improvements	15-30 years
Furniture and equipment	5-15 years

Net Position:

In the Statement of Net Position, the difference between the Complex's assets and deferred outflows of resources and liabilities and deferred inflows of resources is recorded as net position. The three components of net position are as follows:

Net investment in capital assets - The category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes or other borrowings attributable to the acquisition, construction, or improvement of capital assets.

Restricted net position - Net positions that are restricted by external sources such as creditors, grantors, contributors, or by law are reported separately as restricted net position.

Unrestricted net position - Net positions that do not meet the definition of "restricted" or "net investment in capital assets."

Deferred Inflows of Resources:

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources that represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Complex has one item that meets the criterion for this category, related to advanced rent.

Rental Income:

The Complex receives rental income from units which are reserved for people with low and moderate incomes. Rental income is recognized as the rents are earned. Rental payments received in advance are reported as deferred inflows of resources. All leases between the Complex and its tenants are operating leases. Contract rent increases are prohibited without the approval of the LHC Board of Directors. The Complex derives substantially all of its revenues from its rental activities in New Orleans, Louisiana.

WILLOWBROOK APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Tenant Charges:

Tenant charges are recognized as earned and consist of charges to tenants for gate access cards, late fees, NSF fees, application fees, cleaning fees, pet fees, laundry income, cable television income, and vending income.

Advertising:

The Complex expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2018, was \$29,336.

2. CASH AND CASH EQUIVALENTS:

At June 30, 2018, the Complex had cash and cash equivalents which were demand deposits at a local financial institution.

The deposit accounts are subject to custodial credit risk; that is, in the event of a bank failure, the funds may not be returned. To mitigate this risk, state law requires deposits to be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The fair value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. At June 30, 2018, the Complex's demand deposits (bank balances) were in excess of FDIC insurance or pledged collateral held by the Federal Reserve Bank in the amount of \$1,974,871.

3. CAPITAL ASSETS:

Following is a summary of the changes in capital assets for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Disposals	Balance June 30, 2018
Furniture & fixtures	\$ 122,972	\$ 6,250	\$ -	\$ 129,222
Buildings	33,403,098	-	-	33,403,098
Building improvements	963,620	18,121	-	981,741
	<u>34,489,690</u>	<u>24,371</u>	<u>-</u>	<u>34,514,061</u>
Accumulated depreciation	<u>(10,732,658)</u>	<u>(1,153,451)</u>	<u>-</u>	<u>(11,886,109)</u>
Capital assets, net	<u>\$ 23,757,032</u>	<u>\$ (1,129,080)</u>	<u>\$ -</u>	<u>\$ 22,627,952</u>

Depreciation expense for the year ended June 30, 2018, was \$1,153,451.

WILLOWBROOK APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4. MANAGEMENT FEES:

During the year ended June 30, 2016, the Complex entered into a management agreement with Latter and Blum Property Management, Inc. (LBPMI) to conduct services in connection with the leasing, management, and operation of the apartment complex. In exchange, the Complex shall pay LBPMI a monthly management fee equal to the greater of 5.5% of gross receipts collected or \$1,800 per month (\$30 per month per unit). The term of the agreement is for the period October 1, 2015 through June 30, 2018. For the year ended June 30, 2018, there was \$196,062 in management fees incurred.

5. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS:

The Complex's operations are concentrated in the multi-family real estate market. In addition, the Complex operates in a heavily regulated environment. The operations of the Complex are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD.

Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by or passed through HUD. Such changes may occur with little notice of inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Future operations could be affected by changes in economic or other conditions in the geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

6. UNRESTRICTED – BOARD DESIGNATED:

The Complex, although not required by an agreement or external sources but considered best practice, maintains a separate cash account designated for insurance and capital replacement. The Complex deposits \$350 per unit per year, or \$142,800 annually. The balance as of June 30, 2018, is \$1,668,497 and is reflected in net position as unrestricted – board designated.



Duplantier
Hrapmann
Hogan &
Maher, LLP

William G. Stamm, CPA
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Grady C. Lloyd, III CPA

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Clifford J. Giffin, Jr., CPA

A.J. Duplantier, Jr., CPA
(1919-1985)
Felix J. Hrapmann, Jr., CPA
(1919-1990)
William R. Hogan, Jr., CPA
(1920-1996)
James Maher, Jr., CPA
(1921-1999)

New Orleans
1615 Poydras Street,
Suite 2100
New Orleans, LA 70112
Phone: (504) 586-8866
Fax: (504) 525-5888

Northshore
1290 Seventh Street
Slidell, LA 70458
Phone: (985) 641-1272
Fax: (985) 781-6497

Houma
247 Corporate Drive
Houma, LA 70360
Phone: (985) 868-2630
Fax: (985) 872-3833

Napoleonville
5047 Highway 1
P.O. Box 830
Napoleonville, LA 70390
Phone: (985) 369-6003
Fax: (985) 369-9941

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

September 14, 2018

To the Board of Directors of
Louisiana Housing Corporation
Willowbrook Apartments
Baton Rouge, Louisiana

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 Willowbrook Apartments, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Willowbrook Apartments' basic financial statements, and have issued our report thereon dated September 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Willowbrook Apartments' 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 Willowbrook Apartments' internal control. Accordingly, we do not express an opinion on the effectiveness of Willowbrook Apartments' internal control.

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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 Willowbrook Apartments' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Willowbrook Apartments' financial statements are free from material misstatements, 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. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying summary schedule of findings as item 18-01.

Management's Response to Findings

The Complex's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Complex's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Duplantier, Hrapmann, Hogan & Maher, LLP

New Orleans, Louisiana

WILLOWBROOK APARTMENTS
SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITOR'S RESULTS:

1. The opinion issued on the financial statements of Willowbrook Apartments for the year ended June 30, 2018 was unmodified.

2. Internal Control

Material weaknesses: None noted
Significant deficiencies: None noted

3. Compliance

Noncompliance material to financial statements: One instance was noted and disclosed in accordance with *Government Auditing Standards* as required.

4. No management letter was issued.

FINDINGS REQUIRED TO BE REPORTED UNDER GENERALLY ACCEPTED
GOVERNMENTAL AUDITING STANDARDS:

Compliance with Laws and Regulations

18-01 FDIC and Pledged Collateral Coverage

During the audit of the Complex, it was noted that \$1,974,871 of cash balances held at year-end were not fully covered by FDIC insurance and pledged securities. The insufficient collateral was due to incorrect account set-up at the financial institution. Louisiana Revised Statute 49:321 requires that all cash balances held in the bank should be fully collateralized or otherwise secured throughout the year. Cash balances held in the bank that are not fully collateralized could result in a loss of funds. We recommend the Complex monitor cash bank balances and obtain additional pledged securities when necessary to secure cash balances at all times.

SUMMARY OF PRIOR YEAR FINDINGS:

None noted.



Louisiana Housing Corporation

Management Response to Audit Findings FY 2018 Audit (6/30/18)

18-01

Finding:

During the audit of the Corporation, it was noted that \$ 1,974,871 of cash balance at year end held were not fully covered by FDIC insurance and pledged securities.

Recommendation:

We recommend the Corporation monitor cash bank balances and obtain additional pledge securities when necessary to secure cash balance at all times.

Management Response:

The insufficient collateral was due to the account type designation placed on those funds at the initial set up on those deposits. We have contacted the bank and the correct designation has been placed on those accounts and those accounts will be fully collateralized as of the date of this response. We will get monthly updates on the status of those accounts with notification on those pledged balances from the banking holding those funds.

C. Cunningham

ANNUAL FINANCIAL REPORT
MID-CITY GARDENS APARTMENTS
JUNE 30, 2018

MID-CITY GARDENS APARTMENTS

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JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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New Orleans

1615 Poydras Street,
Suite 2100
New Orleans, LA 70112
Phone: (504) 586-8866
Fax: (504) 525-5888

Northshore

1290 Seventh Street
Slidell, LA 70458
Phone: (985) 641-1272
Fax: (985) 781-6497

Houma

247 Corporate Drive
Houma, LA 70360
Phone: (985) 868-2630
Fax: (985) 872-3833

Napoleonville

5047 Highway 1
P.O. Box 830
Napoleonville, LA 70390
Phone: (985) 369-6003
Fax: (985) 369-9941

September 14, 2018

Louisiana Housing Corporation
Mid-City Gardens Apartments
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Mid-City Gardens Apartments, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mid-City Gardens Apartments' basic financial statements as listed in the index to report.

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 misstatements, whether due to fraud or error.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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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 risk 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-City Gardens Apartments as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements include only the activities of Mid-City Gardens Apartments and are not intended to present fairly the combined financial position, combined results of operations or combined cash flows of the Louisiana Housing Corporation in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the index to report, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018, on our consideration of Mid-City Gardens Apartments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mid-City Gardens Apartments' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mid-City Gardens Apartments' internal control over financial reporting and compliance.

Duplantier, Hrapmann, Hogan & Maher, LLP

New Orleans, Louisiana

MID-CITY GARDENS APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

The Management's Discussion and Analysis of Mid-City Gardens Apartments' (the Complex) financial performance presents a narrative overview and analysis of the Complex's financial activities for the year ended June 30, 2018. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the Complex's financial statements.

FINANCIAL HIGHLIGHTS

- The Complex's net position was \$11,443,964 at June 30, 2018, which represents a 4% decrease from last fiscal year. The largest portion of the net position was \$11,441,601 and reflects the Complex's net investment in capital assets (building, furniture, and equipment). The Complex uses these capital assets to provide services to tenants.
- The Complex's total revenues decreased by \$5,313, or 1%, total expenses increased by \$42,155, or 4%, and consequently, change in net position decreased by \$47,468, or 8%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Complex's basic financial statements. These financial statements consist of two sections - Management's Discussion and Analysis (this section) and basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the Complex as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the Complex is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Complex's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the Complex's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Government Accounting Standards.

MID-CITY GARDENS APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE ENTITY

Condensed Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Current assets	\$ 29,008	\$ 11,304
Security deposits	16,682	15,736
Capital assets	11,441,601	11,909,745
Total assets	<u>\$ 11,487,291</u>	<u>\$ 11,936,785</u>
Current liabilities	\$ 20,030	\$ 54,531
Security deposits	17,344	15,888
Total liabilities	<u>37,374</u>	<u>70,419</u>
Deferred inflows of resources	<u>5,953</u>	<u>2,648</u>
Net position		
Net investment in capital assets	11,441,601	11,909,745
Unrestricted (deficit)	2,363	(46,027)
Total net position	<u>11,443,964</u>	<u>11,863,718</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,487,291</u>	<u>\$ 11,936,785</u>

CAPITAL ASSETS

At the end of fiscal year 2018, the Complex had \$11,441,601 net investment in capital assets. This amount represents a decrease of \$468,144 since last year resulting from depreciation expense of \$501,494 offset by additions of \$33,350 for the current fiscal year. There were no disposals of assets during fiscal year 2018.

NET POSITION

The Complex's net position includes contributions from owner for capital assets and operational revenues and expenses. The Complex's net position decreased from the prior year by \$419,754, primarily due to depreciation expense.

MID-CITY GARDENS APARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE ENTITY (Continued)

Condensed Statements of Revenues, Expenses
and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 457,233	\$ 462,652
Operating expenses	<u>1,104,867</u>	<u>1,062,712</u>
Operating loss	(647,634)	(600,060)
Non-operating revenue	<u>106</u>	<u>-</u>
Change in net position	(647,528)	(600,060)
Net position - beginning of year	11,863,718	12,427,491
Contributions from owner	<u>227,774</u>	<u>36,287</u>
Net position - end of year	<u>\$ 11,443,964</u>	<u>\$ 11,863,718</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Monthly occupancy levels have increased by 13% over the audited period year ended June 30, 2018, to 95% by the end of the fiscal year. With rental rates being generally aligned with market rates, the management company has made significant improvements in achieving and maintaining current occupancy levels. While management is working towards improving the results from operations, for the Corporation's operating budget for the fiscal year ending June 30, 2019, no "distributions to owner" amounts were included for the Complex.

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information can be addressed to:

Louisiana Housing Corporation
Carlos Dickerson, Chief Fiscal Officer
2415 Quail Drive
Baton Rouge, Louisiana 70808

MID-CITY GARDENS APARTMENTS
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

Current assets:

Cash on hand and in banks	\$ 20,589
Tenant receivables, net of allowance for doubtful accounts	8,419
Total current assets	29,008

Deposits held in trust:

Tenant security deposits	16,682
Total deposits held in trust	16,682

Capital assets:

Building	14,056,329
Furniture, fixtures, and equipment	248,643
	14,304,972
Less: accumulated depreciation	2,863,371
Net capital assets	11,441,601

TOTAL ASSETS \$ 11,487,291

LIABILITIES

Current liabilities:

Accounts payable	\$ 14,937
Accrued expenses	5,093
Total current liabilities	20,030

Tenant security deposits	17,344
Total liabilities	37,374

DEFERRED INFLOWS OF RESOURCES

Advanced rent	5,953
	5,953

NET POSITION

Net investment in capital assets	11,441,601
Unrestricted	2,363
Total net position	11,443,964

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION \$ 11,487,291

See accompanying notes.

MID-CITY GARDENS APARTMENTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Rental income	\$ 442,015
Tenant charges	15,218
Total operating revenues	<u>457,233</u>
OPERATING EXPENSES	
Administrative	33,555
Personnel services	123,703
Operating and maintenance	259,194
Utilities	113,838
Depreciation	501,494
Insurance	36,350
Bad debt expense	11,820
Management fees	24,913
Total operating expenses	<u>1,104,867</u>
Operating loss	(647,634)
NON-OPERATING REVENUE	
Miscellaneous income	106
Total non-operating revenues	<u>106</u>
Change in Net Position	(647,528)
NET POSITION - Beginning of year	11,863,718
Contributions from owners	<u>227,774</u>
NET POSITION - End of year	<u><u>\$ 11,443,964</u></u>

See accompanying notes.

MID-CITY GARDENS APARTMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:	
Rental receipts	\$ 426,358
Other receipts	15,218
Tenant security deposits	510
	<u>442,086</u>
Cash paid for:	
Administrative expenses	(33,555)
Personnel services	(123,703)
Operating and maintenance	(293,696)
Utilities	(113,838)
Insurance	(36,350)
Management fees	(24,913)
	<u>(626,055)</u>
Net cash used by operating activities	<u>(183,969)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of assets	(33,350)
Non-operating revenue	106
Net cash used by investing activities	<u>(33,244)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Contributions from owner	227,774
Net cash provided by non-capital financing activities	<u>227,774</u>

Net change in cash	10,561
Cash - beginning of year	<u>10,028</u>
CASH - END OF YEAR	<u>\$ 20,589</u>

RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (647,634)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	501,494
Changes in operating assets and liabilities:	
Accounts receivable	(9,283)
Tenant security deposits	(946)
Accounts payable	(13,646)
Accrued expenses	(20,855)
Liability for tenant security deposits	1,456
Deferred revenue	5,445
Net cash used by operating activities	<u>\$ (183,969)</u>

See accompanying notes.

MID-CITY GARDENS APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NATURE OF ORGANIZATION AND OPERATIONS:

Mid-City Gardens Apartments (the Complex) is a 60-unit apartment complex in East Baton Rouge Parish, Louisiana. The Louisiana Housing Corporation (LHC) acquired the property in 2010 through the foreclosure of a HOME project which LHC funded. The Complex was named Capital City South Apartments at that time. LHC obtained NSP funding through an agreement with the Office of Community Development to rebuild and rename the Complex to Mid-City Gardens. In addition, LHC used approximately \$600,000 of HOME funds for the rebuild initiative. The Complex accepts rent certificates administered by the local housing authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

Since the Complex is owned by the Louisiana Housing Corporation, an instrumentality of the State of Louisiana, the financial statements of the Complex have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accompanying financial statements present only the transactions of the Complex and do not present any of the assets, liabilities and operations of the Louisiana Housing Corporation.

Basis of Accounting:

The Complex is considered a proprietary fund and is presented as a business-type activity. Proprietary fund types are used to account for activities that are similar to those found in the private sector where the determination of operating income and changes in net position is necessary or useful for sound financial administration. The GAAP used for proprietary funds are generally those applicable to similar businesses in the private sector (accrual basis accounting).

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

MID-CITY GARDENS APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Accounting: (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses are those expenses that are essential to the primary operations of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Complex's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Cash and Cash Equivalents:

The Complex's cash and cash equivalents include all highly liquid deposits and debt instruments acquired with original maturities of three months or less. The tenant security deposits have use restrictions and are not considered cash equivalents.

Tenant Receivables:

An allowance for uncollectible accounts is established based on prior experience and management's assessment for the collectability of those accounts. Accounts are considered past due on a contractual term. Management charges late fees on past due accounts but not interest. As of June 30, 2018, there was no allowance for doubtful accounts.

Tenant Security Deposits:

Regulations of LHC require that security deposits be segregated from the general funds of the Complex. Accordingly, the Complex holds all security deposit funds in a separate, interest-bearing account. As of June 30, 2018, the tenant security deposit liability was greater than the restricted cash for tenant security deposits by \$662.

MID-CITY GARDENS APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets:

Capital assets are carried at cost less accumulated depreciation. The Complex capitalizes all property and equipment with initial, individual costs greater than \$2,500. The cost of maintenance and repairs is charged to expense as incurred; significant repairs and betterments are capitalized. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	30 years
Furniture and equipment	7 years

Net Position:

In the Statement of Net Position, the difference between the Complex's assets and deferred outflows of resources and liabilities and deferred inflows of resources is recorded as net position. The three components of net position are as follows:

Net investment in capital assets - The category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes or other borrowings attributable to the acquisition, construction or improvement of capital assets.

Restricted net position - Net positions that are restricted by external sources such as creditors, grantors, contributors, or by law are reported separately as restricted net position.

Unrestricted net position - Net positions that do not meet the definition of "restricted" or "net investment in capital assets."

Deferred Inflows of Resources:

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources that represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Complex has one item that meets the criterion for this category, related to advanced rent.

Rental Income:

The Complex receives rental income from units which are reserved for people with low and moderate incomes. Rental income is recognized as the rents are earned. Rental payments received in advance are reported as deferred inflows of resources.

MID-CITY GARDENS APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Rental Income: (Continued)

All leases between the Complex and its tenants are operating leases. Contract rent increases are prohibited without the approval of the LHC Board of Directors. The Complex derives substantially all of its revenues from its rental activities in Baton Rouge, Louisiana.

Tenant Charges:

Tenant charges are recognized as earned and consist of charges to tenants for gate access cards, late fees, NSF fees, cleaning fees, laundry income, and vending income.

Advertising:

The Complex expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2018, was \$3,500.

2. CASH AND CASH EQUIVALENTS:

At June 30, 2018, the Complex had cash and cash equivalents (book balances) which were demand deposits at a local financial institution.

The deposit accounts are subject to custodial credit risk; that is, in the event of a bank failure, the funds may not be returned. To mitigate this risk, state law requires deposits to be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The fair value of the pledged securities plus the federal deposit insurance must at all times be greater than or equal to the amount on deposit with the fiscal agent. At June 30, 2018, the Complex's demand deposit bank balances totaling \$35,416 were fully covered by FDIC insurance.

MID-CITY GARDENS APARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3. CAPITAL ASSETS:

Following is a summary of the changes in capital assets for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Disposals	Balance June 30, 2018
Furniture & fixtures	\$ 215,293	\$ 33,350	\$ -	\$ 248,643
Buildings	14,056,329	-	-	14,056,329
	14,271,622	33,350	-	14,304,972
Accumulated depreciation	(2,361,877)	(501,494)	-	(2,863,371)
Capital assets, net	<u>\$ 11,909,745</u>	<u>\$ (468,144)</u>	<u>\$ -</u>	<u>\$ 11,441,601</u>

Depreciation expense for the year ended June 30, 2018, was \$501,494.

4. MANAGEMENT FEES:

During the year ended June 30, 2016, the Complex entered into a management agreement with Latter and Blum Property Management, Inc. (LBPMI) to conduct services in connection with the leasing, management and operation of the apartment complex. In exchange, the Complex shall pay LBPMI a monthly management fee equal to the greater of 5.5% of gross receipts collected or \$1,800 per month (\$30 per month per unit). The term of the agreement is for the period October 1, 2015 through June 30, 2018. For the year ended June 30, 2018, there was \$24,913 in management fees incurred.

5. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS:

The Complex's operations are concentrated in the multi-family real estate market. In addition, the Complex operates in a heavily regulated environment. The operations of the Complex are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD.

Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by or passed through HUD. Such changes may occur with little notice of inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Future operations could be affected by changes in economic or other conditions in the geographical area or by changes in federal low-income housing subsidies or the demand for such housing.



Duplantier
Hrapmann
Hogan &
Maher, LLP

William G. Stamm, CPA
Lindsay J. Calub, CPA, LLC
Guy L. Duplantier, CPA
Michelle H. Cunningham, CPA
Dennis W. Dillon, CPA
Grady C. Lloyd, III CPA

Heather M. Jovanovich, CPA
Terri L. Kitto, CPA

Michael J. O'Rourke, CPA
David A. Burgard, CPA
Clifford J. Giffin, Jr., CPA

A.J. Duplantier, Jr., CPA
(1919-1985)

Felix J. Hrapmann, Jr., CPA
(1919-1990)

William R. Hogan, Jr., CPA
(1920-1996)

James Maher, Jr., CPA
(1921-1999)

New Orleans
1615 Poydras Street,
Suite 2100
New Orleans, LA 70112
Phone: (504) 586-8866
Fax: (504) 525-5888

Northshore
1290 Seventh Street
Slidell, LA 70458
Phone: (985) 641-1272
Fax: (985) 781-6497

Houma
247 Corporate Drive
Houma, LA 70360
Phone: (985) 868-2630
Fax: (985) 872-3833

Napoleonville
5047 Highway 1
P.O. Box 830
Napoleonville, LA 70390
Phone: (985) 369-6003
Fax: (985) 369-9941

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

September 14, 2018

To the Board of Directors of
Louisiana Housing Corporation
Mid-City Gardens Apartments
Baton Rouge, Louisiana

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 Mid-City Gardens Apartments, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mid-City Gardens Apartments' basic financial statements, and have issued our report thereon dated September 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mid-City Gardens Apartments' 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 Mid-City Gardens Apartments' internal control. Accordingly, we do not express an opinion on the effectiveness of Mid-City Gardens Apartments' internal control.

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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 Mid-City Gardens Apartments' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mid-City Gardens Apartments' financial statements are free from material misstatements, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Duplantier, Hrapmann, Hogan & Maher, LLP

New Orleans, Louisiana

MID-CITY GARDENS APARTMENTS
SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITOR'S RESULTS:

1. The opinion issued on the financial statements of Mid-City Gardens Apartments for the year ended June 30, 2018 was unmodified.

2. Internal Control

Material weaknesses: none noted
Significant deficiencies: none noted

3. Compliance

Noncompliance material to financial statements: none noted

4. No management letter was issued.

FINDINGS REQUIRED TO BE REPORTED UNDER GENERALLY ACCEPTED
GOVERNMENTAL AUDITING STANDARDS:

None noted.

SUMMARY OF PRIOR YEAR FINDINGS:

None noted.