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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Review Of The Neighborhood Reinvestment Corporation's Financial Statements For The Year Ended September 30, 1982

GAO reviewed the report on the audit of the Neighborhood Reinvestment Corporation's fiscal 1982 financial statements and the work of the Corporation's independent certified public accountant. GAO found nothing to indicate that the opinion of the Corporation's independent accountant is inappropriate or cannot be relied on.

In the opinion of the independent accountant, the Corporation's financial statements present fairly the financial position of the Neighborhood Reinvestment Corporation as of September 30, 1982, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D.C. 20548

B-207894

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our review of the audit of the Neighborhood Reinvestment Corporation's financial statements for the year ended September 30, 1982. The Corporation was established by the Congress on October 31, 1978, to promote reinvestment in older neighborhoods. The Corporation is required by 42 U.S.C. 8106 to retain an independent certified public accounting firm to perform an annual audit of its accounts. In order to satisfy this provision, the Corporation has retained the firm of Touche Ross & Co. (TR & Co.). In the opinion of TR & Co., the Corporation's financial statements present fairly the financial position of the Neighborhood Reinvestment Corporation as of September 30, 1982, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

This same law also provides that in addition to the annual audits, GAO may audit the Corporation's financial transactions in accordance with such rules and regulations as may be prescribed by the Comptroller General, and that GAO shall conduct such an audit at least once every 3 years. We believe that, in order to avoid unnecessary duplication and expense and make the best use of our limited resources, we can best discharge our responsibilities under this law by reviewing and, to the extent appropriate, relying upon the work and report of the Corporation's independent certified public accountant. We believe this approach provides a reasonable and cost effective means of assuring the Congress that the Corporation's financial activities are fairly presented.

We reviewed the workpapers and audit report of Touche Ross & Co., to determine the quality of its work and the extent to which we could rely on it. We performed such tests of TR & Co.'s workpapers and audit report as we considered necessary to ensure that:

- The Corporation's financial statements were prepared in accordance with generally accepted accounting principles.
- TR & Co.'s audit was made in accordance with generally accepted government auditing standards.
- TR & Co. had established the necessary policies and procedures to comply with other applicable professional standards.

Our review was conducted at the Corporation's and TR & Co.'s offices in Washington, D.C.

During this review nothing came to our attention that would indicate that TR & Co.'s opinion on the Corporation's 1982 financial statements was inappropriate or could not be relied upon. Copies of TR & Co.'s opinion and the Corporation's 1982 financial statements are attached. (See app. I.)

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairman of the House Judiciary Committee; the Chairman of the Senate Committee on Banking, Housing, and Urban Affairs; the Chairman of the House Committee on Banking, Finance, and Urban Affairs; and the Board of Directors of the Neighborhood Reinvestment Corporation.


Comptroller General
of the United States

Touche Ross & Co.

NEIGHBORHOOD REINVESTMENT CORPORATION
REPORT ON EXAMINATIONS OF FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
YEARS ENDED SEPTEMBER 30, 1982 AND 1981

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Touche Ross & Co.

December 10, 1982

Board of Directors
Neighborhood Reinvestment
Corporation
Washington, D.C.

We have examined the balance sheets of Neighborhood Reinvestment Corporation as of September 30, 1982 and 1981, and the related statements of revenue, expenses, and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Neighborhood Reinvestment Corporation as of September 30, 1982 and 1981, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Certified Public Accountants

Touche Ross & Co.

January 17, 1983

The Board of Directors
Neighborhood Reinvestment Corporation
Washington, D. C.

We have examined the financial statements of Neighborhood Reinvestment Corporation for the year ended September 30, 1982, and have issued our report thereon dated December 10, 1982. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Corporation to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U. S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." For the purposes of this report, we have classified the significant accounting controls in the following categories:

- 1) Purchases and cash disbursements,
- 2) Cash receipts,
- 3) Payroll, and
- 4) General Ledger

Our study included all of the control categories listed above except that we did not evaluate the internal accounting controls in these categories because we concluded that the audit could be performed more efficiently by expanding substantive audit tests and placing no reliance on the internal control system. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

The management of the Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Touche Ross & Co

Board of Directors
Neighborhood Reinvestment Corporation
January 17, 1983
Page Two

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Neighborhood Reinvestment Corporation taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

This report is intended solely for the use of management of Neighborhood Reinvestment Corporation, the U. S. General Accounting Office and other associated Federal organizations and should not be used for any other purpose.

Touche Ross & Co.

Certified Public Accountants

Touche Ross & Co.

January 17, 1983

The Board of Directors
Neighborhood Reinvestment Corporation
Washington, D. C.

We have examined the financial statements of Neighborhood Reinvestment Corporation as of and for the year ended September 30, 1982, and have issued our report thereon dated December 10, 1982. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" promulgated by the Comptroller General, which pertain to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we have reviewed Sections 601 through 608 of the Housing and Community Development Amendments of 1978 (PL95-557) to determine the material compliance requirements which may have a financial impact.

In our opinion, for the tested operations and records, the Corporation complied with the material compliance requirements of PL95-557 referred to above. Further, based upon our examination and the procedures referred to above, for those operations and records not tested, nothing came to our attention to indicate that the Corporation had not complied with the compliance requirements referred to above.

Touche Ross & Co.

Certified Public Accountants

*Touche Ross & Co.*NEIGHBORHOOD REINVESTMENT CORPORATIONBALANCE SHEETS

	<u>September 30,</u>	
	<u>1982</u>	<u>1981</u>
<u>ASSETS</u>		
CASH	\$ 41,544	\$ -
SHORT-TERM INVESTMENTS (at cost, which approximates market)	5,323,711	6,370,787
RECEIVABLES:		
Federal Home Loan Bank System	277,694	140,915
Local governments	204,317	497,135
Accrued interest receivable	18,218	370,296
TRAVEL ADVANCES	52,352	59,895
PREPAID EXPENSES AND OTHER	120,542	111,634
OFFICE FURNITURE AND EQUIPMENT, less accumulated depreciation of \$175,978 and \$159,859	<u>944,138</u>	<u>750,377</u>
	<u>\$6,982,516</u>	<u>\$8,301,039</u>
<u>LIABILITIES AND FUND BALANCE</u>		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$1,163,515	\$ 943,294
CHECKS DRAWN IN EXCESS OF BANK BALANCES	-	686,475
GRANT COMMITMENTS (Note C)	3,744,326	3,714,392
UNEXPENDED LOCAL FUNDS	555,001	852,919
INSTALLMENT PURCHASE PAYABLE (Note D)	335,042	418,802
FUND BALANCE	<u>1,184,632</u>	<u>1,685,157</u>
	<u>\$6,982,516</u>	<u>\$8,301,039</u>

See notes to financial statements.

*Touche Ross & Co.*NEIGHBORHOOD REINVESTMENT CORPORATIONSTATEMENTS OF REVENUE, EXPENSES, AND CHANGES
IN FUND BALANCE

	<u>Year ended September 30,</u>	
	<u>1982</u>	<u>1981</u>
REVENUE:		
Congressional appropriation	\$13,872,000	\$12,459,000
Federal Home Loan Bank System	1,519,875	1,398,269
Local governments	670,924	776,067
Interest	<u>1,302,466</u>	<u>1,436,240</u>
TOTAL REVENUE	<u>17,365,265</u>	<u>16,069,576</u>
EXPENSES:		
Grants and grant commitments:		
From Congressional appropriation	4,085,660	4,281,463
From local government sources	61,256	64,444
Salaries and employee benefits	7,630,049	6,873,700
Travel	2,394,391	2,207,625
Professional services	592,700	689,307
Conference and workshops	451,493	647,157
Rent	817,435	758,811
Telephone, postage, and delivery	628,967	442,476
Printing, films, and supplies	410,796	303,808
Other general and administrative	584,316	453,116
Depreciation	144,554	114,126
Loss on disposal of fixed assets	<u>64,173</u>	<u>-</u>
TOTAL EXPENSES	<u>17,865,790</u>	<u>16,836,033</u>
EXPENSES OVER REVENUE	(500,525)	(766,457)
FUND BALANCE, Beginning of year	<u>1,685,157</u>	<u>2,451,614</u>
FUND BALANCE, End of year	<u>\$ 1,184,632</u>	<u>\$ 1,685,157</u>

See notes to financial statements.

*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONSTATEMENTS OF CHANGES IN FINANCIAL POSITION

	<u>Year ended September 30,</u>	
	<u>1982</u>	<u>1981</u>
USES OF FUNDS:		
Expenses over revenue	\$ 500,525	\$ 766,457
Items not requiring outlay of funds:		
Depreciation	<u>(144,554)</u>	<u>(114,126)</u>
Funds used in operations	355,971	652,331
Decrease in checks drawn in excess of bank balance	686,475	-
Increase in office furniture and equipment - net	338,315	697,983
Decrease in unexpended local funds	297,918	-
Increase in Federal Home Loan Bank System receivable	136,779	-
Decrease in installment purchase payable	83,760	-
Increase in cash	41,544	-
Increase in prepaid expenses and others	8,908	6,227
Increase in short-term investments	-	787,017
Increase in accrued interest receivables	-	158,217
Increase in local government receivables	-	257,863
Decrease in accounts payable and accrued expenses	-	126,647
Increase in travel advances	-	12,695
	<u>\$1,949,670</u>	<u>\$2,698,980</u>
SOURCES OF FUNDS:		
Decrease in short-term investments	\$1,047,076	\$ -
Decrease in accrued interest receivables	352,078	-
Decrease in local government receivables	292,818	-
Increase in accounts payable and accrued expenses	220,221	-
Increase in grant commitments	29,934	426,837
Decrease in travel advances	7,543	-
Increase in checks drawn in excess of bank balance	-	686,475
Decrease in loan receivable	-	600,000
Increase in unexpended local funds	-	450,609
Increase in installment purchase	-	418,802
Decrease in cash	-	56,466
Decrease in other receivables	-	39,400
Decrease in Federal Home Loan Bank System receivable	-	20,391
	<u>\$1,949,670</u>	<u>\$2,698,980</u>

See notes to financial statements.

*Touche Ross & Co*NEIGHBORHOOD REINVESTMENT CORPORATIONNOTES TO FINANCIAL STATEMENTSYEARS ENDED SEPTEMBER 30, 1982 AND 1981A. ORGANIZATION

Neighborhood Reinvestment Corporation was established by Congress on October 31, 1978, by the Neighborhood Reinvestment Corporation Act. The purpose of the Corporation is to continue the joint efforts of the Federal financial supervisory agencies and the Department of Housing and Urban Development (HUD) in promoting reinvestment in older neighborhoods by local financial institutions in cooperation with the community, residents, and local government. This effort was previously conducted by the Urban Reinvestment Task Force, which the Corporation supersedes.

As stipulated in the Act, the Corporation is under the direction of a board of directors comprised of the Chairman of the Federal Home Loan Bank Board, the Secretary of Housing and Urban Development, a member of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Chairman of the National Credit Union Administration.

B. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's funding is provided through Congressional appropriation. In addition, administrative support is received from the Federal Home Loan Bank System (FHLB) through its Office of Neighborhood Reinvestment (ONR), and monetary support is provided from local government agencies. The Congressional appropriations in 1982 and 1981 have been recognized as revenue when granted. The administrative expenses of ONR are reimbursed by the FHLB, and these amounts are shown in the accompanying financial statements as both revenue and expenses. Support from local government agencies is recorded as revenue when costs are incurred; funds received but unexpended are reflected as a liability.

Cash in excess of amounts required to fund current operations is invested in short-term investments.

Office furniture and equipment is recorded at cost. Depreciation is computed using the straight-line method on the estimated useful lives of the assets, which are five to eight years.

*Touche Ross & Co.*NEIGHBORHOOD REINVESTMENT CORPORATIONNOTES TO FINANCIAL STATEMENTSYEARS ENDED SEPTEMBER 30, 1982 AND 1981
(continued)C. GRANT COMMITMENTS

The Corporation provides grant funds to neighborhood housing service programs and neighborhood preservation projects in partial support of program costs and to create revolving loan funds. At the point in time that the funds are committed, in substance a grant is recognized; therefore, committed but unexpended grant funds are recorded as a liability in the accompanying financial statements. As of September 30, 1982 and 1981, grant funds were committed in the following program areas:

	<u>1982</u>	<u>1981</u>
Neighborhood Housing Services	\$1,465,815	\$2,205,812
Neighborhood Preservation Projects	475,828	470,840
Neighborhood Housing Services Expansion	486,583	602,083
Neighborhood Preservation Development	1,044,500	435,657
Neighborhood Housing Services of America	123,000	-
Neighborhood Housing Services Reimbursable Grants	120,000	-
Intern Grants	28,600	-
	<u>\$3,744,326</u>	<u>\$3,714,392</u>

D. INSTALLMENT PURCHASE PAYABLE

In 1981, the Corporation entered into an agreement with the Federal Home Loan Mortgage Corporation to purchase approximately \$586,300 of office furniture and equipment. Payment of the total sales price is to be made over a seven-year period in equal, annual payments of approximately \$83,700, due each March 31. During 1982, the Corporation moved to new offices and sold this furniture and equipment to the Federal Home Loan Bank Board for cash. The transaction resulted in a loss, which is reflected in the accompanying financial statements. The cash proceeds were used to buy furniture and equipment for the new offices, and the Corporation still has the original obligation to the Mortgage Corporation. A portion of the new office furniture has been assigned as collateral in an amount equal to the remaining installment payable to the Mortgage Corporation.

Touche Ross & Co

NEIGHBORHOOD REINVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 1982 AND 1981
(continued)

E. PENSION PLAN

Effective October 1, 1980, the Corporation established a defined contribution pension plan, which covers substantially all of its employees. Although the plan is noncontributory, employees may make a voluntary contribution of up to 6% of their annual salary. The Corporation's contribution is determined based on employees' salary levels as well as the partial matching of each employee's voluntary contribution. The Corporation's policy is to fund pension cost currently. Total pension expense was \$561,378 and \$416,162 for 1982 and 1981, respectively.

F. LEASE COMMITMENTS

The following is a schedule, by year, of future minimum rental payments on noncancellable operating leases, having initial or remaining terms of more than one year as of September 30, 1982:

1983	\$ 882,469
1984	861,178
1985	753,012
1986	714,417
1987	<u>550,776</u>
Total	<u>\$3,761,852</u>

Rent expense under operating leases for the years ended September 30, 1982 and 1981, was \$817,435 and \$758,811, respectively.

*Touche Ross & Co*ADDITIONAL INFORMATION

Our examination was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining information is presented for purposes of additional analysis, by funding source, of the statements of revenue, expenses, and changes in fund balance rather than to present the results of operations of the individual funding sources. The combining information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Touche Ross & Co.

Certified Public Accountants

Rouche Ross & Co

NEIGHBORHOOD REINVESTMENT CORPORATION
COMBINING STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN FUND BALANCE

YEAR ENDED SEPTEMBER 30, 1982

	<u>Office of Neighborhood Reinvestment</u>	<u>Congressional Appropriation</u>	<u>Local Sources</u>	<u>Total</u>
REVENUE:				
Congressional appropriation	\$ -	\$13,872,000	\$ -	\$13,872,000
Federal Home Loan Bank System	1,519,875	-	-	1,519,875
Local governments	-	-	670,924	670,924
Interest	-	1,266,414	36,052	1,302,466
TOTAL REVENUE	1,519,875	15,138,414	706,976	17,365,265
EXPENSES:				
Grant and grant commitments:				
From Congressional appropriation	-	4,085,660	-	4,085,660
From local government sources	-	-	61,256	61,256
Salaries and employee benefits	470,380	6,649,277	510,392	7,630,049
Travel	99,616	2,106,004	188,771	2,394,391
Professional services	-	472,316	120,384	592,700
Conference and workshops	-	315,574	135,919	451,493
Rent	518,966	283,350	15,119	817,435
Telephone, postage, and delivery	156,918	421,092	50,957	628,967
Printing, films, and supplies	-	361,005	49,791	410,796
Other general and administrative	35,448	434,340	114,528	584,316
Depreciation	84,797	59,757	-	144,554
Project Development Expense	-	576,193	(576,193)	-
Loss on disposal of fixed assets	64,173	-	-	64,173
TOTAL EXPENSES	1,430,298	15,764,568	670,924	17,865,790
REVENUES OVER (UNDER) EXPENSES	89,577	(626,154)	36,052	(500,525)
FUND BALANCE, Beginning of year	158,465	1,490,909	35,783	1,685,157
FUND BALANCE, End of year	<u>\$ 248,042</u>	<u>\$ 864,755</u>	<u>\$ 71,835</u>	<u>\$ 1,184,632</u>

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