

4013



**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**HOUSING AUTHORITY OF NEW ORLEANS**

**SEPTEMBER 30, 2009**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5/19/10

Housing Authority of New Orleans

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Housing Authority of New Orleans

We have audited the accompanying statement of net assets of the Housing Authority of New Orleans (HANO) and its discretely presented component units as of and for the year ended September 30, 2009, as listed in the table of contents. These basic financial statements are the responsibility of HANO's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of net assets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of New Orleans and its discretely presented component units as of September 30, 2009, and changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2010, on our consideration of HANO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Housing Authority of New Orleans taken as a whole. The accompanying supplemental information on pages 71 through 75, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and the Financial Data Schedule required by the U.S. Department of Housing and Urban Development, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion the supplemental information on pages 71 through 75 is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Reznick Group, P.C.*

Charlotte, North Carolina  
March 31, 2010

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

This section of the Housing Authority of New Orleans (HANO)'s financial report represents management's discussion and analysis of HANO's financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with HANO's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- HANO's total net assets as of September 30, 2009 were \$426,254,707 as compared to total net assets of approximately \$368,494,080 at September 30, 2008. This represents an increase from the prior year of approximately \$57,760,627 or 15.7%. The main elements of this increase were an increase in cash and cash equivalents that represented the fungibility plan for Section 8 funding.
- During the year, HANO's operating revenues were \$48,781,761 more than the \$208,676,222 expended on Housing Assistance Payments, General & Administrative, Repairs and Maintenance, Utilities, Tenant Services, Protective Services, and Depreciation Expense. In the prior year, operating revenues were \$74,971,085 more than operating expenses.
- For the fiscal year ended September 30, 2009, HANO recognized Low Income and Section 8 operating subsidies of \$44,565,851 (including Public Housing and Capital Fund Operating Subsidies) and \$120,492,484, respectively. HANO also recognized \$843,286 in HOPE VI grant revenues, and \$2,380,021 in dwelling rental revenues for the current fiscal year.

**Crescent Affordable Housing Corporation (CAHC)** was formed in December of 2003, as a component unit of HANO. CAHC is a nonprofit membership corporation established for the purpose of coordinating the development of safe, decent and affordable housing for the low and moderate-income citizens of New Orleans.

**Lune d'Or Enterprises, LLC (Lune d'Or)** was formed in March of 2004, as a component unit of HANO. Lune d'Or currently serves as the managing member of four Louisiana limited liability companies. CAHC and HANO serve as co-developers with respect to the affordable housing projects being constructed by the four LLC's.

**Fischer I, LLC (Fischer I)** was formed in March of 2004. Fischer I is a Louisiana limited liability company that had constructed 20 affordable housing units with 20 leased as of September 30, 2009.

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2009

**Fischer III, LLC (Fischer III)** had completed all planned 103 units. As of September 30, 2009, 102 units were leased.

**Guste I, LLC** had completed all planned 82 units. As of September 30, 2009, 82 units were leased.

OVERVIEW OF FINANCIAL STATEMENTS

The annual report consists of three parts - *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. The following statements are included:

- Statement of Net Assets - reports HANO's assets and liabilities at the end of the operating year and provides information about the nature and amounts of investment of resources and obligations to creditors.
- Statement of Revenue, Expenses, and Change in Net Assets - reports the results of activity over the course of the current year. It details the costs associated with operating HANO and how those costs were funded. It also provides an explanation of the change in net assets from the previous operating period to the current operating period.
- Statement of Cash Flows - reports HANO's cash flows in and out from operating, noncapital financing, capital related financing and investing activities. It details the sources of HANO's cash, what it was used for, and the change in cash over the course of the operating year.
- The notes to the financial statements explain some of the information in the financial statements and provide more detailed data.
- The statements are followed by *required supplementary information* that presents HANO's electronic data submitted to HUD's Real Estate Assessment Center.

Our analysis of HANO as a whole begins on this page. The most important question asked about HANO's finances is, "*Is HANO, as a whole, better or worse off as a result of the year's activities?*"

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2009

The attached analysis of entity wide net assets, revenue, and expenses are provided to assist with answering the above question. This analysis includes all assets and liabilities using the accrual basis of accounting.

Accrual accounting is similar to the accounting used by most private sector companies. Accrual accounting recognizes revenue and expenses when earned or incurred regardless of when cash is received or paid.

Our analysis also presents HANO's net assets and changes in them. You can think of HANO's net assets as the difference between what HANO owns (assets) to what HANO owes (liabilities). The change in net assets analysis will assist the reader with measuring the health or financial position of HANO.

Net assets are categorized as one of three types.

- I. **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and reduced by debt attributable to the acquisition of those assets;
- II. **Restricted** - net assets whose use is subject to constraints imposed by law or agreement; and
- III. **Unrestricted** - net assets that are neither invested in capital assets nor restricted.

Over time, significant changes in HANO's net assets are an indicator of whether its financial health is improving or deteriorating. To fully assess the financial health of any Housing Authority, the reader must also consider other non-financial factors such as changes in family composition, fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Housing Authority's capital assets.

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2009

**FINANCIAL ANALYSIS OF THE HANO AS A WHOLE**

As noted earlier, net assets may serve over time as a useful indicator of HANO's financial position. In the case of HANO, assets exceeded liabilities by \$426,254,707 at the close of the most recent fiscal year.

As of September 30, 2009, the largest component of HANO's net assets was cash (restricted and unrestricted). This is the result of the Authority's implementation of a fungibility plan whereby unexpended funds from the Section 8 program were consolidated to meet anticipated capital needs for housing redevelopment.

**Table A-1**

**Housing Authority of New Orleans Net Assets**

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Current assets	\$ 98,865,850	\$ 255,283,342	-61.3%
Restricted assets	162,018,307	19,595,401	726.8%
Capital assets (net)	133,739,516	66,488,043	101.1%
Other assets	108,574,939	110,574,927	-1.8%
<b>Total Assets</b>	<u>503,198,612</u>	<u>451,941,713</u>	<u>11.3%</u>
Current liabilities	29,899,795	40,811,843	-26.7%
Tenant security deposits	289,871	140,820	105.8%
Noncurrent liabilities	46,754,239	42,494,970	10.0%
<b>Total Liabilities</b>	<u>76,943,905</u>	<u>83,447,633</u>	<u>-7.8%</u>
Invested in capital assets (net)	133,739,516	66,488,043	101.1%
Restricted net assets	287,438,183	83,652,442	243.6%
Unrestricted net assets	5,077,008	218,353,595	-97.7%
<b>Total Net Assets</b>	<u>\$ 426,254,707</u>	<u>\$ 368,494,080</u>	<u>15.7%</u>

The remaining balance of *unrestricted net assets* \$5,077,008 may be used to meet HANO's ongoing obligations to program participants and creditors.

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2009

Between 2008 and 2009 HANO implemented PIH notice 200-45 which states that HANO must report the original program revenues in programs the grant or subsidy funds were initially intended for on the FDS.

At the end of the current fiscal year, HANO is able to report an increase of \$57,760,627 in its net assets.

HANO's current assets decreased by \$156,417,492. The main element of this decrease was the reclassification of cash for fungibility, HCVP, and DHAP as restricted in 2009.

HANO's restricted assets increased by \$142,422,906. This increase resulted from the reclassification of cash to restricted assets as mentioned above.

HANO's capital assets increased by \$67,251,473 as a net result of the current year's fixed asset additions and depreciation expense.

HANO's other assets decreased by \$1,999,988. This decrease represents a net decrease in notes receivable and related accrued interest as a result of HANO's financing of redevelopment activities of its component units.

HANO's current liabilities decreased by \$10,912,048.

HANO's non-current liabilities decreased by \$4,259,269 during the current fiscal year.

Housing Authority of New Orleans  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
September 30, 2009

**Table A-2**

**Housing Authority of New Orleans Changes in Net Assets**

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Revenues:			
Operating Revenues:			
Dwelling rental	\$ 2,380,021	\$ 2,395,720	-0.66%
HUD revenue	252,680,606	277,212,360	-8.85%
Other income	2,397,356	3,153,258	-23.97%
Total Operating Revenues	257,457,983	282,761,338	-8.95%
Expenses:			
Administrative and general	20,379,337	36,234,965	-43.76%
Tenant services	1,984,803	1,275,067	55.66%
Utilities	3,437,802	3,974,768	-13.51%
Repairs and maintenance	5,705,688	8,388,808	-31.98%
Protection services	911,295	2,027,759	-55.06%
General expenses	10,250,410	4,289,323	138.98%
Housing assistance payments	157,545,050	130,042,066	21.15%
Extraordinary maintenance	7,052,215	20,888,195	-66.24%
Depreciation and amortization	1,409,622	669,302	110.61%
Total Operating Expenses	208,676,222	207,790,253	0.43%
Operating Income (Loss)	48,781,761	74,971,085	-34.93%
Nonoperating Revenues (Expenses):			
Investment income	815,950	6,030,081	-86.47%
Investment income from notes receivable	1,404,814	2,672,780	-47.44%
Gain (loss) on extinguishment of debt - component units	(1,880,055)	-	
Interest expense	(1,101,709)	(925,823)	19.00%
Total Nonoperating Revenues (Expenses):	(761,000)	7,777,038	-109.79%
Income Before Capital Grants	48,020,761	82,748,123	-41.97%
Capital Grants			
HUD capital grants	9,104,781	-	100.00%
State and city grants	1,404,650	-	100.00%
Total Capital Grants	10,509,431	-	100.00%
Increase (decrease) in net assets	58,530,192	82,748,123	-29.27%
Net Assets - Beginning	368,494,080	280,390,792	31.42%
Prior period adjustment	-	6,571,202	
Net Assets - Beginning, as restated	368,494,080	286,961,994	28.41%
Equity transfers and capital contributions	(769,565)	(1,216,037)	
Net Assets - Ending	<u>\$ 426,254,707</u>	<u>\$ 368,494,080</u>	<u>15.67%</u>

Housing Authority of New Orleans  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2009

HANO's revenues from dwelling units decreased by \$28,069.

HANO's revenues from HUD operating subsidies and grants decreased by \$24,531,754.

HANO's other income declined by \$755,902.

HANO's administrative expenses decreased by \$15,855,619.

HANO's HAP expenses increased by \$27,502,984.

HANO's repairs and maintenance expenses decreased by \$2,683,120.

HANO's utility expenses decreased by \$536,966.

HANO's investment income decreased by \$6,482,097.

**Capital Asset and Debt Administration**

**Capital assets.** HANO's investment in capital assets as of September 30, 2009 amounts to \$133,739,516 (net of accumulated depreciation).

**Major capital asset events during the current fiscal year included the following:**

**Housing Authority of New Orleans Capital Assets**

	2009	2008
Land	\$ 41,363,952	\$ 40,853,157
Buildings and improvements	67,172,694	14,228,766
Furniture and equipment	1,835,652	809,350
Construction in progress	22,651,976	12,366,582
Infrastructure	3,894,674	0
Less: accumulated depreciation	(3,179,432)	(1,769,812)
<b>Total</b>	<b>\$ 133,739,516</b>	<b>\$ 66,488,043</b>

Additional information on HANO's capital assets can be found in Note 8 of this report.

Housing Authority of New Orleans  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2009

**Long-term debt** - At the end of the current year, HANO had total debt outstanding of \$17,805,000. HANO's Capital Fund Program Revenue Bonds - Series A of 2003 are secured by pledges of Replacement Housing Factor Funds and Capital Fund Grants and are payable in monthly installments through December 1, 2023.

**Housing Authority of New Orleans Outstanding Debt**

	<u>2009</u>	<u>2008</u>
Capital Fund Program Revenue Bonds- Series A of 2003	<u>\$ 17,805,000</u>	<u>\$ 19,840,000</u>

HANO's total debt decreased by \$2,035,000. This was due to the scheduled pay down of principal.

**Economic Factors**

Significant economic factors affecting HANO are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development;
- local labor supply and demand, which can affect salary and wage rates;
- local inflationary, recessionary and employment trends, which can affect resident incomes and therefore tenant rental income;
- natural disasters which can have a devastating impact on the local economy;
- locality issues which result from goods and services often being required to be imported; and
- inflationary pressure on utility rates, supplies and other costs.

**Requests for Information**

The financial report is designed to provide a general overview of HANO's finances for all those with an interest in the Housing Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, Housing Authority of New Orleans, 4100 Touro Street, New Orleans, Louisiana, 70122.

Housing Authority of New Orleans  
**STATEMENT OF NET ASSETS**  
 Enterprise Fund and Discretely Presented Component Units

September 30, 2009

**ASSETS**

	Primary Government	Discrete Component Units	Total Reporting Entity
<b>Current Assets</b>			
Cash and cash equivalents - unrestricted	\$ 68,697,224	\$ 4,063,786	\$ 72,761,010
Investments	19,648,757	-	19,648,757
Accounts receivable - tenants, net	-	28,933	28,933
Accounts receivable - PHA projects	568,146	-	568,146
Accounts receivable - HUD	3,648,873	-	3,648,873
Accounts receivable - other	665,349	922,780	1,588,129
Accounts receivable - component units	4,954,907	-	4,954,907
Prepaid expenses	664,743	134,496	799,239
Inventories	17,851	-	17,851
<b>Total Current Assets</b>	<b>98,865,850</b>	<b>5,149,995</b>	<b>104,015,845</b>
<b>Restricted Assets</b>			
Resident security deposits	363,079	28,720	391,799
Restricted cash	159,460,593	122,819	159,583,412
Restricted bond and grant funds	2,194,635	-	2,194,635
<b>Total Restricted Assets</b>	<b>162,018,307</b>	<b>151,539</b>	<b>162,169,846</b>
<b>Capital Assets</b>			
Land	41,363,952	-	41,363,952
Buildings and improvements	67,172,694	38,044,828	105,217,522
Furniture, equipment and machinery - dwelling	781,845	880,539	1,662,384
Furniture, equipment and machinery - administration	1,053,807	-	1,053,807
Construction in progress	22,651,976	-	22,651,976
Infrastructure	3,894,674	-	3,894,674
	136,918,948	38,925,367	175,844,315
Less: Accumulated depreciation	(3,179,432)	(4,211,258)	(7,390,690)
<b>Total Capital Assets</b>	<b>133,739,516</b>	<b>34,714,109</b>	<b>168,453,625</b>
<b>Other Noncurrent Assets</b>			
Notes receivable - other	42,615,287	-	42,615,287
Accrued interest receivable - notes receivable	5,946,756	-	5,946,756
Other assets	60,012,896	1,459,257	61,472,153
<b>Total Other Noncurrent Assets</b>	<b>108,574,939</b>	<b>1,459,257</b>	<b>110,034,196</b>
<b>Total Assets</b>	<b>503,198,612</b>	<b>41,474,900</b>	<b>544,673,512</b>

(continued)

Housing Authority of New Orleans

STATEMENT OF NET ASSETS - CONTINUED  
Enterprise Fund and Discretely Presented Component Units

September 30, 2009

LIABILITIES AND NET ASSETS

	Primary Government	Discrete Component Units	Total Reporting Entity
<b>Current Liabilities</b>			
Accounts payable	5,220,327	83,406	5,303,733
Accounts payable - other PHAs	650,000	-	650,000
Accrued wages/taxes payable	373,401	-	373,401
Settlements, judgments and contingencies	751,986	-	751,986
Accrued expenses	3,129,662	7,919,004	11,048,666
Current portion of long-term debt - capital projects	1,470,000	-	1,470,000
Deferred revenue	14,281,350	5,397	14,286,747
Due to primary government	-	4,954,907	4,954,907
Other current liabilities	3,790,618	24,629	3,815,247
Accrued compensated absences - current portion	232,451	-	232,451
<b>Total Current Liabilities</b>	<b>29,899,795</b>	<b>12,987,343</b>	<b>42,887,138</b>
<b>Current Liabilities Payable from Restricted Assets</b>			
Resident security deposits	289,871	26,620	316,491
<b>Long-Term Liabilities</b>			
Accrued compensated absences - net of current portion	559,011	-	559,011
Long-term debt - capital projects - net of current portion	16,335,000	-	16,335,000
Long-term debt - capital projects	-	36,586,528	36,586,528
Settlements, judgments and contingencies	26,986,651	-	26,986,651
Other noncurrent liabilities	2,873,577	-	2,873,577
<b>Total Long-Term Liabilities</b>	<b>46,754,239</b>	<b>36,586,528</b>	<b>83,340,767</b>
<b>Total Liabilities</b>	<b>76,943,905</b>	<b>49,600,491</b>	<b>126,544,396</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	133,739,516	-	133,739,516
Restricted net assets	287,438,183	-	287,438,183
Unrestricted net assets	5,077,008	(8,125,591)	(3,048,583)
<b>Total Net Assets</b>	<b>\$ 426,254,707</b>	<b>\$ (8,125,591)</b>	<b>\$ 418,129,116</b>

See notes to financial statements

Housing Authority of New Orleans

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Enterprise Fund and Discretely Presented Component Units

Year ended September 30, 2009

	Primary Government	Discrete Component Units	Total Reporting Entity
Operating Revenue			
Dwelling rent	\$ 2,380,021	\$ 1,452,942	\$ 3,832,963
HUD operating subsidy and grant revenue	252,680,606	-	252,680,606
Other income	2,397,356	638,655	3,036,011
Total Operating Revenue	<u>257,457,983</u>	<u>2,091,597</u>	<u>259,549,580</u>
Operating Expenses			
Administrative	20,379,337	1,328,821	21,708,158
Tenant services	1,984,803	-	1,984,803
Utilities	3,437,802	258,094	3,695,896
Maintenance and operations	5,705,688	500,249	6,205,937
Protective services	911,295	-	911,295
Litigation	5,419,242	-	5,419,242
General	4,831,168	414,214	5,245,382
Housing assistance payments	157,545,050	-	157,545,050
Extraordinary maintenance	7,052,215	-	7,052,215
Depreciation	1,409,622	1,398,119	2,807,741
Total Operating Expense	<u>208,676,222</u>	<u>3,899,497</u>	<u>212,575,719</u>
Operating Income (Loss)	<u>48,781,761</u>	<u>(1,807,900)</u>	<u>46,973,861</u>
Nonoperating Revenues (Expenses)			
Investment income	815,950	2,903	818,853
Investment income from notes receivable	1,404,814	-	1,404,814
Gain (loss) on extinguishment of debt - component units	(1,880,055)	-	(1,880,055)
Interest expense	(1,101,709)	(2,211,242)	(3,312,951)
Total Nonoperating Revenues (Expenses)	<u>(761,000)</u>	<u>(2,208,339)</u>	<u>(2,969,339)</u>
Income Before Capital Grants	<u>48,020,761</u>	<u>(4,016,239)</u>	<u>44,004,522</u>
Capital Grants			
HUD capital grants	9,104,781	-	9,104,781
State and city grants	1,404,650	-	1,404,650
Total Capital Grants	<u>10,509,431</u>	<u>-</u>	<u>10,509,431</u>
Change in Net Assets	<u>58,530,192</u>	<u>(4,016,239)</u>	<u>54,513,953</u>
Net Assets - Beginning	368,494,080	(5,084,552)	363,409,528
Transfer from primary government to component units	(975,200)	975,200	-
Capital contributions	205,635	-	205,635
Net Assets - Ending	<u>\$ 426,254,707</u>	<u>\$ (8,125,591)</u>	<u>\$ 418,129,116</u>

See notes to financial statements.

Housing Authority of New Orleans

STATEMENT OF CASH FLOWS  
Enterprise Fund

Year ended September 30, 2009

	<u>Primary Government</u>
Cash flows from operating activities	
Dwelling rent receipts	\$ 2,529,072
Operating subsidy and grant receipts	252,475,575
Other income receipts	12,840,619
Total receipts	<u>267,845,266</u>
Payments to vendors	(43,597,508)
Payments to employees	(10,806,578)
Litigation settlement	(388,336)
Housing assistance payments	(156,632,185)
Total disbursements	<u>(211,424,607)</u>
Net cash provided by operating activities	<u>56,420,659</u>
Cash flows from investing activities	
Investment income	815,950
Increase in notes receivable	92,419
Increase in investments	(8,308,476)
Net cash used by investing activities	<u>(7,400,107)</u>
Cash flows from capital and related financing activities	
Capital grants receipts - HUD	10,119,823
Capital asset purchases	(66,865,027)
Payment of long-term debt	(2,035,000)
Interest paid on long-term debt	(837,601)
Net cash provided by capital and related financing activities	<u>(59,617,805)</u>
Cash flows from other financing activities	
Capital contributions	205,635
Cash or Net Assets transferred from discrete component unit	(975,200)
Net cash provided by other financing activities	<u>(769,565)</u>
NET INCREASE (DECREASE) IN CASH	(11,366,818)
Cash and cash equivalents, beginning	<u>239,887,714</u>
Cash and cash equivalents, ending	<u>\$ 228,520,896</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents- unrestricted	\$ 68,697,224
Restricted cash	159,460,593
Resident security deposits	363,079
	<u>\$ 228,520,896</u>
Supplemental disclosure of non-cash investing and financing activities	
Extinguishment of component unit receivables	<u>\$ 1,880,055</u>

(continued)

Housing Authority of New Orleans  
**STATEMENT OF CASH FLOWS - CONTINUED**  
 Enterprise Fund

Year ended September 30, 2009

	<u>Primary Government</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 48,781,761</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,409,622
Amortization of housing contract rights	841,853
Changes in asset and liability accounts	
(Increase) decrease in assets	
Accounts receivable - HUD	(205,031)
Accounts receivable - other	9,809,929
Prepaid expense	313,589
Inventories	2,715
Increase (decrease) in liabilities	
Accounts payable	2,898,624
Accrued wages/taxes payable	(526,757)
Settlements, judgments and contingencies	4,396,405
Other noncurrent liabilities	(593,845)
Other current liabilities	3,066,139
Deferred revenue	(13,753,904)
Tenant security deposits payable	149,051
Accrued compensated absences	(169,492)
Total adjustments	<u>7,638,898</u>
Net cash provided by operating activities	<u><u>\$ 56,420,659</u></u>

See notes to financial statements

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Housing Authority of New Orleans (HANO or the Authority) is a public body corporate and politic established on September 29, 1936, pursuant to the laws of the State of Louisiana, to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD) and other Federal Agencies. The primary purpose of HANO is to provide safe, decent, sanitary, and affordable housing to low-income, elderly, and disabled families in New Orleans, Louisiana.

Reporting Entity

Government Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under the provisions of this Statement, HANO is considered a primary government because it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments.

HANO is a related organization of the City of New Orleans since Commissioners are appointed by the Mayor of the City of New Orleans. The City of New Orleans is not financially accountable for HANO as it cannot impose its will on HANO and there is no potential for HANO to provide financial benefit to, or impose financial burdens on, the City of New Orleans. Accordingly, HANO is not a component unit of the financial reporting entity of the City of New Orleans. HANO has been determined to be a "Troubled Agency" by HUD, and HUD has appointed an Executive Administrator to act as the Executive Director and has replaced HANO's Board of Commissioners with its own appointed Board.

In determining how to define the reporting entity, management has considered all potential component units. The determination to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the Codification of Governmental Accounting and Financial Reporting Standards and GASB Statement No. 14 (amended) and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These criteria include manifestation of oversight responsibility; including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

dependency, potential dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable.

As part of a major redevelopment plan, HANO formed a non-profit corporation and several separate limited liability companies.

Crescent Affordable Housing Corporation (CAHC) was formed in December 2003 as a non-profit membership corporation, in which HANO serves as the sole member, for the purpose of coordinating the development of safe, decent and affordable housing to low and moderate-income citizens of New Orleans. CAHC has applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (the Code) as a supporting organization under Section 509(a)(3) or the Code, the sole purpose of which is to carry out the affordable housing mission of HANO.

Lune d'Or Enterprises, LLC (Lune d'Or), a Louisiana Limited Liability Company, whose sole member is CAHC, was formed in March 2004, as a for-profit entity. Lune d'Or currently serves as the managing member of four Louisiana limited liability companies, each of which will own a single affordable housing project qualified for low-income housing tax credits. The purpose of the four LLC's is to redevelop or construct mixed income housing. CAHC and HANO will serve as co-developers with respect to these affordable housing projects.

Place D'Genesis, LLC, a Louisiana Limited Liability Company, whose sole member is CAHC, was formed in January of 2007. The purpose of the Limited Liability Company is to acquire, finance, construct, redevelop and rehabilitate affordable and/or market rate housing as a for-profit subsidiary and on behalf of CAHC.

Fischer I, LLC, whose sole managing member is Lune d'Or, was formed in March 2004. The Fischer I project was financed using tax credit equity investments.

Fischer III, LLC and Guste I, LLC's, whose sole managing member is Lune d'Or, were formed in December 2003. The Fischer III and Guste I projects were funded with mixed-financing which include d, but not be limited to, funds borrowed pursuant to the Trust Indenture between HANO, JP Morgan Trust Company, NA and the Industrial Development Board of the City of New Orleans, Louisiana, Inc (the Bond Issuer), from the proceeds of the Capital Fund Program Revenue Bonds, Series A of 2003 (the Bonds), tax credit equity investment funds, construction loans from a conventional lender, and Affordable Housing Program grant funds from the Federal Home Loan Bank.

HANO's blended component units are:

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

- Fischer IV-3
- Guste IIB
- B.W. Cooper I
- Imperial Drive I
- Imperial Drive II
- Tchopitoulas
- Mazant Royal
- CJ Peete Rental I
- St. Bernard Rental I
- General Ogden
- HANO Resident Loan Corporation, Inc.
- New Orleans Works
- CAHC
- Lune d'Or
- Place d' Genesis
- Florida IIA

HANO's discretely presented component units are:

- Fischer I
- Fischer III
- Guste I

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

HANO has an additional subsidiary/affiliate organization; the HANO Resident Loan Corporation, Inc. Based upon the application of the criteria mentioned above HANO Resident Loan Corporation, Inc. is a discretely presented component unit of HANO.

Programs Administered by HANO

The main programs of HANO are as follows:

- Low-Rent Public Housing under Annual Contributions Contract FW-1190 and related programs (Capital Fund Program and HOPE VI Program) for development, modernization, community development, and resident assistance.
- Housing Choice Voucher Program (formerly Section 8 Rental Assistance Program):

Rental Vouchers	FW-2217
Moderate Rehabilitation/Single Room Occupancy	FW-2147
New Construction	FW-2201

- Locally Owned Homeownership Program
- Resident-Managed Low-Rent Public Housing
- Disaster Housing Assistance Program
- Disaster Housing Assistance Program (IKE)

HANO was approved the flexibility to combine Capital Program funds, Housing Choice Voucher funds, and Public Housing funds under the 901 fungibility plan.

Basis of Presentations and Accounting

In accordance with both Louisiana State Reporting Law (LAS-R.S.24:514) and uniform financial reporting standards for HUD housing programs, the financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing accounting and financial reporting standards for HANO.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

Based upon compelling reasons offered by HUD, HANO reports under the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting. The enterprise fund emphasizes the flow of economic resources as a measurement focus. In this fund, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Pursuant to the election option made available by GASB Statement No. 20, *Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are applied in the preparation of the financial statements.

The *enterprise method* is used to account for those operations that are financed and operated in a manner similar to private business, or where the Board has decided that the determination of revenues earned, costs incurred, and/or net income necessary for management accountability is appropriate. The intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through funding from HUD and charges to residents for rent and other fees.

All of HANO's programs are accounted for as one business-type activity reported in a single enterprise fund.

Budgets

Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a "project length" basis. Budgets are not, however, legally adopted nor legally required for financial statement presentation.

Operating Revenue and Expenses

Operating revenues and expenses consist of revenues earned and expenses incurred as a result of the principal operations of HANO. Operating revenues consist of tenant rents and fees and HUD operating grants. Non-operating revenues consist of investment income and other non-operating revenues. Non-operating expenses consist of interest expense.

Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, interest-bearing demand deposits, and time deposits and other investments with original maturities of 90 days or less.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

Under state law, HANO may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Investments

Investments are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by HUD. Investments are either insured or collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits and investments over the federal depository insurance coverage, are collateralized with securities held by HANO's agent in HANO's name. It is HANO's policy that all funds on deposit are collateralized in accordance with both HUD requirements and requirements of the State of Louisiana.

Inventories

Inventories are valued at cost using the First-In, First-Out (FIFO) method. If inventory falls below cost due to damage, deterioration, or obsolescence, HANO establishes an allowance for obsolete inventory.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items.

Restricted Assets

Certain assets may be classified as restricted assets on the statement of net assets because their use is restricted for Housing Choice Voucher Programs, modernization programs, security deposits held in trust, family self-sufficiency program escrows, and homebuyers' reserves, among others.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amount of HANO's financial instruments at September 30, 2009 including cash, investments, accounts receivable, short-term notes receivable, bonds payable, and accounts payable closely approximates fair value. The long-term notes receivable to affordable housing projects generally do not require principal or interest payments for 40 years or more and thus have de minimus fair value at September 30, 2009.

Capital Assets

All purchased capital assets are valued at cost when historical records are available. When no historical records are available, capital assets are valued at estimated historical cost. Land values were derived from development closeout documentation. Donated capital assets are recorded at their fair value at the time they are received. All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

Pursuant to the enterprise GAAP method, the cost of buildings and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method. Depreciation commences on modernization and development additions in the year following completion, or in the fifth year if the program is 90% complete. The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	27 ½ years
Land improvements	40 years
Vehicles	5 years
Equipment	5 years

Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$5,000 are capitalized. When land, buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Impairment of Long-Lived Assets

The Authority accounts for impairments in accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Under

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

the provisions of the statement, prominent events or changes in circumstances affecting capital assets are required to be evaluated to determine whether impairment of a capital asset has occurred. Impaired capital assets that will no longer be used should be reported at the lower of carrying value or fair value. Impairment of capital assets with physical damage generally should be measured using the restoration cost approach, which uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written-off. During the year ended September 30, 2005, impairment was recorded on the majority of the Authority's capital assets. No impairment losses were recorded during the year ended September 30, 2009.

HANO reviews Mortgage Notes Receivable and Contract Rights for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the asset are less than the carrying amount, management compares the carrying amount of the asset to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. Mortgage Notes Receivable impairment losses recognized during the year ended September 30, 2009 were \$0.

Mortgage Notes Receivable - Principal

HANO has embarked on a program to develop mixed income housing developments.

HANO provides grants, short term financing and long term financing from HOPE VI and Capital Funds programs to leverage low income housing tax credits and additional private and public financing to develop mixed income housing communities.

These investments, in the form of loans, are to both entities in which HANO has a controlling ownership interest and to entities where HANO has no ownership interest, or no controlling ownership interest.

The terms of the loans and related agreements provide for HANO to:

- Fund some portion of capital in the form of loans usually in a third or fourth security position
- Agree to annual subsidy support from the HUD Annual Contributions Contract (ACC), and receive a commitment from the owner/developer to maintain a set

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

number of public housing units over the term of the agreement, generally 40 years or more.

- With respect to all of these projects, HANO owns the land and has executed a ground lease with the owner/developer.
- Additionally, after completion of the tax credit compliance period, HANO has a right of first refusal and/or a purchase option at fair value.

For those projects where HANO has an ownership interest in the project, HANO records the mortgage note receivable as a loan and periodically evaluates the loans for impairment.

For those mortgage notes receivable where HANO does not have an ownership interest, or a controlling interest in the project, HANO retains the legal rights as the lender, and will pursue collection, in accordance with the original terms of the notes, which provides for extended due dates of loan payments, usually 40 years or more.

HANO, in the year ended September 30, 2009, has reevaluated its accounting for these loans and concluded that the primary value of these transactions to HANO are the rights received, whereby the owner/developer provides a set number of public housing units over the contract period, usually 40 years or more. Therefore beginning October 1, 2008, HANO will amortize these rights (loan balance) and interest accrued through October 1, 2008 on a straight line basis over the remaining life of the agreements.

HANO believes this method of accounting is preferable under the circumstances.

The effect of this change in the year ended September 30, 2009 is \$841,453, the amount of the rights amortized.

Mortgage Notes Receivable - Interest

Prior to October 1, 2008, HANO accrued interest on mortgage notes receivable based on the contractual rate and periodically evaluated the collectability of such accrued interest.

Due to the uncertainty created by the extended time period to repayment and the provisions on certain notes that limits payment to defined surplus cash or net cash flows, HANO has ceased accruing interest on all mortgage notes receivable, except pre-development loans of short maturity. HANO will recognize interest income when cash payments are received. HANO believes this method of accounting is preferable under the circumstances.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

The effect of this change on HANO's financial statements is a reduction in interest income that would have been recognized of \$3,608,143.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as annual vacation and sick leave. A liability for compensated absences for annual/vacation leave that is attributable to services already rendered and that is not contingent on a specific event, outside the control of HANO and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of HANO and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Litigation Losses

HANO recognizes estimated losses related to litigation and claims in the period in which the event-giving rise to the loss occurs and the loss is probable, and can be reasonably estimated.

Annual Contribution Contracts

Annual Contribution Contracts (ACC) provide that HUD shall have the authority to audit and examine the records of public housing authorities. Accordingly, final determination of HANO's financing and contribution status for the Annual Contribution Contracts is determined by HUD based upon financial reports submitted by HANO.

Risk Management

HANO is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. HANO carries commercial insurance for risks of loss regarding workers' compensation, employee health and general liability insurance.

NOTE 2 - DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

It is the Authority's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. It is HANO's policy to maintain collateralization in accordance with HUD

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

requirements. All balances are collateralized at 100% in accordance with requirements of collateralization agreements.

Investments

Investments consist of certificates of deposits and government securities. It is the policy of the Authority that investments be secured by collateral valued at market or par, whichever is lower, less the amount of FDIC insurance.

Risks

Interest rate risk - The Authority's policy does not address interest rate risk.

Credit rate risk - The Authority's investments consist of certificates of deposits, which do not have credit ratings, and government securities; however, the Authority's policy does not address credit rate risk. Custodial credit risk - This is the risk that in the event of a bank failure, the Authority's deposits and investments may not be returned to it. As of September 30, 2009, \$252,852,603 of the Authority's deposits and investments were exposed to this risk because the amounts were in excess of FDIC insurance limits and the accounts were collateralized with securities held by the pledging financial institutions in the Authority's name. The following schedule summarizes the custodial credit risk:

	Balance Reported on the Authority's Financial Statements	Balance Deposited with the Financial Institution	FDIC Insurance	Uninsured Amount (Fully Collateralized)
Bank deposits	\$228,520,896	\$232,009,211	\$ 1,000,000	\$ 231,009,211
Funds held by trustees - government securities	2,194,635	2,194,635	-	2,194,635
Certificates of Deposits	19,648,757	19,648,757	-	19,648,757
Total	<u>\$250,364,288</u>	<u>\$253,852,603</u>	<u>\$ 1,000,000</u>	<u>\$ 252,852,603</u>

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

Cash and cash equivalents are reported on the statement of net assets as follows:

Cash and cash equivalents - unrestricted	\$ 68,697,224
Cash and cash equivalents - restricted	159,460,593
Cash and cash equivalents - security deposits	<u>363,079</u>
Total cash and cash equivalents	<u>\$ 228,520,896</u>

Investments are reported on the statement of net assets as follows:

Investments - unrestricted	\$ 19,648,757
Restricted bond and grant funds	<u>2,194,635</u>
	<u>\$ 21,843,392</u>

NOTE 3 - RESTRICTED CASH

Restricted cash as of September 30, 2009 consisted of the following:

Orleans Parish School Board Escrow	\$ 3,602
Restricted for Fungibility	106,346,973
Insurance escrow	14,929,914
FEMA restricted cash	21,854,812
Modernization and development	7,085,327
DHAP restricted cash	6,352,942
Other restricted cash	<u>2,887,023</u>
	<u>\$ 159,460,593</u>

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2009 consisted of the following:

Accounts receivable - tenants	\$ 141,020
Allowance for doubtful accounts	<u>(141,020)</u>
Net tenant receivables	-
HUD (see note 5 for detail)	3,649,189
Advances to development projects	5,620,256
Receivable from PHA projects, net	<u>567,830</u>
	<u>\$ 9,837,275</u>

NOTE 5 - DUE FROM/TO U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Amounts due from HUD as of September 30, 2009 were as follows:

HOPE VI	\$ 197,984
Capital Fund	<u>3,451,205</u>
	<u>\$ 3,649,189</u>

NOTE 6 - PREPAID EXPENSES

Prepaid expenses as of September 30, 2009 consisted of prepaid insurance of \$664,743.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

NOTE 7 – MORTGAGE NOTES RECEIVABLE

HANO CONTROLLED ENTITIES

The following provides a description of Mortgage Notes Receivable for long term notes where HANO or one of its affiliates has an ownership interest or a controlling ownership interest.

Guste I, LLC

HANO has a construction mortgage note receivable with Guste I, LLC, a component unit, in the original amount of \$10,634,312. The note accrues interest at 12% per annum. Principal and accrued interest was due at February 1, 2007. The balance outstanding at September 30, 2009 was \$10,634,315 plus accrued interest of \$1,269,308.

HANO has a program income loan construction mortgage note receivable with Guste I, LLC in the original amount of \$248,999. The note accrues interest at 3% per annum. Principal and accrued interest are due at January 31, 2060. The balance outstanding at September 30, 2009 was \$248,999 plus accrued interest of \$9,261.

HANO has a supplemental loan agreement with Guste I, LLC in the maximum original amount of \$2,939,498. The note was issued for the purpose of paying cost overruns incurred in the construction of the project. No interest will be charged on this note. Principal shall be payable in monthly installments from surplus cash. Full repayment of any outstanding principal will be due at maturity on November 1, 2061. The balance outstanding at September 30, 2009 was \$2,939,498.

Fischer I, LLC

HANO has a program income loan construction mortgage note receivable with Fischer I, LLC, a component unit, in the original amount of \$196,300. The note accrues interest at 4.76% per annum. Principal and accrued interest are due at January 31, 2060. The balance outstanding at September 30, 2009 was \$196,300 plus accrued interest of \$3,683.

HANO has a Capital Fund loan with Fischer I, LLC. The loan bears interest at the applicable federal rate. All unpaid principal and interest is due on January 31, 2060. The note accrues interest at 4.68% per annum. Payments on the loan are paid from surplus cash. The outstanding balance at September 30, 2009 was \$1,424,059 plus accrued interest of \$133,292.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

HANO has a supplemental loan agreement with Fischer I, LLC in the maximum original amount of \$130,000. The note was issued for the purpose of paying construction cost overruns incurred due to Hurricane Katrina. No interest will be charged on this note. Principal shall be payable in monthly installments from surplus cash. Full repayment of any outstanding principal will be due at maturity on November 1, 2061. The balance outstanding at September 30, 2009 was \$130,000.

Fischer III, LLC

HANO has a construction mortgage note receivable with Fischer III, LLC, a component unit, in the original amount of \$14,710,628. The promissory note matured on February 1, 2009 and was not extended. The current interest rate is 12% per annum. The promissory note will become a Term Mortgage Note maturing on January 21, 2060 and is secured by a Multiple Indebtedness Mortgage when the remaining equity is received. The balance outstanding at September 30, 2009 was \$14,710,628 plus accrued interest of \$2,749,145.

HANO has a program income loan construction mortgage note receivable with Fischer III, LLC in the original amount of \$344,314. The note accrues interest at 0.5% per annum. Principal and accrued interest are due at January 31, 2060. The balance outstanding at September 30, 2009 was \$344,314 plus accrued interest of \$6,458.

HANO has a supplemental loan agreement with Fischer III, LLC in the maximum original amount of \$3,064,919. The note was issued for the purpose of paying construction cost overruns incurred due to Hurricane Katrina. No interest will be charged on this note. Principal shall be payable in monthly installments from surplus cash. Full repayment of any outstanding principal will be due at maturity on November 1, 2061. The balance outstanding at September 30, 2009 was \$3,064,919.

New Savoy Place Apartments

New Savoy Place Partnership, LLP was dissolved due to Hurricane Katrina. The new partnership will be in two phases, Savoy Phase I, LLC and Savoy Phase II, LLC. In a prior year \$8,456,600 of the note receivable from New Savoy Place Apartments, LP was written-off as HANO had made a determination at that time that it would not be able to recover the funds. As new funds were advanced to New Savoy Place Apartments, LP in 2009, HANO has determined that it is appropriate to record the original amount that was written-off. However, in accordance with generally accepted accounting principles prior loan balances that have been written off cannot be reversed until collection of that receivable has been realized and consequently an allowance for the loan loss of \$8,456,600 is reflected in HANO's records

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

HANO has a Mortgage Note with New Savoy Place Apartments, LP, in the maximum original amount of \$17,356,600. The note will not accrue interest. Unpaid principal will be due on June 1, 2048. The balance outstanding at September 30, 2009 was \$17,356,600.

	<u>Balance, September 30, 2009</u>	
	<u>Notes Receivable</u>	<u>Accrued Interest (1)</u>
Guste I	\$ 13,822,809	\$ 1,278,569
Fischer I	1,750,359	136,975
Fischer III	18,119,860	2,755,603
New Savoy Place Apartments	<u>17,356,600</u>	<u>-</u>
Total	51,049,628	4,171,147
Allowance for loan loss	<u>(8,456,600)</u>	<u>-</u>
Total, net of allowance	<u>\$ 42,593,028</u>	<u>\$ 4,171,147</u>

(1) Accrual of interest ceased October 1, 2008. See note 1.

ENTITIES NOT CONTROLLED BY HANO

The following provides a description of Mortgage Notes Receivable for long-term notes where HANO or one its affiliates does not either have an ownership interest or does not have a controlling interest.

Abundance Square Associates

HANO has a note receivable with Abundance Square Associates, Limited Partnership in the maximum original amount of \$2,577,025. The note was issued to partially finance the construction of public housing, which will be owned and operated by the borrower. The Promissory Note is secured by a Multiple Indebtedness Leasehold Mortgage and Security Agreement and Assignment of Leases and Rents dated October 28, 2002. The interest rate on the note is 4.78%. All principal and accrued interest is due at December 31, 2043. The balance outstanding at September 30, 2009 was \$2,160,508, plus accrued interest receivable of \$494,551.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

Treasure Village Associates

HANO has a note receivable with Treasure Village Associates, Limited Partnership in the maximum original amount of \$1,100,000. The note was issued to partially finance the construction of public housing, which will be owned and operated by the borrower. The Promissory Note is secured by Multiple Indebtedness Leasehold Mortgage and Security Agreement and Assignment of Leases and Rents dated August 27, 2003. The interest rate on the note is 5.09%. All principal and accrued interest is due at maturity, December 31, 2053. The balance outstanding at September 30, 2009 was \$1,100,000, plus accrued interest receivable of \$266,637.

St. Thomas HOPE VI – (LGD)

HANO has a note receivable with LGD Rental I, LLC (LGD) in the original amount of \$13,360,800. The note was issued to partially finance the rehabilitation and revitalization of HOPE VI apartment complexes. The Promissory Note is secured by a Third Leasehold Mortgage and Security Agreement dated October 1, 2003. The note accrues interest at 1% per annum. Principal and accrued interest are payable from cash flow, as defined. All principal and accrued interest is due at October 1, 2043. The balance outstanding at September 30, 2009 was \$13,360,800 plus accrued interest of \$679,211.

HANO has a note receivable with LGD Rental I, LLC in the original amount of \$10,519,620. The note was issued to partially finance the rehabilitation and revitalization of HOPE VI apartment complexes. The Promissory Note is secured by a Fourth Leasehold Mortgage and Security Agreement dated October 1, 2003. The note accrues interest at 1% per annum. Principal and interest are payable from cash flow, as defined. All principal and accrued interest is due at October 1, 2043. The balance outstanding at September 30, 2009 was \$10,519,620 plus accrued interest of \$230,879.

St. Thomas HOPE VI – (LGD II)

HANO has a note receivable with LGD Rental II, LLC (LGD II) in the original amount of \$1,881,000. The note was issued to partially finance the rehabilitation and revitalization of HOPE VI apartment complexes. The Promissory Note is secured by a HOPE VI Mortgage and Security Agreement dated December 12, 2007. The note accrues interest at 1% per annum. Principal and interest are payable from cash flow, as defined. All principal and accrued interest is due at January 1, 2064. The balance outstanding at September 30, 2009 was \$1,489,435 plus accrued interest of \$11,171.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

Lafitte

HANO has a Fourth Loan Mortgage Note in the amount of \$5,040,019 for Lafitte Blocks 1-3, LLC for the onsite redevelopment at Lafitte Onsite I. The note accrues interest at the rate of 1% per annum. The maturity date on the note is September 1, 2059. The balance outstanding at September 30, 2009 was \$1,361,800. Accrued interest at this date is \$1,343.

HANO has a Fifth Loan Mortgage Note (Lafitte Onsite I) in the amount of \$900,000. The note has an interest rate of 0% and matures on September 1, 2059. The balance outstanding on September 30, 2009 is \$900,000.

St. Bernard I, LLC - Predevelopment Phase

The predevelopment loan in the principal amount of \$1,500,000 was repaid in full to HANO on October 16, 2008.

The HANO predevelopment loan in the amount of \$11,359,118 was modified on October 6, 2008 in the amount of \$23,476,302.07 for a total balance outstanding of \$29,835,520.07. On December 8, 2008 St. Bernard I, LLC entered into an amended and restated operating agreement with the developer Columbia Residential, LLC. The HANO predevelopment loan was repaid at closing.

St. Bernard I, LLC ( St. Bernard Rental I, LLC)

HANO has a Development Loan Mortgage Note in the amount of \$15,478,475 for the construction of mixed income housing at St. Bernard Phase I executed on December 8, 2008. The construction mortgage loan matures on January 1, 2056 and has an interest rate of 3.50% per annum. The balance on the construction mortgage note on September 30, 2009 was \$6,902,147 with accrued interest at this date of \$72,143.

C.J. Peete I, LLC and C.J. Peete III, LLC

C.J. Peete I, LLC and C.J. Peete III, LLC were combined at financial closing on December 31, 2008 in the amended and restated operating agreement for C.J. Peete I, LLC. HANO entered into a mixed finance agreement for the redevelopment of the C.J. Peete mixed income site. The HANO predevelopment loan to CJ Peete III was increased by \$28,038,886 on October 6, 2008. At financial closing on December 31, 2008, the HANO predevelopment loans from CJ Peete I and CJ Peete III were paid in full.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

C.J. Peete I, LLC - (CJP Rental I, LLC)

HANO has a Development Loan Mortgage Note (C.J. Peete I) in the amount of \$41,423,000 for the partial construction of a mixed income redevelopment at C.J. Peete. The development loan mortgage note accrues interest at the rate of 8.0% during construction. The interest is capped at \$1,158,000 during construction and will be paid in full and will fund the insurance reserve. At construction completion the interest rate is 0% thereafter until the maturity of the note on December 31, 2053. Any payments due under this note shall be payable from permitted distributions from Net Cash Flow as stated in the Amended and Restated Operating Agreement as per the Maker. The outstanding balance at September 30, 2009 was \$20,579,947 and accrued interest of \$357,398.

HANO has a Construction Mortgage Note with N.O.N.D.C. LLC for the construction of 22 homeownership units at C.J. Peete. The Construction Mortgage note is in the amount of \$4,703,598 and matures on December 31, 2011. The note accrues interest at 0%. The outstanding balance on September 30, 2009 is \$1,197,369.

	Balance, September 30, 2009		
	Notes	Accrued	
	Receivable	Interest (1)	Total
Abundance Square	\$ 2,160,508	\$ 494,551	\$ 2,655,059
Treasure Village	1,100,000	266,637	1,366,637
LGD	23,880,420	898,919	24,779,339
LGD II	1,881,000	11,171	1,892,171
Lafitte	1,361,800	1,343	1,363,143
St. Bernard I	6,902,148	72,144	6,974,292
N.O.N.D.C. LLC	1,197,369	-	1,197,369
CJ Peete I	19,382,578	357,398	19,739,976
Total	<u>\$ 57,865,823</u>	<u>\$ 2,102,163</u>	<u>59,967,986</u>
Accumulated Amortization			<u>(841,453)</u>
Notes Receivable/Rights - Net			<u>\$ 59,126,533</u>

(1) Accrual of interest ceased October 1, 2008. See note 1.

As set forth in accounting policies, HANO amortizes the amount which it considers representative of the right for Public Housing for the remaining commitment term of the

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

agreement which ranges from 34 to 40 years. Amortization expense for the year ended September 30, 2009 was \$841,453.

PREDEVELOPMENT LOANS

The following loans are predevelopment loans that mature at closing of the project financing and equity funding. Therefore interest is accrued.

B.W. Cooper I, LLC

The predevelopment loan principal amount of \$1,500,000 was repaid in full to HANO on October 16, 2008.

HANO has a developer services agreement with B.W. Cooper I, LLC in the maximum original amount of \$10,926,688. The note will become due based on certain events that occur during construction. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and accrued interest will be due as close to the date the amounts are earned by HANO as possible; all unpaid principal will be due at maturity on December 31, 2019. On October 6, 2008 HANO advanced \$20,130,056 to B.W. Cooper I, LLC in order to fund predevelopment, demolition and infrastructure expenses for the development of mixed finance housing at B.W. Cooper. The balance outstanding as of September 30, 2009 was \$29,004,062 and accrued interest at this date is \$1,838,753

	<u>Balance, September 30, 2009</u>	
	Notes	Accrued
	Receivable	Interest
B.W. Cooper I	<u>\$ 29,004,062</u>	<u>\$ 1,838,753</u>

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

NOTE 8 - LAND, BUILDINGS, AND EQUIPMENT

	Balance October 1, 2008	Additions	Transfers and Deletions	Balance September 30, 2009
Land	\$ 40,853,157	\$ 510,795	\$ -	\$ 41,363,952
Buildings	14,228,766	1,132,901	-	15,361,667
Equipment - dwelling	181,496	600,349	-	781,845
Equipment - administration	85,477	968,330	-	1,053,807
Land improvements	49,890	44,863,962	6,897,175	51,811,027
Infrastructure	10,791,849	-	(6,897,175)	3,894,674
Construction in progress	12,366,582	10,285,394	-	22,651,976
	78,557,217	58,361,731	-	136,918,948
Accumulated depreciation	(1,769,810)	(1,409,622)	-	(3,179,432)
Total	<u>\$ 76,787,407</u>	<u>\$ 56,952,109</u>	<u>\$ -</u>	<u>\$ 133,739,516</u>

During the year ended September 30, 2009, HANO was involved in the development and construction of various projects where they held no ownership interest. Construction in progress recorded related to the development of these projects in prior years was transferred to the land improvements during 2009.

NOTE 9 - ACCRUED CONTINGENT LIABILITIES AND SETTLEMENTS

Judgments, settled claims, and contingencies	\$ 27,738,637
Other noncurrent liabilities:	
Investment obligation	2,686,519
Homebuyers' reserve liability	<u>187,058</u>
	<u>\$ 30,612,214</u>

NOTE 10 - RISK MANAGEMENT

As stated in Note 1, HANO is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets for which HANO in prior years was self-insured for general liability, workers' compensation claims, fire and extended coverage.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

HANO is a defendant in various law suits and has some claims where the amount of loss/settlement has been confirmed. For confirmed amounts that have not been paid, the remaining obligation is recorded in the account "Judgments, Settled Claims, and Contingencies" (see Note 9).

For claims not yet litigated, in litigation and/or not yet settled, HANO records liabilities for those matters when it is probable a loss has occurred and HANO is able to reasonably estimate the amount of loss or a range of loss. Amounts accrued are included in the account "Judgments, Settled Claims and Contingencies" (see Note 9).

In addition, HANO has litigation and claims, including several class action lawsuits for which, based in part on advice of Counsel, HANO can not determine if it is probable that a loss will occur and/or it is not possible to estimate the loss or range of loss. Certain cases include multiple defendants and some cases do not state an amount of claim, however management believes that if the amount of claim was stated they each could be material.

NOTE 11 - COMPENSATED ABSENCES PAYABLE

HANO has established a policy (in accordance with State Civil Service regulations) to pay each employee his or her accrued annual leave upon termination up to a maximum of 300 hours. The cost of current leave privileges, computed in accordance with GASB codification Section C60, is recognized as a current year expense in the period in which it is earned, in accordance with generally accepted accounting principles.

At September 30, 2009, total leave to be paid upon termination is \$791,462. Of this amount, \$232,451 is estimated to be a current liability.

NOTE 12 - LONG-TERM DEBT

Pursuant to a Trust Indenture between HANO, the Industrial Development Board of the City of New Orleans, Louisiana, Inc. and J.P. Morgan Trust Company, NA dated December 1, 2003, bonds in the amount of \$49,250,000 titled "Capital Fund Program Revenue Bonds Series A of 2003" have been issued. The proceeds of the bonds were used to finance loans to fund a portion of the construction and development costs of three affiliated entities: Guste I, LLC, Florida II-A, LLC and Fischer III, LLC. The portion of the bonds related to Florida II-A, LLC were redeemed during 2007 in the amount of \$21,700,000. The managing member of each of these affiliates is Lune d'Or Enterprises, LLC, whose sole member is Crescent Affordable Housing Corporation. As discussed in note 1, HANO is the sole member of Crescent Affordable Housing Corporation.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

The bonds bear interest at a rate of 4.45% and require interest payable each June 1st and December 1st. Principal payments of varying amounts are due annually beginning December 1, 2004, with a final maturity date of December 1, 2023.

HANO, with the approval of HUD, has pledged a portion of its Replacement Housing Factor funds (a component of its annual Capital Fund grants from HUD) as security for payment of principal and interest on the bonds.

Aggregate annual debt service requirements for the bonds are as follows:

Year ending September 30,	Principal	Interest	Total
2010	\$ 1,470,000	\$ 759,615	\$ 2,229,615
2011	865,000	707,661	1,572,661
2012	905,000	668,279	1,573,279
2013	945,000	627,116	1,572,116
2014	985,000	584,174	1,569,174
2015-2019	5,635,000	2,206,644	7,841,644
2020-2024	7,000,000	771,630	7,771,630
	<u>\$ 17,805,000</u>	<u>\$ 6,325,119</u>	<u>\$ 24,130,119</u>

NOTE 13 - DEFINED CONTRIBUTION PENSION PLAN

HANO provides pension benefits for all its full-time employees through a defined contribution plan entitled "Housing Authority of New Orleans Pension Plan". The plan is administered by the Pension Plan Committee and was revised in November 2004. The Pension Plan Committee consists of employees of HANO. As a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments earnings. The Board of Commissioners for HANO is authorized to establish and amend plan benefits. Employees are eligible to participate after one hour of service.

HANO contributes 5% of the employee's base salary each month, while the employee contributes a mandatory ½ of 1% of his or her gross wages. HANO's contributions for each employee, and interest allocated to the employee's account, are fully vested after 3 years of service. Interest forfeited, either as a result of death or employees who leave employment prior to being vested, is apportioned among all participants in the plan year in which the forfeiture occurs.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

HANO's total payroll in fiscal years 2009, 2008, and 2007 was \$7,573,033, \$11,524,425, and \$10,730,043, respectively. The contributions of HANO and employees were calculated using \$6,569,830, \$10,208,293, and \$9,764,339, respectively. HANO and the employees made contributions amounting to \$328,491 and \$36,519; \$510,415 and \$52,160; and \$488,217 and \$35,102; respectively.

NOTE 14 - ECONOMIC DEPENDENCY

HANO received approximately 95% of its revenues from the federal government in the fiscal year. If the amount of revenues received from HUD falls below critical levels, HANO's operating results could be adversely affected.

NOTE 15 - CONTINGENCIES

HANO is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to HANO in the current and prior years.

During the year ended September 30, 2009, HANO became aware of certain fraud matters. They are as follows:

- A former CFO contractor pled guilty to embezzlement of approximately \$900,000. As of December 31, 2009, approximately \$675,000 has been recovered. Additional restitution may occur and will be recorded when realized.
- Allegations of embezzlement in the purchasing/procurement process have been and are continuing to be investigated.

With respect to regulatory examinations, HUD Office of Inspector General (OIG) audits, issued January 2009 and December 2009, include findings that HANO was deficient in reporting certain program spending to HUD and did not provide support for expenditures. Management is accumulating support for such expenditures.

Additionally HANO is in negotiations with HUD to close out the Katrina Disaster Housing Assistance Program (KDHAP). Preliminary estimates from HUD are that HANO could owe as much as \$6,200,000 to HUD. HANO has not agreed to any assessment at this time and is in the process of researching the claim. No accrual of any potential liability has been recorded on the September 30, 2009 financial statements.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

NOTE 16 - ANNUAL CONTRIBUTIONS CONTRACT FW-1190

Annual Contributions Contract - Public Housing

Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy approved in the operating budget. Operating subsidy contributions for the year ended September 30, 2009 were \$9,525,304 for HANO managed Low-Rent Public Housing Program and \$5,125,053 for the Resident Managed Low-Rent Public Housing Program.

Annual Contributions Contracts - Vouchers

Housing Choice Voucher Program Annual Contributions Contracts provide for housing assistance payments to private owners of residential units on behalf of eligible low or very low-income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit and the amount of rent contribution by a participating family and related administrative expense.

HUD contributions for the year ended September 30, 2009 were as follows:

Rental Vouchers	\$ 120,492,484
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NOTE 17 - COMMITMENTS

HANO is engaged in a modernization and development program and has entered into construction-type contracts with approximately \$21,550,000 remaining until completion.

HANO has a Construction Mortgage Note (Lafitte Onsite I Homeownership) in the amount of \$10,900,000. The outstanding balance on September 30, 2009 was \$0.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2009

NOTE 18 - RESTRICTED NET ASSETS

Restricted net assets at September 30, 2009 consisted of the following:

Unspent proceeds from City of New Orleans	
Tax Increment Financing Bonds	\$ 3,596
Public housing escrow and scholarship fund	3,602
Restricted HCV	40,000
Restricted cash and investments	152,572,150
Notes receivable plus accrued interest	<u>134,818,835</u>
	<u>\$ 287,438,183</u>

NOTE 19 - SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events, which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of HANO through March 31, 2010 and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

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

To the Board of Directors  
The Housing Authority of New Orleans

We have audited the basic financial statements of the Housing Authority of New Orleans (HANO) as of and for the year ended September 30, 2009, and have issued our report thereon dated March 31, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HANO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-1 through 2009-6 and 2009-13.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. However, of the significant deficiencies described above we considered items 2009-1 through 2009-5 and 2009-13 to be material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HANO's financial statements are free of 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.

HANO's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit HANO's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Commissioners, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Reznick Group, P.C.*

Charlotte, North Carolina  
March 31, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
The Housing Authority of New Orleans

Compliance

We have audited the compliance of the Housing Authority of New Orleans with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2009. The Housing Authority of New Orleans' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of New Orleans' management. Our responsibility is to express an opinion on Housing Authority of New Orleans' compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of New Orleans' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority of New Orleans' compliance with those requirements.

As described in items 2009-8 to 2009-13 in the accompanying Schedule of Findings and Questioned Costs, the Housing Authority of New Orleans did not comply with requirements regarding major federal programs as follows:

<u>Major Federal Program</u>	<u>Compliance Requirement</u>
Low-Rent Public Housing	Reporting Cash Management
Housing Choice Voucher Program - Vouchers	Eligibility Reporting

Capital Fund	Reporting
HOPE VI	Reporting
Disaster Housing Assistance Program	Reporting
DHAP IKE	Reporting

Compliance with such requirements is necessary, in our opinion, for the Housing Authority of New Orleans to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Housing Authority of New Orleans complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

#### Internal Control Over Compliance

The management of the Housing Authority of New Orleans is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority of New Orleans's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's 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 noncompliance with a type of compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major program that is more than inconsequential will not be prevented or detected. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2009-7 and 2009-13.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major program will not be prevented or detected. However,



of the significant deficiencies described above, we consider items 2009-7 and 2009-13 to be material weaknesses.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

HANO's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit HANO's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Commissioners, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Reznick Group, P.C.*

Charlotte, North Carolina  
March 31, 2010

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2009

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Housing Authority of New Orleans.
2. Significant deficiencies and material weaknesses were identified during the audit of the basic financial statements.
3. No instances of noncompliance material to the basic financial statements of the Housing Authority of New Orleans were disclosed during the audit.
4. Significant deficiencies and material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Housing Authority of New Orleans expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Housing Authority of New Orleans are reported in this schedule.
7. The programs tested as major programs include:
  - CFDA #14.850 Low-Rent Public Housing
  - CFDA #14.872 Capital Fund Program
  - CFDA #14.866 HOPE VI
  - CFDA #14.871 HCVP - Voucher
  - CFDA #97.109 Disaster Housing Assistance Program
  - CFDA DH.IKE Disaster Housing Assistance Program (IKE)
8. The threshold for distinguishing Type A and B programs was \$3,000,000.
9. The Housing Authority of New Orleans did not qualify as a low-risk auditee.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

Findings - Financial Statements Audit

2009-1 Bank Reconciliation Issues

Type of finding: Internal control - significant deficiency - material weakness

Condition: Bank reconciliations are not being performed timely. The procedures performed did not constitute a reconciliation in the traditional sense of that procedure, but instead was a one sided calculation of the required general ledger balance using the bank account activity (balance per the bank, known outstanding checks, deposits in transit and other known timing adjustments to the bank balance).

The adjustment to the general ledger balance included known adjustments for items such as unrecorded transfers, and also an increase in the general ledger cash account and a corresponding increase in a liability for old outstanding checks that are to be escheated to the state of Louisiana. Due to the methodology used to create this liability, the individual amounts and payees have not yet been identified. As of the audit report date, these funds had not yet been escheated to the state.

Cause: Monthly bank reconciliation procedures were not performed in a timely manner. Review and approval of bank reconciliations is not noted on the reconciliations. Stale outstanding checks have not been turned over to the state as is required by the escheat laws.

Criteria: Sound internal controls dictate that bank accounts should be reconciled to the general ledger, and that this reconciliation be performed in a timely manner. State escheat laws contain requirements that unclaimed property, including stale outstanding checks, be turned over to the state.

Auditor's Recommendation: We recommend that HANO perform bank reconciliations monthly, and that all adjustments to the general ledger are made timely. We recommend that bank reconciliations be reviewed by a supervisor and that the review be documented by initialing and dating the reconciliation. We also recommend that state escheat laws be reviewed to determine the requirements for turning over unclaimed property to the state of Louisiana that apply to HANO, and that those requirements be complied with.

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative*

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

*Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be undertaken that will address Finance operations in its entirety. Commencing April 2010, the HANO finance will begin reconciling all bank accounts. HANO intends to use outside accounting resources to assist with bringing reconciliations current, including all necessary adjustments. A HANO finance manager will review and sign off on all completed bank reconciliations. Upon completion of the initial bank reconciliations, bank reconciliations will be performed monthly. Additionally, all pertinent HANO finance staff will review the escheat state laws regarding unclaimed property and abide by established guidelines.*

2009-2 Accounting for Litigation and Claims Payable

Type of finding: Internal control - significant deficiency - material weakness

Condition: HANO has a number of legal claims in various stages of the judicial process. HANO's in-house legal counsel supervises and manages the matters, engages and monitors outside counsel, and engages and monitors claims specialists that evaluate claims as to monetary exposure.

The Finance Department has not been communicating and coordinating with in-house legal counsel to timely access claims information and status and then analyze such information in relation to accounting principles for litigation and claims and the resulting liability on the balance sheet.

Further, the Finance Department does not have a documented policy on how to evaluate legal claims in accordance with standards for accounting for litigation and claims.

Cause: The Finance Department and the in-house legal counsel have not been communicating regarding litigation and claims liabilities. HANO has not had cohesive policies and procedures to address the determination of the proper accounting for litigation and claims in accordance with generally accepted accounting procedures.

Criteria: As part of its financial reporting process, an organization should evaluate its exposure to litigation and claims and account for those matters in accordance with generally accepted accounting procedures.

Auditors' Recommendation: HANO should document an accounting policy and internal inter-departmental process for identifying claims or potential claims, evaluating same and

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

recording the appropriate accrued liability. Due to the number of claims, and the long period of claims gestation, we believe such a policy is critical to ensure consistent, quality evaluation of the needed accrued liability.

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. As previously mentioned, a comprehensive recovery program will be implemented and will include mechanisms to address issues related to the financial operations of the agency. A remedy to address the accounting for litigation and claims payable will be a component of the program, including the implementation of policies and procedures to deal with litigation and claims liabilities in accordance with generally accepted accounting principles. Further, the plan will identify internal processes, to identify, evaluate, document, and record potential claims and appropriate liabilities.*

2009-3 Accounting for Notes and Mortgages Receivable

Type of finding: Internal control - significant deficiency - material weakness

Condition: HANO has a very significant amount invested in Notes/Mortgages ("Notes") receivable from both component units and from unrelated parties.

With respect to the Unrelated Party Notes, these Notes are generally in 3<sup>rd</sup> and 4<sup>th</sup> security positions, HANO does not have an ownership interest in the borrower and the principal and interest is generally not due until the end of the "public housing agreement" which is usually at least 40 years. Currently, HANO does not have documented policies or procedures, including the methodology to apply generally accepted accounting principles, to assess collectability and therefore determine if the Notes require impairment.

With respect to the Component Unit Notes, similar policies and procedures need to be documented for impairment evaluation; however those policies and procedures will likely be different, due to HANO ownership in those Component Units.

Criteria: Generally accepted accounting principles require that the collectability of loan receivables should be periodically evaluated, as well as the appropriateness of continuing to accrue interest on the loans receivable. Additionally, generally accepted accounting principles require that the substance of a transaction should dictate the accounting and not the

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

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legal form of the transaction. HANO should have policies in place that address these issues as they relate to these Notes, and those policies should be in writing.

**Auditor's Recommendation:** HANO should develop a documented methodology for evaluation of and accounting for notes receivable, including determining the underlying accounting approach, whether notes should be impaired, and when interest accrual should be suspended.

*Management's Response:* HANO concurs with this finding. The comprehensive recovery program that will be undertaken will include a resolution for addressing the treatment of notes receivables from component units and related parties. Further, the plan will also address the accounting policies and procedures (including those related to accruing interest and impairment) as well as training and documentation requirements within the Finance and other related departments within the housing authority.

2009-4 Information Technology Comments

Type of finding: Internal control - significant deficiency - material weakness

Condition: We interviewed selected HANO and contractor personal with respect to status of the new system being implemented as of March 17, 2010. Since the primary part of the new system was implemented subsequent to September 30, 2009, we did not review the new system for key design of controls and implementation of those key controls. The purpose of our inquiries was to understand the process and status of the system implementation. Based on that we offer the following observations:

Segregation of Duties

- Procedures for making changes to the defined roles, including defining who is authorized to approve such changes, have not yet been established.
- A comprehensive segregation of duties matrix showing activities for all newly created Yardi groups has not yet been created.
- Some of the recommendations from KPMG's user access assessment for segregating activities have been implemented; however other recommended changes have not yet been implemented.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

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- A similar user access assessment has not yet been conducted for Section 8 or Asset Management.

Some functionality that is available within Yardi has not been implemented, such as on-line vendor approvals and journal entry approvals. If at a future time HANO implements additional Yardi system functionality, the defined roles will also need to be modified.

Formal procedures for handling employee terminations, including a termination checklist and consistent notification of MIS to ensure access to HANO's systems are revoked timely, have not been documented.

Yardi is hosting HANO's core accounting systems and HANO has outsourced payroll processing to an outside service provider, ADP. However, it does not appear that reviews of the SAS 70 service auditor reports were performed and documented to identify controls Yardi and ADP have in place or the potential risks or control deficiencies that might impact HANO, and to ensure that client control considerations specified in those reports are in place at HANO.

Information Technology security policies and procedures were last updated in May, 2008, and do not address the Yardi system.

HANO is in the process of implementing provisions for a remote disaster recovery facility that will house critical computer equipment. A continuity preparedness plan was drafted in 2008, but has not been formally approved, communicated or tested.

Tapes with backup copies of data on HANO's computer system are taken to a local bank for offsite storage. In the event of a need, these backup tapes might not be readily available which due to bank business hours can be up to three consecutive days. HANO should evaluate if that delayed turnaround is adequate for its business.

Criteria: Organizations should have policies and procedures in place to protect the integrity of financial and operational information, and to ensure continuity of operations.

Auditor's Recommendation: HANO should ensure that the policies and procedures it is developing and implementing address the matters outlined above.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract with HUD. The comprehensive recovery program will include policies and procedures that clearly define roles, responsibilities, and internal controls to govern data collection and reporting, financial management practices, and access and security requirements for all information systems.*

2009-5 Reported Instances of Fraud

Type of finding: Internal control - significant deficiency - material weakness

Condition: Management has informed us of three potential frauds that were discovered during the year ended September 30, 2009. Generally, those frauds involved fraudulent billing by the contract CFO, fraudulently obtaining a Housing Choice Voucher by the director of Section 8, and suspected procurement fraud perpetrated by individuals in the Purchasing and Finance Departments. The first two frauds have been substantiated, while the procurement fraud is still under investigation and pending resolution.

Criteria: Organizations should have policies and procedures in place to prevent and detect fraud.

Auditor's Recommendation: HANO should reassess its internal controls to ensure that they are designed and implemented so that fraud is prevented or detected in a timely manner before a material loss is incurred.

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract with HUD. Further, the Administrative Receiver has continued forensic audit activities and internal control assessments conducted by an independent contractor to address control issues. The long term recovery program will provide a process for the development of a sound internal control environment consisting of appropriate policies and procedures, segregation of duties, and other requirements necessary to prevent and detect fraud, waste, and abuse.*

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

2009-6 Document Retention

Type of Finding: Internal control – significant deficiency

Condition: HANO has a continuing problem of not being able to locate some invoices and other documents that support financial transactions and/or activity.

Cause: HANO lacks a clear and effective document retention policy and a process to ensure document retention and the ability to efficiently retrieve documents.

Criteria: An efficient and effective document retention policy and process allows an organization to provide support for transactions for management fiduciary, legal, regulatory and audit purposes.

Auditor's Recommendation: Establish an effective and efficient document retention policy, to include specifics as to organization of physical filing and/or electronic filing of documents.

*Management's Response: HANO concurs with this finding. The comprehensive recovery strategy will include the establishment of a record retention policy as well as data collection and reporting standards to comply with legal and regulatory requirements.*

Findings and Questioned Costs - Major Federal Awards Programs Audit

CFDA # 14.871 Housing Choice Voucher Program - Vouchers

2009-7 Section 8 Portability Records

Type of finding: Internal control - significant deficiency - material weakness

Condition: HANO did not have a complete listing of Section 8 portability receivables or portability payables. The amount of portability receivable has been determined to be a relatively small amount for a limited number of program participants. The liability for portability payable is a much larger amount that HANO has estimated to be approximately \$650,000. The methodology for computing the estimated liability was determined to be reasonable for calculating an estimated liability that will need to be validated by constructing a complete listing of portability payables.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

**Cause:** HANO has not adequately managed the portability of Section 8 vouchers. HANO's current accounting software cannot generate a receivable aging schedule for Section 8 ports, and until recently, one has not been created manually. HANO does not have a complete listing of its liability for portability payables, and until recently had not taken steps to estimate the liability.

**Criteria:** When a Voucher recipient moves to another locality, that participant is still the responsibility of the originating housing authority. The "new" housing authority is responsible for making payments to the landlord and for performing inspections and other program administration functions. The "new" housing authority then bills the originating housing authority for these services.

To properly monitor "port-ins", a housing authority should, at any given time, be aware of how much is due from other housing authorities for portability. Billings should be sent monthly to the housing authorities that currently owe money, and every possible effort should be made to collect the receivables.

To properly administer its own Vouchers, a housing authority should monitor its "port-outs" and track the amounts owed for services already provided and schedule out expected responsibilities for future months. The liabilities that have already been incurred should be reflected in the accounting records.

**Auditor's Recommendation:** At any given time, HANO should be aware of how much is due from other housing authorities for port-ins. HANO should be able to generate a list, or manually maintain a detail list by housing authority to ensure that correct amounts are recorded. Additionally, billings should be sent monthly to the housing authorities that currently owe money, and every possible effort should be made to collect the receivables.

The estimated liability for port-outs needs to be trued-up to agree to a detailed list by housing authority and Voucher recipient. Procedures should be put in place to more actively monitor port-outs and expected future cash requirements. The general ledger should be adjusted monthly to agree the liability recorded on the listing of port-out payables.

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be undertaken that will address these and other areas of HANO's Housing Choice Voucher*

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

*Program operations. The recovery program will incorporate staff training, procedures, regular reporting/monitoring and quality control reviews to ensure that portability payables and receivables are managed in accordance with applicable regulations.*

2009 - 8 Voucher Client Files

Type of Finding: Compliance - Eligibility

Condition: Of the 60-voucher client files tested, the following deficiencies were noted:

- Copies of 3 inspections that were performed were not in the file.
- 6 inspections were not performed
- 1 file had a failed inspection in the file, but no indication that the inspection was ultimately passed
- Recertifications for 2 of the files were not performed in a timely manner

Cause: HANO has not adequately monitored its housing choice voucher program to ensure that income certifications and inspections were performed timely.

Criteria: HANO is required by HUD to provide sufficient documentation that individuals receiving benefits under the Housing Choice Voucher program are eligible under the program rules. HANO is also required to perform annual inspection of units rented under the Housing Choice Voucher program to ensure that they provide decent, safe and sanitary housing for program participants.

Auditor's Recommendation: We recommend that HANO establish procedures to ensure that recertifications and inspections are performed timely.

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be undertaken that will address these and other areas of HANO's Housing Choice Voucher Program operations. The recovery program will incorporate staff training, procedures, regular reporting and quality control reviews to ensure that recertifications and inspections are performed on a timely basis in accordance with applicable regulations.*

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

2009 - 9 Section Eight Management Assessment Program (SEMAP)

Type of Finding: Compliance – Reporting

Condition: HANO was late in doing its SEMAP certification submission, and consequently the submission was not accepted and no SEMAP score has been assessed by HUD.

Cause: HANO submitted its SEMAP certification after the 60 days from year-end due date.

Criteria: Annually, Public Housing Authorities (PHAs) are required to submit a SEMAP certification within 60 days of their year ends. This information is used by HUD to assess PHA management capabilities and deficiencies, and to assign an overall performance rating to the PHA.

Auditor's Recommendation: Establish procedures to ensure that SEMAP and other critical reporting requirements are complied with in a timely manner.

*Management's Response: HANO concurs with this finding at the present time; however, it should be noted that HANO's Administrative Receiver has submitted a request to HUD to waive all SEMAP requirements, including the annual submission requirement, for HANO Fiscal Years 2009 -2011. The waiver request is pending HUD approval which, if granted, will close out this finding for the subject audit period. The comprehensive recovery program will address these and other areas of HANO's Housing Choice Voucher Program operations. The recovery program will incorporate staff training, procedures, regular reporting and quality control reviews to ensure that future SEMAP annual submission and other applicable reporting requirements are performed on a timely basis in accordance with applicable regulations.*

Total questioned costs for CFDA #14.871 Housing Choice

Voucher Program - Vouchers \$ 0

CFDA # 14.850 Low-Rent Public Housing - Operating Subsidy

2009 - 10 Accounting for the Activities of the Resident Management Corporations

Type of Finding: - Compliance - Cash Management

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

**Condition:** The Authority has two developments under Resident Management Corporation (RMC) agreements that are also under separate Operating Fund Formulas. HANO provides contract administration and oversight to the RMCs as owner of the properties. In doing so, the Authority provides monthly subsidy allocations to the Guste and Cooper RMCs. HANO does not review and reconcile the annual budgets with the RMCs, nor does HANO monitor the expenses in relationship to revenue earnings of the RMCs. As a result, there are discrepancies between HANO and the RMCs accounts documenting the amounts due to and/or from HANO.

**Cause:** HANO does not provide adequate oversight to the RMCs.

**Criteria:** HANO should have procedures to ensure that the funds spent by the RMCs are sufficiently monitored so that HUD funds are spent and accounted for in accordance with HUD regulations.

**Auditor's Recommendation:** We recommend that the Authority enforce the terms of the agreements with the RMCs, which will result in a complete accounting for and monitoring of each RMC's activities.

*Management's Response: HANO concurs with this finding. The comprehensive recovery program that will be undertaken will include a resolution for addressing the HANO oversight responsibilities of the RMCs. Further, the plan will also address policies and procedures as well as training and documentation requirements for HANO and RMC staff.*

2009-11 Asset Management Accounting

**Type of finding:** Compliance - Reporting

**Condition:** HANO did not report on the asset management basis of accounting for the year ended September 30, 2009.

**Cause:** HANO has been devoting its attention to other matters that it has considered more pressing than all the changes that currently complying with Asset Management would entail. HANO has indicated that the new accounting system that is currently being implemented would allow compliance with Asset Management in the future.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

**Criteria:** Asset Management, including project-based accounting utilized in FDS submissions, is required for years ending after June 30, 2008.

**Auditor's Recommendation:** We recommend that HANO comply with these operating and reporting standards for the year ending September 30, 2010. Once the new accounting system is implemented, it should be able to adequately report on a project basis. However, before that time, HANO should be doing preparatory work so that there is a seamless change in the financial reporting for public housing projects.

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be undertaken that will address these and other areas of HANO's finance operations. The plan will address training requirements, an assessment of the structure of the current information system in providing for asset management accounting, the management of grants at the project level, and other areas critical to the implementation of asset management based accounting and complying with applicable reporting and operating standards.*

2009 - 12 Public Housing Assessment

Type of Finding: Compliance - Reporting

**Condition:** HANO has not performed its submission of its Public Housing Assessment System (PHAS) score for the year ended September 30, 2009, and consequently has not been assessed a PHAS score.

**Cause:** HANO has not submitted the information to receive a PHAS score.

**Criteria:** Annually, Public Housing Authorities (PHAs) are required to submit a information to obtain a PHAS score. This information is used by HUD to assess PHA management capabilities and deficiencies, and to assign an overall performance rating to the PHA. It is also used in funding considerations and in allocating HUD management resources among the various PHAs.

**Auditor's Recommendation:** Establish procedures to ensure that PHAS information is submitted in a timely manner.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

*Management's Response: HANO concurs with this finding which is consistent with the recently completed Operational Assessment of HANO conducted by the HANO Administrative Receivership Team under contract to HUD. As previously mentioned, a strategy to address this and other findings contained in the report will be developed in order to restore HANO to full functionality. The recovery efforts will include instituting formally-approved and published operating and performance standards and policies, implementing clearly defined and uniform work methods and procedures, developing improved information management systems to support PHAS monitoring and reporting requirements, and delivery of comprehensive staff training to ensure timely reporting and quality control reviews of performance indicators under PHAS.*

Total questioned costs for CFDA #14.850 Low-Rent

Public Housing - Operating Subsidy \$ 0

All Major Programs

CFDA # 14.850 Low-Rent Public Housing - Operating Subsidy  
CFDA # 14.872 Capital Fund Program  
CFDA # 14.871 Housing Choice Voucher Program - Vouchers  
CFDA # 14.866 HOPE VI  
CFDA # 97.109 Disaster Housing Assistance Program  
CFDA # DH.IKE Disaster Housing Assistance Program (IKE)

2009 - 13 Controls over Financial Reporting

Type of finding: - Internal control - significant deficiency - material weakness  
- Compliance - Reporting  
(Also, Financial Statement Audit Finding - Internal Control - significant deficiency - material weakness)

Condition: During the course of the audit, the auditor noted several instances of poor controls over financial reporting. Among the items noted:

- There were numerous journal entries that were posted that should not have been recorded and were erroneous. Often there were several journal entries posted to correct prior

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

journal entries. Several journal entries examined did not have documented support or approval

- Several trial balances for HANO programs and funds were kept in QuickBooks instead of CCS software during the year. When HANO filed the preliminary unaudited FDS, some balances were duplicated.
- HANO's routine accounting procedures did not produce an accurate accounts payable subsidiary ledger.
- In the course of performing the bank reconciliations for the HCVP checking account, HANO identified approximately \$4,000,000 of adjustments that needed to be made, which was primarily for unrecorded Housing Assistance Payments. .
- Homeownership reserve payouts were paid from the general fund and expensed rather than paid from the homeownership reserve and debited to the related liability.
- Activity related to component unit accounts receivable was recorded incorrectly on HANO's books.
- Auditor noted several instances of construction contract retention amounts not being properly accrued when incurred.
- The trial balance and initial FDS had significant errors, including operating transfers out that did not equal the operating transfers in, interfund accounts that were out of balance, and other errors in the preparation of the FDS.
- Rent rolls and security deposit listings provided by HANO were unreliable and inaccurate.
- HANO could not provide a detailed tenant accounts receivable aging schedule
- Payroll accounts were being kept on the cash basis for a majority of the year; neither payroll accrual nor compensated absence activity was recorded during the year.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

- Auditor noted a large amount of payroll related expenses that were being debited to liability accounts and never being credited to the liability account or being charged to the proper expense lines.

**Cause:** Accountants and clerks in the Finance Department are not adequately trained to perform their functions properly. Accounting personnel in many cases do not have documented procedures to refer to when executing the various processes in finance and accounting. Supervisory and management individuals did not properly supervise, monitor, or review the work of those responsible for performing the accounting and financial recordkeeping. Additionally, those who were charged with supervision and oversight lacked adequate experience in public housing authority accounting and in the complex transactions that HANO has undertaken concerning its development activity. Consequently, errors are not being prevented or detected and corrected in a timely manner.

**Criteria:** To be properly managed, accurate and timely accounting records are required to be maintained. Additionally, each major federal awards program requires that internal controls be established to ensure compliance with the program requirements, one of which is that *accurate financial and other reports can be prepared.*

**Auditor's recommendation:** Procedures should be established to:

- Provide training to accountants and clerks involved in the financial reporting process. This training should include a combination of general accounting matters and HANO specific processes and key controls.
- Document all accounting procedures and processes, including the related key controls.
- Retain adequate accounting supervisory personnel, and document their required review, monitoring and key control functions.
- Senior financial management should monitor the accounting supervisory personnel's performance.
- Review and approve journal entries prior to their posting to the accounting records.
- Ensure that all appropriate adjustments are posted prior to closing the books for the year.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2009

- Begin a process of validating all balance sheet account balances, including, but not limited to, accounts payable, tenant security deposits, homeownership liabilities, accrued expenses, prepaid assets, tenant receivables, utility liabilities, etc.
- Periodically (monthly or quarterly), reconcile the activity related to component units to the accounting records of the component units.
- Move all HANO entity trial balances onto the same software.
- Ensure that the rent rolls and security deposit listings loaded onto the new software is accurate.
- Review the accounting for the Homeownership program to ensure that it is being recorded correctly.
- The tenant rent rolls should be printed and retained each month.

*Management's Response: HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. The aforementioned recovery program will identify staff experience and training requirements, key controls, policy and procedures, realistic timelines for completion and key deliverables.*

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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

September 30, 2009

Fiscal Year	Finding		Corrective	Planned Corrective Action
Ref. Initially		Description of Finding	Action	or Partial Corrective
No. Occurred			Taken	Action Taken or Status

Section I - Internal Control and Compliance Material to the Financial Statements

1	2008	AUDIT COMPLETION	YES	The auditor considers this finding closed.
2	2007	Required annual audited financial		
3	2006	statement filings with HUD's REAC and		
3	2005	the Louisiana Legislative Auditor were not		
3	2004	made by the required filing deadlines.		
2	2008	UNDERFUNDED SELF INSURANCE	YES	The auditor considers this finding closed.
4	2007	FUND		
5	2006	The self insurance fund has not been		
5	2005	funded in accordance with state		
		requirements. In additions, there has been		
		no analysis done to identify incurred by		
		not reported claims, and no liability has		
		been established for the potential claims.		
3	2008	BANK RECONCILIATION	NO	HANO concurs with this finding which is
		Bank reconciliations contain outstanding		consistent with the recently completed
		checks that date back to 2003 and wire		assessment of HANO operations
		transfers between cash accounts that have		conducted by HANO Administrative
		not been properly documented.		Receiver Gilmore Kean under contract to
				HUD. A comprehensive recovery program
				will be implemented and will include
				mechanisms to address issues related to
				the financial operations of the agency.

(continued)

Housing Authority of New Orleans

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED

September 30, 2009

Fiscal Year Finding Ref. Initially No. Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action or Partial Corrective Action Taken or Status
<b>Section II - Internal Control and Compliance Material to Federal Awards</b>			
4	2008	VOUCHER CLIENT FILES	NO
5	2007	Required documentation was missing from	HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be implemented and will include mechanisms to address issues related to the financial operations of the agency.
6	2006	several of the files selected for testing.	
6	2005		
5	2008	SECTION 8 PORTABILITY RECORDS	NO
		HANO could not provide a listing documenting which entities they had receivables from at year-end.	HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be implemented and will include mechanisms to address issues related to the financial operations of the agency.

(continued)

Housing Authority of New Orleans

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED

September 30, 2009

Fiscal Year Finding Ref. Initially No. Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action or Partial Corrective Action Taken or Status
6 7 8 7	2008 2007 2006 2005	ACCOUNTING FOR THE ACTIVITIES OF THE RESIDENT MANAGEMENT CORPORATIONS	NO
	HANO does not provide oversight to the Resident Management Corporations.		HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be implemented and will include mechanisms to address issues related to the financial operations of the agency.
7 8 9 8 6 9 11	2008 2007 2006 2005 2004 2003 2002	INVENTORY OF FIXED ASSETS Fixed asset schedules were not in detail, and a physical inventory of fixed assets has not been conducted at least once every two years.	YES
			The auditor considers this finding closed.

(continued)

Housing Authority of New Orleans

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED

September 30, 2009

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action or Partial Corrective Action Taken or Status
8	2008	ASSET MANAGEMENT ACCOUNTING HANO did not report on the asset management basis of accounting.	NO	HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be implemented and will include mechanisms to address issues related to the financial operations of the agency.
9	2008	CONTROLS OVER FINANCIAL	NO	HANO concurs with this finding which is consistent with the recently completed assessment of HANO operations conducted by HANO Administrative Receiver Gilmore Kean under contract to HUD. A comprehensive recovery program will be implemented and will include mechanisms to address issues related to the financial operations of the agency.
9	2007	REPORTING		
10	2006	During the course of the audit, several instances of poor controls over journal entries, general ledger closing, accounts payable reporting, bank reconciliations, component unit receivable, tenant accounts receivable, operating transfers, interfunds, and payroll accounts were noted. Rent rolls provided were generally inaccurate, and construction contract retention amounts were not properly accrued when incurred. Additionally, there was a general disorganization of documents and support and several invoices that could not be located.		

**SUPPLEMENTAL INFORMATION**

Housing Authority of New Orleans

FINANCIAL DATA SCHEDULE

September 30, 2009

Line Item #	Account Description	Low Rent Public Housing	Self-Help Homeownership Opportunity	FMSA	HOPE VI	Capital Fund	Section 8 Vouchers	Section 8 Construction	Section 8 Rehabilitation	KDI/AF	DVP	TPV	ROSS	Business Activities	State and Local	DHAP ICE	DHAP	Component Units	TOTAL
111	Cash - Unrestricted	\$ 55,991,734	\$ 1,944,836	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,810,440	\$ 74,761,010
112	Cash - Restricted - Modernization and Development	2,300	-	-	-	7,085,327	-	-	-	-	-	-	-	-	-	-	-	-	7,087,627
113	Cash - Other Restricted	15,799,746	248,729	21,654,812	-	-	106,346,973	-	-	-	-	-	-	-	-	924,010	6,376,046	931,269	151,495,585
114	Cash - Trust Security Deposits	362,833	-	-	-	14,872	14,871	194	-	-	-	-	-	-	-	-	-	21,729	397,999
100	Total Cash	72,156,603	2,217,565	21,654,812	-	7,085,327	106,347,167	-	-	-	-	-	-	-	-	924,010	6,376,046	13,772,429	232,792,211
101	Accounts and Notes Receivable	528,146	-	-	-	-	40,000	-	-	-	-	-	-	-	-	-	-	-	568,146
102	Accounts Receivable - FHA Projects	-	-	-	197,984	3,437,644	-	-	-	-	-	-	-	-	-	-	-	-	3,635,628
103	Accounts Receivable - HUD Other Projects	5,515,919	-	-	-	4,374	-	-	-	-	-	-	12,845	-	-	-	-	1,377,201	9,400,109
104	Accounts Receivable - Miscellaneous	26,072	-	-	-	-	-	-	-	-	-	-	-	-	514,395	-	-	-	540,467
105	Accounts Receivable - Tenant - Dwelling Units	26,052	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28,933	169,933
106	Allowance for Doubtful Accounts - Dwelling Units	(2,798,123)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41,020)
107	Allowance for Doubtful Accounts - Other	1,744,299	-	-	77,077	105,172	472	-	-	-	-	-	-	-	-	-	-	(138,790)	(9,937,673)
108	Accrued Interest Receivable	5,010,061	-	-	275,061	2,532,290	46,472	-	-	-	-	-	12,845	4,014,454	558,395	550	132	-	5,946,736
109	Total Receivables, Net of Allowance for Doubtful Accounts	19,648,757	-	-	-	-	-	-	-	-	-	-	-	4,018,454	1,991,429	-	-	2,267,384	19,648,757
110	Investments - Unrestricted	3,396	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,396
111	Investments - Restricted	582,081	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	582,081
112	Prepaid Expenses and Other Assets	1,442,461	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,442,461
113	Investments Due From	98,862,203	2,226,627	21,654,812	6,151,744	17,149,651	193,921,148	-	208,221	458,777	14,131,166	25,651,312	1,551	4,014,454	304,777	1,116,846	-	260,739,884	
114	Total CURRENT ASSETS	118,221,235	4,444,192	43,309,624	12,303,788	27,767,668	306,309,837	-	208,221	458,777	14,131,166	25,651,312	14,496	4,018,454	3,054,601	2,643,406	6,376,178	19,373,919	312,872,331
120	Fixed Assets	36,291,131	836,491	-	3,952,081	192,049	-	-	-	-	-	-	-	-	-	-	-	-	41,363,652
121	Land	14,228,766	-	-	437,531	695,370	-	-	-	-	-	-	-	-	-	-	-	38,044,828	53,406,495
122	Buildings	187,050	-	-	14,865	594,795	-	-	-	-	-	-	-	-	-	-	-	80,339	1,662,384
123	Furniture, Equipment & Machinery - Dwellings	237,171	-	-	49,490	-	-	-	-	-	-	-	-	-	8,077,840	-	801,771	-	2,053,807
124	Furniture, Equipment & Machinery - Administration	43,723,297	-	-	(3,946)	-	-	-	-	-	-	-	-	-	(100,473)	-	(228,573)	-	41,110,227
125	Leasehold Improvements	(2,844,440)	-	-	2,869,810	31,715	-	-	-	-	-	-	-	-	3,894,674	-	-	-	21,651,676
126	Accumulated Depreciation	-	12,072	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,518,379	
127	Construction in Progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,894,674	
128	Total Fixed Assets, Net of Accumulated Depreciation	91,822,925	848,563	-	6,318,231	1,533,929	-	-	-	-	-	-	-	-	11,852,821	-	573,198	-	168,433,623
129	Notes and Mortgages Receivable - Non-Current	43,109,935	-	-	1,042,217	-	-	-	-	-	-	-	-	23,344,940	-	-	-	-	71,597,092
130	Other Assets	40,351,379	-	-	9,068,311	706,842	-	-	-	-	-	-	-	-	-	-	-	2,345,621	61,472,155
131	Total NONCURRENT ASSETS	185,284,239	848,563	-	15,366,542	3,381,988	-	-	-	-	-	-	-	23,344,940	-	-	-	-	189,821,775
132	Total ASSETS	\$ 283,146,791	\$ 3,144,190	\$ 21,654,812	\$ 22,020,347	\$ 31,170,256	\$ 306,309,837	\$ -	\$ 208,221	\$ 458,777	\$ 14,121,166	\$ 25,651,312	\$ 14,496	\$ 20,363,394	\$ 14,890,642	\$ 2,643,406	\$ 6,949,376	\$ 77,644,278	\$ 814,395,201

Housing Authority of New Orleans

FINANCIAL DATA SCHEDULE - CONTINUED

September 30, 2009

Line Item #	Account Description	Low Rent Public Housing	Self-Help Homeownership Opportunity Program	FEMA 97 036	HOPE VI 14 866	Capital Fund Program	Section 8 Vouchers 14 871	Section 8 New Construction 14 132	Section 8 Moderate Rehabilitation 14 856	KDIAP	DVP 14 DVP	TPV	RIGSS 14 870	Business Acct/ret	State and Local	DHAP D/E D/E	DHAP 97 049	Component Unit	TOTAL
312	LIABILITIES AND NET ASSETS:																		
313	CURRENT LIABILITIES:																		
314	Accounts Payable < 90 Days	1,868,426	15,675		108,024	2,261,041	854,600										7,758	157,299	5,303,373
315	Accrued Wages/Payroll Taxes Payable	242,841					123,560												372,401
316	Accounts Payable - Other	166,089					68,382												234,471
317	Accounts Payable - Utility	711,996																	711,996
318	Accounts Payable - PMA Projects						650,000							264,108					914,108
319	Accounts Payable - PHA Projects	289,871																	289,871
320	Deferred Revenue	3,165,637	779			26,398							1,551		2,073,025	2,042,261	6,973,699	26,620	316,491
321	Current Portion of Long-Term Debt - Capital Projects	2,197,533			8,400	620,307	337,073							1,470,000				642,534	1,470,000
322	Other Current Liabilities	663,367													9,380				10,121,191
323	Accrued Liabilities - Other	83,100,333	1,282,833	3,466,718	3,991,109	16,817,862	148,670,518	41,502					12,945	329,892	1,341,095		641,863		107,964,558
324	Interpreting Due To	94,449,103	1,298,887	3,466,718	6,107,537	19,726,508	147,734,133	41,502					14,496	2,062,600	3,423,500	2,042,261	7,667,370	10,953,041	298,988,606
325	TOTAL CURRENT LIABILITIES	121,812,317	1,485,945	3,466,718	6,107,537	19,726,508	147,916,581	41,502					14,496	18,398,600	3,423,500	2,042,261	7,667,370	84,162,800	416,266,085
326	NONCURRENT LIABILITIES:																		
327	Long-Term Debt, Net of Current - Capital Projects																		70,523,240
328	Accrued Liabilities - Other	376,563					182,448												559,011
329	Accounts Payable - Other	26,246,551																	26,246,551
330	TOTAL NONCURRENT LIABILITIES	27,363,214					182,448												71,200,759
331	TOTAL LIABILITIES	149,175,531	1,485,945	3,466,718	6,107,537	19,726,508	147,916,581	41,502					14,496	18,398,600	3,423,500	2,042,261	7,667,370	84,162,800	487,466,844
332	NET ASSETS:																		
333	Invested in Capital Assets, Net of Related Debt	91,822,975	848,563		6,518,231	1,533,979													133,739,516
334	Restricted Net Assets	110,237,001	258,729	21,854,812	9,086,311	1,955,971	106,347,167												232,683,183
335	Unrestricted Net Assets	(38,725,902)	(54,953)	(3,466,718)	(326,268)	(7,933,849)	(46,006,039)	(41,502)	208,221	438,777	14,121,166	25,651,312		(13,330,000)	(954,999)	(923,415)	(7,867,420)	(20,172,102)	
336	TOTAL NET ASSETS	(13,111,728)	1,042,289	13,381,094	5,165,274	5,552,101	132,312,295	(41,502)	208,221	438,777	14,121,166	25,651,312		10,964,594	1,467,142	1,043	(11,924)	(11,132,110)	
337	TOTAL LIABILITIES AND NET ASSETS	136,063,803	2,528,234	16,847,812	11,272,811	25,278,609	148,228,876		208,221	438,777	14,121,166	25,651,312	14,496	29,363,194	4,890,642	2,043,304	6,840,376	71,044,228	834,193,201

Housing Authority of New Orleans

FINANCIAL DATA SCHEDULE - CONTINUED

Year ended September 30, 2009

Line Item #	Account Description	Self-Help Homeownership Opportunity Program		FEMA		HOPE VI		Capital Fund Program		Section 8 Vouchers		Section 8 New Construction		Section 8 Moderate Rehabilitation		DVP 14 DVP	KDIAP	State and Local	FHAP IEE DRINKS	FHAP IEE DRINKS	Component Units	TOTAL	
		14 2/7	14 2/7	14 8/6	14 8/7	14 8/7	14 8/5	14 1/2	14 8/6	14 8/7	14 8/7	14 8/7	14 8/7	14 8/7									
703	Net Tenant Rental Revenue	17,843,081	133,624	16,051,136	8,562,384	31,372,851	120,885,563											6,108,220	3,126,438	6,125,653	3,608,676	370,402,623	
704	Tenant Revenue - Other	2,380,021																				1,452,942	3,832,963
705	Total Tenant Revenue	19,223,102	133,624	16,051,136	8,562,384	31,372,851	120,885,563											6,108,220	3,126,438	6,125,653	3,608,676	374,235,586	
706	FY09 FEMA Grants	14,650,357			843,286	29,969,667	120,497,484													3,323,291	61,205,173	2,091,597	4,871,618
706 1	Capital Grants			16,023,259	7,719,098	1,345,683																	231,998,233
708	Other Governmental Grants	100,134					79,170												6,102,644			656	221,494,813
711	Investment Income - Unrestricted	1,819,480					315,475												4,376	1,147	30,460	143,970	2,871,078
715	Other Revenue	6,237,210																				1,340,165	2,891,568
716	Gain/Loss on Sale of Fixed Assets	1,930,399																				21,088	(1,800,651)
720	Investment Income - Restricted			27,777			17,301															21,088	2,001,589
700	TOTAL REVENUE	17,843,081	133,624	16,051,136	8,562,384	31,372,851	120,885,563											6,108,220	3,126,438	6,125,653	3,608,676	370,402,623	
<b>EXPENSES:</b>																							
<b>Administrative</b>																							
911	Administrative Salaries	3,441,421					2,274,420															5,717,656	
912	Building Fees	416,363																				56,879	
913	Outside Management Fees																					101,539	
914	Compensated Allowances	37,114					177,894															215,008	
915	Employee Benefit Contributions - Administrative	1,326,896					707,432															2,036,109	
916	Other Operating - Administrative	5,940,882				172,863	2,624,704															1,231,107	
		11,162,676				172,863	2,624,704															1,231,107	
<b>Tenant Services:</b>																							
921	Tenant Services - Salaries	286,698																				286,698	
922	Relocation Costs	306				612	31,939															1,606,098	
924	Tenant Services - Other	715,364				885,972																1,606,098	
		1,002,368				886,584	31,939															1,606,098	
<b>Utilities:</b>																							
931	Water	909,363																				258,094	
932	Electricity	2,597,605																				2,711,064	
933	Gas	14,633																				14,869	
		3,421,601																				258,094	
<b>Ordinary Maintenance &amp; Operations:</b>																							
941	Ordinary Maintenance - Labor	1,461,226																				500,249	
942	Ordinary Maintenance and Operations - Materials and Other	102,215					351															102,566	
943	Ordinary Maintenance and Operations - Contract Costs	2,796,503					996,399															3,961,397	
945	Employee Benefit Contributions - Ordinary Maintenance	166,691																				180,489	
		4,526,635					996,399															500,249	

Housing Authority of New Orleans

FINANCIAL DATA SCHEDULE - CONTINUED

Year ended September 30, 2009

Line Item #	Account Description	Low Rent Public Housing 14 850	Self-Help Homeownership Opportunity Program 14 347	FEMA 97 036	HOPE VI 14 866	Capital Fund Programs 14 872	Sections 8 Voucher 14 871	Sections 8 New Construction 14 112	Sections 8 Moderate Rehabilitation 14 856	EDHAP	DVP 14 DVP	TPV	ROSS 14 870	Business Activities	State and Local	DIAP IKE	DIAP IAE	Component Units	TOTAL	
951	Protective Services - Labor	364,141	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	364,141	
952	Protective Services - Other Contract Costs	511,352	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	511,352	
953	Protective Services - Other	6,312	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,312	
		881,805	31,150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	912,955	
961	General Expenses	2,568,320	-	-	-	-	11,440	-	-	-	-	-	-	-	-	-	-	-	2,579,760	
962	Other General Expenses	6,070,113	-	68,254	275,610	19,104	342,840	-	-	-	-	-	-	-	-	-	-	-	6,776,617	
964	Bad Debt - Tenant Rental	127,192	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	127,192	
966	Bad Debt - Other	683,390	9,771	-	-	-	-	-	-	-	38,116	-	-	-	-	-	-	2,500	763,607	
967	Interest Expense	9,451,215	9,771	68,354	275,610	19,104	354,320	-	-	-	38,116	-	-	-	-	-	-	2,311,845	13,198,991	
969	TOTAL OPERATING EXPENSES	30,066,030	284,536	68,254	1,335,057	3,672,166	4,646,779	420	8,127	1,270	52,980	-	76,394	1,109,789	-	1,228,601	433,377	4,801,064	48,443,014	
970	ACCESS OPERATING REVENUE OVER	(12,822,949)	(130,732)	15,982,882	7,272,327	27,709,685	116,241,836	(420)	73,917	(1,270)	(52,980)	1,313,557	-	(1,109,789)	6,108,220	1,798,437	60,840,276	(1,182,348)	221,919,609	
971	Other Expenses:	-	9,410	-	19,479	7,007,579	15,540	-	-	-	-	-	-	-	-	-	-	-	7,052,215	
972	Extraordinary Maintenance	-	650	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650	
973	Contingency Liens - Non-Capitalized	2,106,820	-	-	-	-	84,578,752	-	-	-	15,015	-	-	-	4,271,813	1,797,292	60,773,358	-	157,545,030	
974	Housing Assistance Payments	1,148,795	-	-	-	-	-	-	-	-	-	-	-	-	108,473	-	-	1,398,119	2,807,741	
975	Depreciation Expense	3,355,615	10,080	-	19,379	7,007,579	88,591,292	-	-	-	13,015	-	-	-	4,375,473	1,997,292	69,935,312	1,398,119	107,400,556	
980	TOTAL EXPENSES	33,721,645	294,416	68,254	1,354,536	10,679,745	93,238,021	420	8,127	1,270	67,995	-	76,394	1,109,789	-	3,325,293	61,568,689	6,199,183	115,886,670	
1001	Other Financing Income (Use)	181,182,310	106,283	-	71,987	13,888,166	95,026,460	-	-	-	-	-	-	2,880,601	-	-	-	-	291,157,809	
1002	Operating Transfers In	(170,443,474)	(177,402)	-	(18,638,926)	(28,961,723)	(63,624,581)	-	-	-	-	-	-	-	(291,703)	-	-	-	(391,157,809)	
1004	Operating Transfers from Component Unit	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,235,137)	-	-	1,235,137	-	
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (21,338,023)	\$ (231,925)	\$ (15,982,882)	\$ (4,318,796)	\$ (3,616,518)	\$ (57,923,423)	\$ (420)	\$ (73,917)	\$ (1,270)	\$ (67,995)	\$ (1,313,557)	\$ -	\$ (1,709,712)	\$ (205,907)	\$ (1,145)	\$ (132,458)	\$ (1,335,270)	\$ (44,519,913)	
1100	Major Account Information																			
1103	Beginning Equity (per 2008 Audit)	184,732,497	1,894,174	2,405,212	20,231,606	5,824,199	95,340,783	(41,082)	134,304	460,047	14,189,161	24,337,755	-	9,193,982	11,261,235	-	(545,088)	(5,968,837)	363,609,528	
1104	Capital Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	296,535	
1105	Net Income Available	32,352	972	-	19,862	-	19,862	2,888	1,398	-	-	-	-	-	-	-	-	-	34,472	
1110	Net Change in Assets	(1,472,472)	972	-	1,189	-	1,189	-	-	-	-	-	-	-	-	-	-	-	36,097	
1112	Ending equity	163,334,674	1,662,245	18,338,094	15,912,810	11,440,748	153,393,206	(41,502)	208,221	438,777	14,121,166	25,651,312	-	10,984,794	11,467,142	1,145	(717,944)	(7,118,372)	418,129,116	

Housing Authority of New Orleans

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS

September 30, 2009

	<u>Type</u>	<u>Federal CFDA #</u>	<u>Expenditures</u>
<b>DIRECT AWARDS</b>			
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT:</b>			
<b>Public Housing:</b>			
Operating Subsidy	A - Major	14.850	\$ 14,650,357
HOPE VI - Urban Revitalization Program	A - Major	14.866	8,562,384
Capital Fund program	A - Major	14.872	31,355,350
ROSS	B - Nonmajor	14.870	76,394
<b>Housing Choice Voucher Program:</b>			
Voucher	A - Major	14.871	120,492,484
Moderate Rehabilitation	B - Nonmajor	14.856	82,044
Tenant Protection Vouchers	B - Nonmajor		1,313,557
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>			
DHAP	A - Major	97.049	61,205,173
FEMA	A - Major	97.036	16,023,359
DHAP IKE	A - Major	DH.IKE	<u>3,325,291</u>
<b>TOTAL FEDERAL FINANCIAL AWARDS</b>			<u><u>\$ 257,086,393</u></u>

Note: The accompanying schedule of expenditures of federal awards includes the federal grant activity for the Housing Authority of New Orleans and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2009

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Housing Authority of New Orleans.
2. Significant deficiencies and material weaknesses were identified during the audit of the basic financial statements.
3. No instances of noncompliance material to the basic financial statements of the Housing Authority of New Orleans were disclosed during the audit.
4. Significant deficiencies and material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Housing Authority of New Orleans expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Housing Authority of New Orleans are reported in this schedule.
7. The programs tested as major programs include:
  - CFDA #14.850 Low-Rent Public Housing
  - CFDA #14.872 Capital Fund Program
  - CFDA #14.866 HOPE VI
  - CFDA #14.871 HCVP - Voucher
  - CFDA #97.109 Disaster Housing Assistance Program
  - CFDA DH.IKE Disaster Housing Assistance Program (IKE)
8. The threshold for distinguishing Type A and B programs was \$3,000,000.
9. The Housing Authority of New Orleans did not qualify as a low-risk auditee.