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**Louisiana Housing Council Authority
Group Self Insurance Funds
Iowa, Louisiana
September 30, 1997**

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December 5, 1997

Independent Auditor's Report

Insurance Committee
Louisiana Housing Council, Inc.
Iowa, Louisiana

We have audited the accompanying combining balance sheet of the

**Louisiana Housing Council Authorities Group Self Insurance Funds
Iowa, Louisiana**

as of September 30, 1997, and the related combining statements of revenue, expenses and charges in fund balance and cash flows for the year then ended. These combining financial statements are the responsibility of the management of Louisiana Housing Council Authorities Group Self Insurance Funds. Our responsibility is to express an opinion on these combining financial statements based on our audit.

We conducted the audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combining financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combining financial statement presentation. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Housing Council Authorities Group Self Insurance Funds as of September 30, 1997 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the combining financial statements taken as a whole. The required supplementary information included in the Schedule 1-10-year Claims Development Information is presented for purposes of additional analysis and is not a required part of the combining financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the combining financial statements and in our opinion, is fairly stated in all material respects in relation to the combining financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated December 5, 1997 on our consideration of Louisiana Housing Council Authorities Group Self Insurance Funds' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Very truly,
Hawthorn, Warmouth & Carroll, L.L.P.

Lanham Housing Council Authorities Group Self Insurance Funds

Combining Balance Sheets
Year Ended September 30, 1997

Assets	Workers Compensation Fund	Health Fund	Long Term Disability Fund	Life Insurance Fund	Pension Fund	Fire & Extended Coverage General Liability		Totals
						Public	Officials	
Cash	\$5,089							\$5,089
Investments	918,094	290,628						1,208,722
Premiums receivable	14,458	11,452	6,418	\$1,597	38,824			71,749
Prepaid insurance							918,511	918,511
Other receivables			848		28,259		1,186,478	1,186,478
UNOCC Loan Fund	24,192						78,381	102,573
Accrued interest	1,624	6,812						8,436
Total assets	959,144	279,228	1,258	1,597	27,083		1,186,478	2,000,624
Liabilities and Fund Equity								
Accounts payable			448	1,597	821			2,866
Claims reserve	377,080	294,623						671,703
Deposit premiums	125,681							125,681
Unearned premiums			848		4,812		1,186,478	1,192,108
Policy premiums payable								6,892
Pension liabilities payable					28,259			28,259
Commissions payable								822
Total liabilities	298,681	294,623	1,258	1,597	27,083		1,186,478	2,113,624
Fund Equity	308,883	310,624						619,500
Local, State, and Federal Grants	659,144	319,228	1,458	1,597	27,083		1,186,478	1,094,624

The accompanying notes are an integral part of these statements.

Louisiana Housing Council/Authorities Group Self-Insurer Funds
Contributing Statement of Revenues, Expenses and Changes in Fund Balances
Years Ended September 30, 1997

	Workers Compensation		Long Term Disability		Life Insurance		Pension Fund		Fid A Extended Coverage General Liability		Totals
	End	End	End	End	End	End	End	End	End	End	
Revenues											
Premiums earned	\$118,817	\$1,215,249	\$53,582	\$61,865	\$61,865	\$61,865	\$61,865	\$2,991,215	\$2,991,215	\$2,991,215	\$2,991,215
Premiums paid	(186,832)	(186,191)									(373,023)
Net premiums earned	231,985	1,029,058	53,582	61,865	61,865	61,865	61,865	2,991,215	2,991,215	2,991,215	2,618,192
Investment income	27,945	4,591									32,536
Net appreciation (depreciation) in fair value of investments	939	(2,766)									(1,827)
Other		(1,128)	(6,682)								(8,810)
Total Revenues	261,969	1,029,854	46,902	61,865	61,865	61,865	61,865	2,991,215	2,991,215	2,991,215	2,618,192
Expenses											
Claims expenses	140,976	1,187,845									1,328,821
Loss adjustment proceeds		(411,418)									(411,418)
Net incurred claims expenses	140,976	776,427									917,403
Administrative fees	19,000	12,264	1,665				1,178				23,107
Claims administrator fees	11,981	41,783									53,764
Insurance policy fees purchased			15,682	61,865	62,543			2,495,215			2,614,705
Commissions paid											53,257
Other	(4,119)	(3,382)									(8,501)
Total Expenses	176,846	1,248,111	16,947	61,865	61,865	61,865	61,865	2,991,215	2,991,215	2,991,215	1,228,364
Net Income (Loss)	85,123	(118,257)	30,955	0	0	0	0	0	0	0	1,389,828
Fund Balances, beginning of year before prior period adjustment	180,490	338,385									518,875
Prior Period Adjustment		(125,005)									(125,005)
Fund Equity, beginning of year after prior period adjustment	180,490	213,380									393,870
Fund Equity, end of year	265,613	95,123									388,992

The accompanying notes are an integral part of these statements.

Louisiana Housing Council Authorities Group Self Insurance Funds
Condensed Statement of Cash Flows
Years Ended September 30, 1997

	Workers Compensation Fund		Long Term Disability Fund		Life Insurance Fund		Pensions Fund		Fire & Extended Coverage General Liability Public Officials Liability	
	Fund		Fund		Fund		Fund		Fund	
Cash Flows from Operating Activities										
Net income	\$281,991	\$10,019								120,518
Adjustments to reconcile net income to net cash provided (used) by operations:										
Net appreciation/depreciation in fair value of investments	9008									
(Decrease) / Increase in receivables	51,599	2,268								1,448
(Decrease) / Increase in accrued/unearned income	(17,614)	(72,119)		(5,571)		(5,784)		5,678		(47,889)
(Decrease) / Increase in prepaid expenses	53,899									(8,453)
(Increase) / Decrease in unpaid claims liability	(14,228)	8,295								(59,837)
(Increase) / Decrease in deposits	12,734									12,314
(Decrease) / Increase in investment premium	(139,971)									(88,314)
(Decrease) / Increase in LMOIC Loss Fund	5,882									5,882
(Increase) / Decrease in accounts payable				173		564		729		78,239
(Increase) / Decrease in premiums payable								(633,381)		
Net cash provided (used) by operating activities	168,939	8,185						(45,348)		88,379
Cash Flows from Investing Activities										
Proceeds from sale and maturity of investment securities	2,201,716	1,545,291								1,704,059
Purchase of investment securities	(3,024,902)	(1,218,534)								(6,295,268)
Net cash provided (used) in investing activities	(823,186)	(673,243)								(4,591,209)
Net Increase (Decrease) in Cash	4,778	(2,859)						(45,348)		(4,502,830)
Cash, beginning of year		219						95,249		40,823
Cash, end of year	2,957	219						49,901		36,323

The accompanying notes are an integral part of these statements.

Louisiana Housing Council Authorities Group Self Insurance Funds
Notes to Financial Statements
September 30, 1997

Background Information on Public Entity Risk Pools

In April, 1984, the Governmental Accounting Standards Board (GASB) was established as an arm of the Financial Accounting Foundation to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local entities.

In November, 1988, the GASB issued Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" (GASB 10) to establish accounting and financial reporting standards for risk financing and insurance-related activities of state and local governmental entities, including public entity risk pools.

In February, 1996, the GASB issued Statement No. 30 "Risk Financing Overview, An Amendment of GASB Statement No. 10".

A "public entity risk pool" is defined in GASB Statement No. 10 as a "cooperative group of governmental entities joining together to finance an exposure, liability, or risk." There are four basic types of public entity risk pools:

Risk-sharing pool

An arrangement by which governments pool risks and funds and share in the control of losses.

Insurance-purchasing pool

An arrangement by which governments pool funds or resources to purchase commercial insurance products.

Reserving pool

An arrangement by which monies are made available for pool members in the event of loss on a loan basis.

Claims-reserving or account pool

An arrangement by which a pool manager separates accounts for each pool member from which the losses of that member are paid.

A pool could serve one or several of these functions. The Workers Compensation Fund and the Health Insurance Fund are both a risk-sharing pool and an insurance-purchasing pool. All other insurance funds are only insurance-purchasing pools. In 1980, the Louisiana Legislature enacted Louisiana Revised Statute (LRS) 33:1331 through 33:1366, the "Local Housing Authority Self Insurance Act of 1981." LRS 33:1354 authorizes the Louisiana Housing Council, Inc. (LHC) to be designated to administer an interlocal risk management agency, with the insurance committees of the LHC constituting the board of trustees for such agency. LHC is an association for the housing authorities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana.

Background on the Workers' Compensation Fund

The Workers Compensation Fund of the Louisiana Housing Council Authorities Group Self Insurance Funds (The Fund) is a public entity risk pool as defined by Statement No. 10 of the Governmental Accounting Standards Board (GASB). It is open to all housing authorities which are members of the Louisiana Housing

Louisiana Housing Council Authorities Group Self Insurance Funds
Notes to Financial Statements
September 30, 1997

Background on the Workers' Compensation Fund (Continued)

Council, Inc. The Funds' general objectives are to formulate, develop, and administer, on behalf of the member housing authorities, a program of interlocal risk management and to obtain lower costs for that coverage.

The risk of loss is transferred to The Fund from the participating housing authorities. If the assets of The Fund were to be exhausted, participants would only be responsible for their respective outstanding claims. The Fund was established on September 12, 1964. Approximately seventy housing authorities were participating in The Fund as of September 30, 1997. Participation is voluntary and a participant may withdraw from The Fund by giving proper notice.

Fund underwriting and rate-setting policies have been established by the LHC Insurance Committee, which is the governing body of The Fund.

Bruceard, Bush & Hurn, A Division of Arthur J. Gallagher & Co. of La., Inc. (BB&H) is a third-party service agent hired by The Fund to perform the administrative functions such as premium billing and record keeping. Louisiana Workers' Compensation Corporation (LWCC) provided claims processing for The Fund. The Fund had to establish a "Loss Deposit" account with LWCC in the amount of \$34,000.

Background on the Health Fund

The Funds' general objectives are to formulate, develop, and administer, on behalf of the member housing authorities, a program of interlocal risk management and to obtain lower costs for that coverage. The risk of loss is transferred to The Fund from the participating housing authorities. If the assets of The Fund were to be exhausted, participants would only be responsible for their outstanding claims.

Approximately 107 housing authorities were participating in The Fund as of September 30, 1997. Participation is voluntary and a participant may withdraw from The Fund by giving proper notice.

Fund underwriting and rate-setting policies have been established by the LHC Insurance Committee, which is the governing body of The Fund.

Bruceard, Bush & Hurn (BB&H), a division of Arthur J. Gallagher & Co. of La., Inc., is a third-party service agent hired by The Fund to perform the administrative functions such as premium billing and record keeping. American Group Administration, Inc. of Hendersonville, Tennessee was hired by The Fund to perform the claims processing for the Health Fund.

NOTE 1-Summary of Significant Accounting Policies

A. Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting.

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash in money market accounts and cash in demand deposit accounts with banks.

Louisiana Housing Council Authorities Group Self Insurance Funds
Notes to Financial Statements
September 30, 1997

Note 1-Summary of Significant Accounting Policies (Continued)

C. Method Used to Value Investments

Investments are reported at fair value. Fair value is based upon the market value on the last business day of the fiscal year. Purchases and sales of securities are reflected on the trade date. Interest income is recorded as earned on an accrual basis.

D. Premium Income and Accounts Receivable

Premiums are recognized as income over the life of the policies as they become earned. Accounts receivable are current and considered to be fully collectible by management; therefore, no reserve for bad debt has been established.

E. Unpaid Claims Liability

(1) Workers' Compensation Fund and Health Fund

These funds establish claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability from unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reexamined periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future costs is implicit in the calculation. The carrying amount of liabilities for claims losses and claims expense are presented at actual amounts expected to be spent and are not discounted to present value. Investment earnings are not taken into account in determining claims liability.

(2) All Other Insurance Funds

These funds buy insurance from various commercial insurance companies to cover all claims; therefore, no reserve for unpaid claims liability has been established.

F. Reinsurance

The Funds use reinsurance agreements to reduce exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the individual fund as direct insurer of the risks reinsured. Funds do not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. All of the reinsurance activity of the Workers' Compensation Fund was associated with a single reinsurer and the reinsurance activity of the Health Fund was associated with another reinsurer.

G. Income Taxes

The Funds are exempt from federal income taxes under Sections 7701 and 115 (1) of the Internal Revenue Code.

Louisiana Housing Council Authorities Group Self Insurance Funds
Notes to Financial Statements
September 30, 1997

Note 1-Summary of Significant Accounting Policies (Continued)

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

I. Reclassification

Certain reclassifications have been made to the 1996 financial statements to conform with classifications used in 1997. These classifications had no effect on net income or fund balances.

Note 2-Unpaid Claims Liabilities

As discussed in Note 1, The Workers' Compensation Fund and the Health Fund establish a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses, both allocated and unallocated.

The following represents changes in these aggregate liabilities for The Funds during 1997:

	Workers Compensation Fund	Health Fund
Unpaid claims and claims adjustment expenses at beginning of period	\$204,217	\$155,830
Incurred claims and claims adjustment expenses of the current year/period	173,473	1,092,803
Increase (decrease) in provision for insured events of prior years	(51,533)	_(14,588)
Total incurred claims and claims adjustment expenses	141,940	1,078,215
Payments for claims and claims adjustment expenses attributable to:		
Insured events of current year	51,286	898,178
Insured events of prior years	121,589	_188,057
Total payments	172,875	1,076,215
Total unpaid claims and claims adjustment expense at year end	171,060	_204,625

Louisiana Housing Council Authority Group Self-Insurance Funds
Notes to Financial Statements
September 30, 1997

Note 3-Cash and Cash Equivalents, and Investments

A. Cash and Cash Equivalents:

(1) Workers' Compensation Fund

At September 30, 1997, the carrying amount of The Funds' cash and cash equivalents was \$5,000 and the bank balance was \$5,000, which was covered by federal depositary insurance.

(2) Health Fund

At September 30, 1997, the carrying amount of The Funds' cash and cash equivalents was \$0 and the bank balance was \$65,634, which was covered by federal depositary insurance.

B. Investments

The investments of The Fund are held by custodial banks, or its intermediaries in The Funds' name. The Funds' investments are categorized below to give an indication of the level of risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by The Fund or its agent in The Funds' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in The Funds' name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in The Funds' name. The categorization for the investments held at September 30, 1997 was:

	<u>Category of Risk</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Workers Compensation Fund				
Investments				
Money Market	\$66,323			\$66,323
Treasury bills	371,978			371,978
Treasury notes	<u>180,594</u>			<u>180,594</u>
Total investments	<u>\$66,323</u>			<u>\$66,323</u>
Health Fund				
Investments				
Money Market	363,994			363,994
Certificates of deposit	198,503			198,503
Treasury bills	47,883			47,883
Treasury notes	100,188			100,188
Mortgage backed securities	<u>38,952</u>			<u>38,952</u>
Total investments	<u>\$68,528</u>			<u>\$68,528</u>

Louisiana Housing Council Authority Group Self Insurance Funds
Notes to Financial Statements
September 30, 1997

Note 4-Reinsurance Policy Coverage

A. Workers' Compensation Fund

During the period ended September 30, 1997, The Fund obtained reinsurance with maximum aggregate excess coverage of \$2,000,000 and maximum specific excess coverages of \$2,000,000. The self insured retention is \$100,000 each event and \$250,000 in aggregate. Premiums ceded to reinsurers during the fiscal year ending September 30, 1997 were \$264,953 and no amount was deducted from claims. All of the reinsurance activity was associated with a single reinsurer. There are no anticipated recoverable amounts as of September 30, 1997.

B. Health Fund

During the period ended September 30, 1997, The Fund obtained reinsurance with each participant having a minimum coverage of \$1,000,000 lifetime. The self insured retention is \$15,000 for each individual. Premiums ceded to reinsurers during the fiscal year ending September 30, 1997 were \$162,301 and the amounts deducted from claims were \$111,638. All of the reinsurance activity was associated with a single reinsurer. There are no anticipated recoverable amounts as of September 30, 1997.

Note 5-Prior Period Adjustments

Fund Balance at October 1, 1997 has been adjusted to correct an error made in 1996. The financial statements did not include Incurred But Not Reported (IBNR) claims of \$195,830. Had the error not been made, net income for 1996 would have decreased by \$8,216.

Louisiana Housing Council Authorities Group Self Insurance Funds
Schedule 1 - 18-year Claims Development Information
Three Years Ended September 30, 1997

	1992	1996	1997
Required contribution and investment revenue			
Earned	548,592	468,031	432,708
Ceded	<u>(164,952)</u>	<u>(162,665)</u>	<u>(142,805)</u>
Net earned	381,639	305,366	289,893
Unallocated expenses	34,712	33,528	28,691
Estimated claims and expenses, end of policy year			
Incurred	<u>192,472</u>	<u>181,743</u>	<u>225,089</u>
Ceded	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net incurred	192,472	181,743	225,089
Net paid, cumulative as of:			
End of policy year	51,268	60,368	66,442
One year later		181,034	168,450
Two years later			248,995
Re-estimated ceded claims and expenses	-0-	-0-	-0-
Re-estimated net incurred claims and expenses			
End of policy year	192,472	181,743	225,089
One year later		128,166	148,584
Two years later			159,686
Increase (decrease) in estimated net incurred claims and expenses from end of policy year	-0-	(33,637)	25,686

The preceding table is Supplementary Information required by Governmental Accounting Standards Board Statement Number 18 (GAAS 30). The Workers Compensation Fund has only been in existence for three years so only three years' information is shown. The Schedule illustrates how The Fund's earned revenue (net of reinsurance) plus investment income compare to related costs of loss (net of assumed recoveries) plus other costs at the end of each year.

Louisiana Housing Council Authorities Group Self Insurance Funds
Schedule I - 10-year Claims Development Information
Two Years Ended September 30, 1997

	<u>1997</u>	<u>1996</u>
Required contribution and investment revenue		
Earned	\$1,308,751	\$1,127,249
Ceded	<u>(162,201)</u>	<u>(157,838)</u>
Net earned	1,147,850	969,411
Unallocated expenses	38,896	47,916
Estimated claims and expenses, end of policy year		
Incurred	1,104,813	1,310,519
Ceded	<u>(12,810)</u>	<u>(489,952)</u>
Net incurred	1,092,803	960,567
Net paid, cumulative as of:		
End of policy year	888,178	1,114,685
One year later		1,310,519
Two years later		
Re-estimated ceded claims and expenses	12,000	489,952
Re-estimated net incurred claims and expenses		
End of policy year	1,092,803	960,562
One year later		960,562
Two years later		
Increase in estimated net incurred claims and expenses from end of policy year	-0-	-0-

The preceding table is Supplementary Information required by Governmental Accounting Standards Board Statement Number 30(GASB 30). The Health Fund has data for only two years so two-year information is shown. The Schedule illustrates how The Funds' earned revenue (net of reinsurance) plus investment income compare to related costs of loss (net of assumed reinsurance) plus other costs at the end of each year.

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December 5, 1997

Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Insurance Committee

Louisiana Housing Council Authorities Group Self Insurance Funds
Ivrea, Louisiana

Members of the Committee:

We have audited the combining financial statements of the

**Louisiana Housing Council Authorities Group Self Insurance Funds
Ivrea, Louisiana**

as of and for the year ended September 30, 1997, and have issued our report thereon dated December 5, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Housing Council Authorities Group Self Insurance Funds' combining financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under Government Auditing Standards which are as follows:

During the year, the Louisiana Housing Council Authorities Group Self Insurance Funds invested in three out of state banks' certificates of deposit. According to Louisiana RS 39:1271, investments in certificates of deposit are required to be with "state banks organized under the laws of Louisiana, or national banks having their principal offices in the state of Louisiana". We recommend that this violation be corrected as soon as possible.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Housing Council Authority Group Self Insurance Funds' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combining financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, the Louisiana legislative auditor and the Louisiana insurance commissioner. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

Hawthorn, Weymouth & Carroll, L.L.P.