
GAO

United States General Accounting Office
Report to the Congress

September 1988

FINANCIAL AUDIT

**Neighborhood
Reinvestment
Corporation's
Financial Statements
for 1987**



**Comptroller General
of the United States**

B-207894

September 30, 1988

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

This report presents the results of our review of the independent certified public accountant's audit of the Neighborhood Reinvestment Corporation's (NRC) financial statements for the fiscal year ended September 30, 1987. In the auditor's opinion, the Neighborhood Reinvestment Corporation's statements are fairly presented. The independent auditor's reports on NRC's internal accounting controls and on its compliance with laws and regulations are also provided.

The Neighborhood Reinvestment Corporation was established in 1978 by the Neighborhood Reinvestment Corporation Act (42 U.S.C. 8102) to promote reinvestment in older neighborhoods by local financial institutions in cooperation with the community, residents, and local government. Financed primarily through congressional appropriations, NRC fulfills its purpose by providing grants to neighborhood projects and programs, as well as by creating revolving loan funds. During 1987, NRC provided over \$5 million in grants.

As required by 42 U.S.C. 8106(b), NRC contracted with an independent certified public accounting firm, Price Waterhouse, to perform the financial and compliance audit of its 1987 financial statements. In addition to the annual audit required by subsection (b), subsection (c) of the legislation requires that we audit NRC's financial transactions at least once every 3 years. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and make the most efficient use of our available resources, we reviewed the independent auditor's work and reports.

We conducted our review of the auditor's work in accordance with generally accepted government auditing standards. To determine the reasonableness of the auditor's work and the extent to which we could rely on it, we

- reviewed the auditor's approach and planning of the audit,
- evaluated the qualifications and independence of the audit staff,
- reviewed the financial statements and auditor's reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards, and
- reviewed and tested the auditor's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of

audit quality control methods the auditor used, (3) whether a study and evaluation was conducted of the entity's internal accounting controls, (4) whether the auditor tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supported the auditor's opinion on the financial statements and internal accounting control and compliance reports.

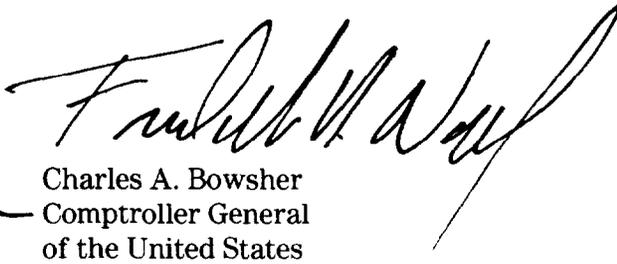
In the opinion of Price Waterhouse, the Neighborhood Reinvestment Corporation's financial statements present fairly its financial position as of September 30, 1987, the results of its operations, and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles. Also, Price Waterhouse's reports to the Corporation's board of directors on internal accounting controls and on compliance with laws and regulations did not disclose any material internal control weaknesses or noncompliance with laws and regulations.

During our review, we found nothing to indicate that Price Waterhouse's opinion on the Corporation's 1987 financial statements was inappropriate or cannot be relied on. Nor did we find anything to indicate that the auditor's reports on internal accounting controls and on compliance with laws and regulations were inappropriate or cannot be relied upon. However, the auditor did not report positive assurance on compliance for items it tested as required by generally accepted government auditing standards. Instead, the auditor's report on compliance with laws and regulations provided negative assurance that nothing came to its attention to indicate noncompliance. We have discussed the need to follow generally accepted government auditing standards. The auditor has agreed to offer positive assurance in the fiscal year 1988 report. Based upon our review of the auditor's working papers, in our opinion, the Neighborhood Reinvestment Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its 1987 financial statements.

We believe that the financial statements, together with Price Waterhouse's opinion and our review of that work, provide the Congress with a dependable basis for overseeing the Neighborhood Reinvestment Corporation's financial position. This report presents the Neighborhood Reinvestment Corporation's financial statements and the auditor's opinion thereon.

We are sending copies of this report to the Director of the Office of Management and Budget; the Secretary of the Treasury; the Chairmen of the

Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance, and Urban Affairs; the Chairmen of the Senate and House Committees on the Judiciary; and the Board of Directors of the Neighborhood Reinvestment Corporation.

for 

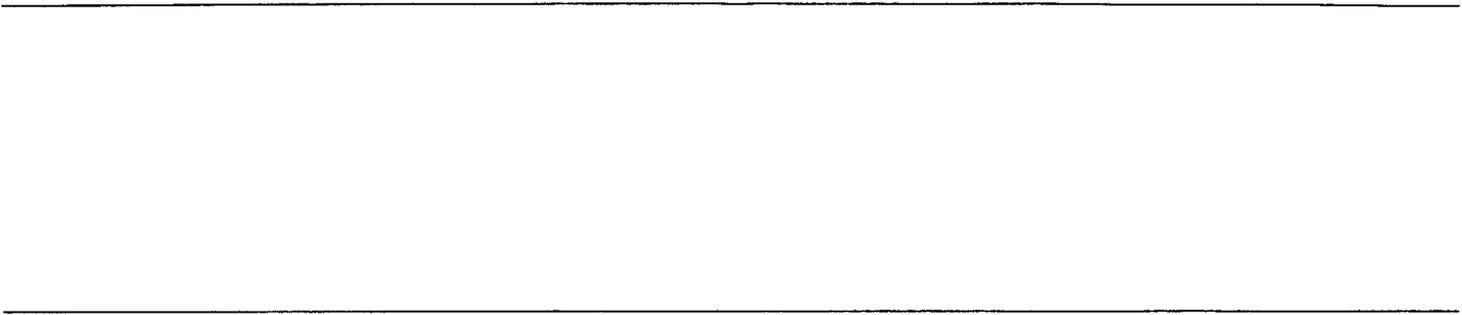
Charles A. Bowshe
Comptroller General
of the United States

Contents

Letter	1
Auditor's Opinion	6
Auditor's Report on Internal Accounting Controls	7
Auditor's Report on Compliance With Laws and Regulations	9
Financial Statements	10
Balance Sheets	10
Statements of Revenue, Expenses, and Changes in Fund Balance	11
Statements of Changes in Financial Position	12
Notes to Financial Statements	13

Abbreviation

NRC Neighborhood Reinvestment Corporation



Auditor's Opinion

1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse



December 4, 1987

To the Board of Directors
Neighborhood Reinvestment Corporation

In our opinion, the accompanying balance sheets and the related statements of revenue, expenses and changes in fund balance and of changes in financial position present fairly the financial position of Neighborhood Reinvestment Corporation at September 30, 1987 and 1986, 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 consistently applied. Our examinations of these statements 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.

Price Waterhouse

Auditor's Report on Internal Accounting Controls

1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse



December 4, 1987

To the Board of Directors
Neighborhood Reinvestment Corporation

We have examined the financial statements of Neighborhood Reinvestment Corporation for the year ended September 30, 1987, and have issued our report thereon dated December 4, 1987. As part of our examination, we made a study and evaluation of the Corporation's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the financial and compliance elements of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States (1981 Revision). For the purpose of this report, we have classified the significant internal accounting controls into the following categories:

1. Cash receipts
2. Payroll
3. Grants
4. Purchases and disbursements

Our study included all of the control categories listed above. 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 Corporation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control 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. Because of inherent limitations in any system of internal accounting

Auditor's Report on Internal
Accounting Controls

December 4, 1987
To the Board of Directors
Neighborhood Reinvestment Corporation
Page 2



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 the Corporation as a whole or on any of the controls identified in the first paragraph. However, our study and evaluation disclosed no conditions which we believe to be a material weakness.

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

Yours very truly,

Price Wetstone

Auditor's Report on Compliance With Laws and Regulations

1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse



December 4, 1987

To the Board of Directors
Neighborhood Reinvestment Corporation

We have examined the financial statements of Neighborhood Reinvestment Corporation for the year ended September 30, 1987 and have issued our report thereon dated December 4, 1987. Our examination was made in accordance with generally accepted auditing standards and the financial and compliance elements of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", issued by the Comptroller General of the United States (1981 Revision) and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including a review of 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 connection with our examination, nothing came to our attention that caused us to believe that the Corporation had failed to comply with the financial and compliance elements of Sections 601 through 608 of the Housing and Community Development Amendments of 1978 (PL95-557). However, it should be noted that our examination was not directed primarily toward obtaining knowledge of noncompliance with such requirements.

Price Waterhouse

Financial Statements

Balance Sheets

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
<u>ASSETS</u>		
Cash and short-term investments (at cost, which approximates market)	\$5,802,026	\$5,746,998
Receivables:		
Neighborhood Housing Services of America, Inc. (Note 3)	1,000,000	500,000
Federal Home Loan Bank System		73,780
Local governments	83,431	180,775
Accrued interest receivable	3,500	90,077
Travel advances	51,914	68,465
Prepaid expenses and other	67,066	83,963
Office furniture and equipment, less accumulated depreciation of \$1,181,915 and \$980,361	442,541	443,007
Total assets	<u>\$7,450,478</u>	<u>\$7,187,065</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Accounts payable and accrued expenses	\$1,950,328	\$1,688,574
Grant commitments (Note 4)	4,386,462	4,368,925
Unexpended local funds	170,752	204,738
Total liabilities	<u>6,507,542</u>	<u>6,262,237</u>
Fund balance		
Unrestricted	500,395	481,821
Net equity in fixed assets	442,541	443,007
Total fund balance	<u>942,936</u>	<u>924,828</u>
Total liabilities and fund balance	<u>\$7,450,478</u>	<u>\$7,187,065</u>

Financial Statements

Statements of Revenue, Expenses, and Changes in Fund Balance

	<u>Year ended September 30,</u>	
	<u>1987</u>	<u>1986</u>
Revenue:		
Congressional appropriation	\$19,000,000	\$17,669,000
Federal Reserve Board		200,000
Federal Home Loan Bank System		200,000
Local governments	223,191	341,127
Interest and other	962,102	1,100,471
Total revenue	<u>20,185,293</u>	<u>19,510,598</u>
Expenses:		
Grants and grant commitments (Note 4)	5,190,242	4,763,461
Salaries and employee benefits (Note 5)	8,935,402	8,580,509
Travel	1,587,897	1,658,001
Professional services	959,085	609,200
Conferences and workshops	504,395	303,129
Rent (Note 6)	1,187,005	1,284,410
Telephone, postage and delivery	607,901	789,172
Printing, films and supplies	419,704	406,257
Other general and administrative	573,999	549,301
Depreciation	201,555	203,992
Total expenses	<u>20,167,185</u>	<u>19,147,432</u>
Revenue over expenses	18,108	363,166
Fund balance, beginning of year	924,828	561,662
Fund balance, end of year	<u>\$ 942,936</u>	<u>\$ 924,828</u>

Financial Statements

Statements of Changes in Financial Position

	<u>Year ended September 30,</u>	
	<u>1987</u>	<u>1986</u>
Financial resources were provided by:		
Revenue over expenses	\$ 18,108	\$ 363,166
Add depreciation not requiring an outlay of funds	201,555	203,992
	<hr/>	<hr/>
Financial resources provided by operations	219,663	567,158
Decrease in travel advances	16,551	
Decrease in prepaid expenses and other	16,897	123,248
Increase in accounts payable and accrued expenses	261,754	354,152
Increase in grant commitments	17,537	993,337
Increase in unexpended local funds		50,618
	<hr/>	<hr/>
Total financial resources provided	532,402	2,088,513
	<hr/>	<hr/>
Financial resources were used for:		
Increase in receivables	242,299	85,752
Increase in travel advances		13,519
Decrease in installment purchase payable		83,761
Decrease in unexpended local funds	33,986	
Additions to office furniture and equipment	201,089	126,474
	<hr/>	<hr/>
Total financial resources used	477,374	309,506
	<hr/>	<hr/>
Increase in cash and short-term investments	55,028	1,779,007
Cash and short-term investments, beginning of year	5,746,998	3,967,991
	<hr/>	<hr/>
Cash and short-term investments, end of year	<u>\$5,802,026</u>	<u>\$5,746,998</u>

Notes to Financial Statements

YEARS ENDED SEPTEMBER 30, 1987 AND 1986

Note 1 - Organization

Neighborhood Reinvestment Corporation (the 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 superseded.

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.

The Corporation is exempt from Federal income tax under the provisions of §501(c)(3) of the Internal Revenue Code.

Note 2 - Significant Accounting Policies

The Corporation's primary funding is through Congressional appropriation. Monetary support is also provided by local government agencies. In addition, in 1986 administrative and monetary support was received from the Federal Home Loan Bank System (FHLBS) through the Corporation's Office of Neighborhood Reinvestment (ONR), the Federal Reserve Board and other board member agencies. The Congressional appropriations in 1987 and 1986 have been recognized as revenue when granted. In 1986, certain administrative and other expenses of the Corporation were reimbursed by the FHLBS, 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. Support from other board member agencies is recorded as revenue when granted.

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 over the estimated useful lives of the assets, which are five to eight years.

Note 3 - Neighborhood Housing Services of America, Inc. (NNSA)

NNSA is a private non-profit corporation which provides financial and fundraising services to the Neighborhood Housing Services (NHS) network. The Corporation is the principal source of funding for NNSA. Total grants made by the Corporation to NNSA totalled \$2,624,000 and \$1,590,000, for fiscal years 1987 and 1986, respectively.

On September 29, 1986, the Corporation entered into a Revolving Credit Agreement with NNSA whereby the Corporation agreed to make advances to NNSA from time to time not to exceed an aggregate outstanding balance of \$1,000,000. These advances will enable NNSA to purchase low interest mortgages from NHS programs and to warehouse these mortgages pending closing on sales to institutional investors. NNSA agreed to pay the Corporation a fee on the average daily outstanding loan balance at the rate of 3% per annum. The agreement extends through September 30, 1988; however, it may be terminated by either party upon ninety days written notice. As of September 30, 1987 and 1986, the Corporation had advanced a total of \$1,000,000 and \$500,000, respectively, to NNSA.

Note 4 - Grant Commitments

The Corporation provides grant funds to neighborhood housing services programs, neighborhood preservation projects, and other similar programs in partial support of program costs and to create revolving loan funds. Grants are recorded at the time that the funds are committed. Committed but unexpended grant funds are recorded as a liability in the accompanying financial statements. As of September 30, 1987 and 1986, grant funds were committed and outstanding in the following program areas:

	<u>1987</u>	<u>1986</u>
Neighborhood Housing Services of America, Inc. Grants	\$ 34,000	
Neighborhood Housing Services	1,019,180	\$1,282,316
Neighborhood Preservation Projects	282,945	386,595
Programatic Supplement Grants	1,538,147	2,466,614
Intern Grants	7,000	33,900
Apartment Improvement Program	268,000	199,500
Mutual Housing Association Grants	1,088,190	
Neighborhood Housing Services Operating Grants	149,000	
	<u>\$4,386,462</u>	<u>\$4,368,925</u>

Note 5 - Pension Plan

The Corporation has a defined contribution pension plan which meets the requirements of Section 401(k) of the Internal Revenue Code. Employees may contribute up to 10% of their annual salary to the plan. The Corporation will then match up to 75% of the first 6% of the employees' annual salary. Employees may also borrow against their vested benefits. Total pension expense was \$686,248 and \$438,285 (net of applied accumulated forfeitures of \$203,892) for 1987 and 1986, respectively.

Note 6 - Lease Commitments

The Corporation leases office space in Washington, D.C., and in a number of other cities throughout the United States. The following is a schedule, by year, of future minimum rental payments on non-cancellable operating leases, having initial or remaining terms of more than one year as of September 30, 1987:

1988	\$1,084,478
1989	950,606
1990	836,294
1991	787,380
1992	742,752
Thereafter	2,383,320
	<u>\$6,784,830</u>

Rent expense under operating leases for the years ended September 30, 1987 and 1986 was \$1,180,159 and \$1,278,993, respectively.

In March 1986, the Corporation moved its Washington office operations to a new site in Washington, D.C. Annual rental payments under this new lease agreement are approximately \$632,000 per year through February 1991 and \$698,000 thereafter through February 1996, and are included in the above future minimum rental payments.

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100
