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SHREVEPORT HOME MORTGAGE AUTHORITY

(a component unit of the City of Shreveport)

Financial Statements

Year Ended December 31, 1997
(with comparative totals for December 31, 1996)

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick LLP

1900 Deposit Guaranty Tower
333 Texas Street
Shreveport, LA 71101-3692

Independent Auditors' Report

The Board of Trustees
Shreveport Home Mortgage Authority
Shreveport, Louisiana:

We have audited each of the accompanying combined balance sheets of the various funds of the Shreveport Home Mortgage Authority (a component unit of the City of Shreveport) as of December 31, 1997, and each of the related combined statements of revenue, expenses, and changes in retained earnings and cash flows for the year then ended. These combined component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these combined component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 financial statements. 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 combined component unit financial statements referred to above present fairly, in all material respects, the financial position of each of the various funds of the Shreveport Home Mortgage Authority at December 31, 1997, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 1998, on our consideration of the Shreveport Home Mortgage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG Peat Marwick LLP

March 6, 1998

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Combined Balance Sheets

December 31, 1997
(with comparative totals for December 31, 1996)

	1995 Issue (Single Family - Refunding)			1995 Issue (Multi-Family) - Refunding)	1988 Issue (Refunding)			1984 Issue (Single Family)		
Assets	Mortgage Purchase Program Funds (note 6)	Operating Fund	Total	Bond Fund	Mortgage Purchase Program Funds (note 6)	Operating Fund	Total	Mortgage Purchase Program Funds (note 6)	Operating Fund	Total
Cash and cash equivalents (note 4)	$ 8,750	6,627	15,377	318,849	491,096	35,198	526,294	7,833	73,207	81,040
Mortgage loans receivable, net (note 2)	3,681,615	—	3,681,615	—	15,353,512	—	15,353,512	1,199,026	—	1,199,026
Note receivable (note 3)	—	—	—	4,393,333	—	—	—	—	—	—
Accrued interest receivable	162,055	3,666	165,721	30,509	102,000	—	102,000	18,340	—	18,340
Investment securities (note 4)	5,694,290	172,529	5,866,819	—	—	—	—	25,803	77,559	103,362
Bond issuance costs, net	211,144	—	211,144	—	109,994	—	109,994	—	—	—
Other assets	—	—	—	—	—	3,514	3,514	—	16,313	16,313
Interfund receivables (payables)	(83,526)	83,526	—	—	(780,112)	780,112	—	(50,650)	50,650	—
Total assets	$ 9,674,328	266,348	9,940,676	4,742,691	15,276,490	818,824	16,095,314	1,200,352	217,729	1,418,081
Liabilities and Retained Earnings										
Liabilities:										
Bonds payable, net of unamortized discount (note 5)	$ 9,450,000	—	9,450,000	4,410,000	15,180,025	—	15,180,025	1,200,352	—	1,200,352
Accrued interest payable	224,328	—	224,328	95,125	—	—	—	—	—	—
Other	—	—	—	—	96,465	—	96,465	—	—	—
Total liabilities	9,674,328	—	9,674,328	4,505,125	15,276,490	—	15,276,490	1,200,352	—	1,200,352
Retained earnings	—	266,348	266,348	237,566	—	818,824	818,824	—	217,729	217,729
Total liabilities and retained earnings	$ 9,674,328	266,348	9,940,676	4,742,691	15,276,490	818,824	16,095,314	1,200,352	217,729	1,418,081

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Combined Balance Sheets, Continued

Assets	Operating Account	Total All Issues (Memorandum Only) 1997	1996
Cash and cash equivalents (note 4)	$ 732,016	1,673,576	1,604,915
Mortgage loans receivable, net (note 2)	88,193	20,722,346	20,379,009
Note receivable (note 3)	—	4,393,333	4,435,000
Accrued interest receivable	—	316,570	355,308
Investment securities (note 4)	—	5,970,181	8,488,827
Bond issuance costs, net	—	321,138	346,694
Other assets	10,142	29,969	29,969
Interfund receivables (payables)	—	—	—
Total assets	$ 830,351	33,027,113	35,639,722
Liabilities and Retained Earnings			
Liabilities:			
Bonds payable, net of unamortized discount (note 5)	—	30,240,377	32,955,153
Accrued interest payable	—	319,453	319,453
Other	—	96,465	51,350
Total liabilities		30,656,295	33,325,956
Retained earnings	830,351	2,370,818	2,313,766
Total liabilities and retained earnings	$ 830,351	33,027,113	35,639,722

See accompanying notes to combined financial statements.

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Combined Statements of Revenue, Expenses, and Changes in Retained Earnings

Year ended December 31, 1997
(with comparative totals for December 31, 1996)

	1995 Issue (Single Family - Refunding)				1988 Issue (Refunding)			1984 Issue (Single Family)		
	Mortgage Purchase Program Funds	Operating Fund	Total	1995 Issue (Multi-Family) - Refunding) Bond Fund	Mortgage Purchase Program Funds	Operating Fund	Total	Mortgage Purchase Program Funds	Operating Fund	Total
Operating revenue:										
Interest on mortgage loans and note receivable	$ 157,989	—	157,989	265,305	1,594,479	—	1,594,479	150,639	—	150,639
Interest on investments	384,101	5,599	389,700	14,176	29,059	1,700	30,759	2,119	15,891	18,010
Other	466	—	466	7,110	—	45	45	—	—	—
Total operating revenue	542,556	5,599	548,155	286,591	1,623,538	1,745	1,625,283	152,758	15,891	168,649
Operating expenses:										
Interest on bonds	538,388	—	538,388	285,378	1,552,174	—	1,552,174	146,846	—	146,846
Amortization of issuance costs	7,281	—	7,281	—	14,306	—	14,306	—	—	—
Administrative expenses	19,443	—	19,443	3,500	16,548	37,828	54,376	—	5,764	5,764
Total operating expenses	565,112	—	565,112	288,878	1,583,028	37,828	1,620,856	146,846	5,764	152,610
Operating income (loss) before extraordinary items	(22,556)	5,599	(16,957)	(2,287)	40,510	(36,083)	4,427	5,912	10,127	16,039
Extraordinary items:										
Loss on retirement of bonds	—	—	—	—	(80,076)	—	(80,076)	—	—	—
Gain on sale of loans	—	—	—	—	74,923	—	74,923	—	—	—
Net income (loss)	(22,556)	5,599	(16,957)	(2,287)	35,357	(36,083)	(726)	5,912	10,127	16,039
Transfers between funds	22,556	(22,556)	—	—	(35,357)	35,357	—	(5,912)	5,912	—
Retained earnings at beginning of year	—	283,305	283,305	239,853	—	819,550	819,550	—	201,690	201,690
Retained earnings at end of year	$ —	266,348	266,348	237,566	—	818,824	818,824	—	217,729	217,729

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Combined Statements of Revenue, Expenses, and Changes in Retained Earnings, Continued

		Operating Account	Total All Issues (Memorandum Only) 1997	1996
Operating revenue:				
Interest on mortgage loans and note receivable	$	6,152	2,174,564	2,276,232
Interest on investments		53,037	505,682	573,485
Other		18,230	25,851	20,119
Total operating revenue		77,419	2,706,097	2,869,836
Operating expenses:				
Interest on bonds		—	2,522,786	2,810,852
Amortization of issuance costs		—	21,587	23,752
Administrative expenses		16,436	99,519	223,101
Total operating expenses		16,436	2,643,892	3,057,705
Operating income (loss) before extraordinary items		60,983	62,205	(187,869)
Extraordinary items:				
Loss on retirement of bonds		—	(80,076)	(159,145)
Gain on sale of loans		—	74,923	78,449
Net income (loss)		60,983	57,052	(268,565)
Transfers between funds		—	—	—
Retained earnings at beginning of year		769,368	2,313,766	2,582,331
Retained earnings at end of year	$	830,351	2,370,818	2,313,766

See accompanying notes to combined financial statements.

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Combined Statements of Cash Flows

Year ended December 31, 1997
(with comparative totals for December 31, 1996)

	1995 Issue (Single Family - Refunding) Mortgage Purchase Program Funds	1995 Issue (Single Family - Refunding) Operating Fund	1995 Issue (Single Family - Refunding) Total	1995 Issue (Multi-Family) - Refunding) Bond Fund	1988 Issue (Refunding) Mortgage Purchase Program Funds	1988 Issue (Refunding) Operating Fund	1988 Issue (Refunding) Total	1984 Issue (Single Family) Mortgage Purchase Program Funds	1984 Issue (Single Family) Operating Fund	1984 Issue (Single Family) Total
Cash flows from operating activities:										
Cash received on loans and operating investment interest	$ 139,003	—	139,003	266,231	1,330,193	—	1,330,193	150,639	—	150,639
New mortgage loans	(2,607,218)	—	(2,607,218)	—	—	—	—	—	—	—
Principal payments received on mortgage loans and note receivable	31,202	—	31,202	41,667	2,750,594	—	2,750,594	231,556	—	231,556
Cash paid for administrative expenses	(19,443)	—	(19,443)	(3,500)	(16,548)	(37,828)	(54,376)	—	(5,764)	(5,764)
Other	—	—	—	7,110	45,115	45	45,160	—	—	—
Net cash provided by (used in) operating activities	(2,456,456)	—	(2,456,456)	311,508	4,109,354	(37,783)	4,071,571	382,195	(5,764)	376,431
Cash flows from noncapital financing activities:										
Interest paid	(538,388)	—	(538,388)	(285,378)	(1,277,798)	—	(1,277,798)	—	—	—
Principal payments on bonds	—	—	—	(25,000)	(2,772,328)	—	(2,772,328)	(414,776)	—	(414,776)
Transfers between funds	(89,219)	89,219	—	—	(26,296)	26,296	—	(57,310)	57,310	—
Net cash provided by (used in) noncapital financing activities	(627,607)	89,219	(538,388)	(310,378)	(4,076,422)	26,296	(4,050,126)	(472,086)	57,310	(414,776)
Cash flows from investing activities:										
Interest income received	428,734	3,764	432,498	14,176	29,059	1,700	30,759	2,119	15,891	18,010
Purchases of investments	—	(264,946)	(264,946)	—	—	—	—	—	(171,238)	(171,238)
Proceeds from maturities and sales of investments	2,652,079	178,590	2,830,669	—	—	—	—	2,919	121,242	124,161
Net cash provided by (used in) investing activities	3,080,813	(82,592)	2,998,221	14,176	29,059	1,700	30,759	5,038	(34,105)	(29,067)
Net increase (decrease) in cash and cash equivalents	(3,250)	6,627	3,377	15,306	61,991	(9,787)	52,204	(84,853)	17,441	(67,412)
Cash and cash equivalents at beginning of year	12,000	—	12,000	303,543	429,105	44,985	474,090	92,686	55,766	148,452
Cash and cash equivalents at end of year	$ 8,750	6,627	15,377	318,849	491,096	35,198	526,294	7,833	73,207	81,040

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Combined Statements of Cash Flows, Continued

	Operating Account	Total All Issues (Memorandum Only) 1997	1996
Cash flows from operating activities:			
Cash received on loans and operating investment interest	$ 6,152	1,892,218	1,949,574
New mortgage loans	—	(2,607,218)	(1,108,269)
Principal payments received on mortgage loans and note receivable	4,203	3,059,222	3,110,745
Cash paid for administrative expenses	(16,436)	(99,519)	(223,101)
Other	18,230	70,500	7,864
Net cash provided by(used in) operating activities	12,149	2,315,203	3,736,813
Cash flows from noncapital financing activities:			
Interest paid	—	(2,101,564)	(2,137,525)
Principal payments on bonds	—	(3,212,104)	(4,855,458)
Transfers between funds	—	—	—
Net cash provided by (used in) noncapital financing activities	—	(5,313,668)	(6,992,983)
Cash flows from investing activities:			
Interest income received	53,037	548,480	403,825
Purchases of investments	—	(436,184)	(383,457)
Proceeds from maturities and sales of investments	—	2,954,830	3,211,423
Net cash provided by (used in) investing activities	53,037	3,067,126	3,231,791
Net increase (decrease) in cash and cash equivalents	65,186	68,661	(24,379)
Cash and cash equivalents at beginning of year	666,830	1,604,915	1,629,294
Cash and cash equivalents at end of year	$ 732,016	1,673,576	1,604,915

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Combined Statements of Cash Flows, Continued

	1995 Issue (Single Family - Refunding)				1988 Issue (Refunding)			1984 Issue (Single Family)		
	Mortgage Purchase Program Funds	Operating Fund	Total	1995 Issue (Multi-Family) - Refunding Bond Fund	Mortgage Purchase Program Funds	Operating Fund	Total	Mortgage Purchase Program Funds	Operating Fund	Total
Reconciliation of operating income (loss) before extraordinary items to net cash provided by (used in) operating activities:										
Operating income (loss) before extraordinary items	$ (22,556)	5,599	(16,957)	(2,287)	40,510	(36,083)	4,427	5,912	10,127	16,039
Adjustments to reconcile operating income (loss) before extraordinary items to net cash provided by (used in) operating activities:										
Interest on investments	(428,734)	(3,764)	(432,498)	(14,176)	(29,059)	(1,700)	(30,759)	(2,119)	(15,891)	(18,010)
Interest on bonds payable	538,388	—	538,388	285,378	1,552,174	—	1,552,174	146,846	—	146,846
New mortgage loans	(2,607,218)	—	(2,607,218)	—	—	—	—	—	—	—
Principal payments received on mortgage loans and note receivable	31,202	—	31,202	41,667	2,750,594	—	2,750,594	231,556	—	231,556
Amortization of bond issuance costs	7,281	—	7,281	—	14,306	—	14,306	—	—	—
Loan discount accretion	—	—	—	—	(278,286)	—	(278,286)	—	—	—
Net (increase) decrease in other assets	—	—	—	—	—	—	—	—	—	—
Net (increase) decrease in accrued interest receivable	25,647	(1,835)	23,812	926	14,000	—	14,000	—	—	—
Net increase (decrease) in other liabilities	—	—	—	—	45,115	—	45,115	—	—	—
Other	(466)	—	(466)	—	—	—	—	—	—	—
Net cash provided by (used in) operating activities	$ (2,456,456)	—	(2,456,456)	311,508	4,109,354	(37,783)	4,071,571	382,195	(5,764)	376,431

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

	Operating Account	Total All Issues (Memorandum Only) 1997	1996
Reconciliation of operating income (loss) before extraordinary items to net cash provided by (used in) operating activities:			
Operating income (loss) before extraordinary items	$ 60,983	62,205	(187,869)
Adjustment to reconcile operating income (loss) before extraordinary items to net cash provided by (used in) operating activities:			
Interest on investments	(53,037)	(548,480)	(402,825)
Interest on bonds payable	—	2,527,786	2,810,852
New mortgage loans	—	(2,607,218)	(1,108,269)
Principal payments received on mortgage loans and note receivable	4,203	3,059,222	3,110,745
Amortization of bond issuance costs	—	21,587	23,752
Loan discount accretion	—	(278,286)	(319,944)
Net (increase) decrease in other assets	—	—	(10,142)
Net decrease (increase) in accrued interest receivable	—	38,738	(176,374)
Net increase (decrease) in other liabilities	—	45,115	(2,113)
Other	—	(466)	—
Net cash provided by (used in) operating activities	$ 12,149	2,315,203	3,736,813

See accompanying notes to combined financial statements.

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Notes to Combined Financial Statements

December 31, 1997

(1) Summary of Accounting Policies

Organization — The Shreveport Home Mortgage Authority (the "Authority") is a tax exempt public trust, created pursuant to the Constitution and laws of the State of Louisiana, particularly Chapter 2-A of Title 9 of the Louisiana Revised Statutes of 1950, as amended, and the Trust Indenture, dated October 24, 1978, with the City of Shreveport, Louisiana, as beneficiary. The Authority can transfer excess cash to the City of Shreveport. Pursuant to the Trust Indenture, the Authority is authorized to undertake various programs to assist in the financing of housing for persons of low to moderate income in the City of Shreveport. The Authority is a component unit of the City of Shreveport.

The Authority began operations on September 14, 1979, and has since been involved in numerous bond issues ("Issues") with the following issues still outstanding:

Date	Issue Name	Amount
November 20, 1984	Single Family Mortgage Revenue Bonds (1984 Issue)	$ 11,250,000
July 28, 1988	Collateralized Mortgage Refunding Bonds (1988 Issue)	44,111,177
March 14, 1995	Multi-Family Housing Revenue Refunding Bonds (1995 Issue)	4,435,000
December 7, 1995	Single Family Mortgage Revenue Refunding Bonds (1995 Issue)	9,450,000

Bonds and other obligations issued under the provisions of the Trust Indenture are not a debt or liability of the State of Louisiana, the City of Shreveport, or any political subdivision.

Basis of Presentation — The accounts of the Authority are organized on the basis of funds by issue, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, retained earnings, revenues, and expenses. Amounts in the "Total All Issues (Memorandum Only)" columns of the combined financial statements represent a summation of the combined financial statement line items of the funds and are presented for analytical purposes only. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. The following fund types are utilized by the Authority:

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Notes to Combined Financial Statements

Mortgage Purchase Program Funds — These funds are used to account for the proceeds from mortgage revenue bonds, the debt service requirements of the bonds, and the related mortgage loans for housing in the City of Shreveport.

Operating Funds — These funds are the general operating funds of the Issues. All income and expenses not directly attributable to the Mortgage Purchase Program Funds are accounted for in these funds.

Bond Fund — In the 1995 Multi-Family Refunding Issue, the Bond Fund is used to account for the proceeds from the sale of the bonds, principal and interest payments on the note receivable, and the debt service on the bonds.

Operating Account — The Operating Account represents funds owned by the Authority not associated with an individual Issue. The primary source of these funds is the semiannual issuer's fee paid by certain Issues to the Authority, transfers of excess funds in the 1988 Issue, and interest on loans received in the refunding of the 1979 Issue and investment income. Payments from this account are made to cover expenses of the Authority not provided for under any of the various bond indentures.

Interest earned on the investments and mortgage loans in the Mortgage Purchase Program Funds is initially accounted for in those funds. The interest is then transferred to the respective Operating Fund when collected. To the extent monies are not available from the principal payments received on the mortgage loans, the Operating Funds transfer monies to the Mortgage Purchase Program Funds in amounts sufficient to pay all interest and principal on the outstanding bonds.

Basis of Accounting — The Authority uses the accrual method of accounting whereby expenses are recognized when the liability is incurred, and revenues are recognized when earned. All funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund operating statements present increases (revenues) and decreases (expenses) in net total assets. The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board Statements and Interpretations, APB opinions, and ARBS (unless those pronouncements conflict with or contradict GASB pronouncements).

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Notes to Combined Financial Statements

Investment Securities — The Authority elected to early implement GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools. For most other governmental entities, it establishes fair value standards for investments in participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Investments are reported at fair value on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The implementation of GASB Statement No. 31 had no material effect on the financial statements of the Authority.

Comparative Total Data — Comparative total data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the Authority's financial position and operations and are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles. However, comparative data (i.e., presentation of prior year totals by fund type) have not been presented in each issue, since their inclusion would make the statements unduly complex and difficult to read.

Bond Issuance Costs and Bond Discount — Costs related to issuing bonds are capitalized. Bonds are presented net of discounts related to the sale of bonds. Bond costs and discounts are amortized on the interest method over the term of the bonds. The bond issuance cost for the 1995 Multi-Family Issue were paid by the owner of the property.

Mortgage Loan Discount — Discounts on the 1984 and 1988 mortgage loans are amortized on the interest method over the terms of the loans.

Provisions for Loan Losses — Provisions for losses on loans and accrued interest are charged to earnings when it is determined that the investment in applicable assets is greater than their estimated net realizable value. At December 31, 1997, estimated losses on loans were not material.

Cash and Cash Equivalents — For purposes of the statement of cash flows, cash and cash equivalents are defined as being cash in bank deposit accounts and short-term investments with an original maturity of ninety days or less. Investments in guaranteed investment contracts and U.S. government securities are excluded from cash and cash equivalents although such investments may mature within ninety days of their purchase.

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Notes to Combined Financial Statements

(2) **Mortgage Loans Receivable**

Mortgage loans for the 1984 Issue, 1988 Issue, and the Operating Account are collateralized by first liens on single family residential property. The mortgage loans have an aggregate effective interest rate to the Authority of 9.67% for the 1988 Issue, 10.68% for the 1984 Issue, and 7.00% for the mortgage loans held in the Operating Account. Mortgage loans for the 1995 Issue (Single Family - Refunding) represent mortgage pass-through certificates (GNMA and FNMA certificates) backed by certain qualifying mortgage loans for single family residences.

The 1988 Issue mortgage loans have a face value of $17,438,094 which is reduced by unamortized discount of $2,084,582 at December 31, 1997.

All loans purchased by the Authority under the 1988 Issue and the Operating Account are required to be insured by FHA or guaranteed by VA. Additionally, each mortgage loan in these issues are insured under master policies of supplemental mortgage insurance obtained from Mortgage Guaranty Insurance Corporation. These master policies insure, subject to certain conditions, each mortgage loan owned by the Authority against losses not otherwise insured, to a maximum of 10% of the aggregate initial principal balance of all mortgage loans originated. The conventional loans under the 1984 Single Family Issue are insured under master policies of mortgage pool insurance obtained from GE Capital Mortgage Insurance Corporation to a maximum of 15% of the aggregate initial principal balances of the loans, as well as being fully insured with various approved private mortgage insurers for the unamortized principal balance of the loan and accrued and unpaid interest.

As the principal and interest payments on the GNMA and FNMA certificates of the 1995 Issue (Single Family - Refunding) are fully guaranteed by the United States government, the Authority is not responsible for mortgage loan insurance for the mortgage loans in the 1995 Issue (Single Family - Refunding). The carrying and market values of the 1995 Issue (Single Family - Refunding) GNMA and FNMA certificates at December 31, 1997, were $3,681,615 and $3,612,921, respectively.

(3) **Note Receivable**

The note receivable is a $4,435,000 note in the 1995 Multi-Family Refunding Issue due from an investor maturing September 1, 2025. The note receivable bears interest at a fixed rate of 8.45% on $75,000 of the note and 6.4% on the remaining $4,360,000. During 1997, a $41,667 principal reduction was received on the $75,000 series. At December 31, 1997, the note receivable balance remaining was $4,393,333. The note is collateralized by land, buildings, and fixtures of the investor. The bonds payable in the 1995-A Multi-Family Refunding Issue are not a general obligation debt or liability of the Authority. Security for the bonds is the note receivable. In addition, a policy of indemnity is in place to cover nonpayment of the bonds in the event of default by the investor. Because the bonds are not a general obligation of the Authority, failure to collect all of the note would ultimately lead to a corresponding reduction in amounts paid to the bondholder. Therefore, no provision has been made to record an allowance for doubtful accounts.

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
(a component unit of the City of Shreveport)

Notes to Combined Financial Statements

(4) Cash and Cash Equivalents and Investment Securities

Investments, including cash equivalents, are made in such securities as specifically called for under terms of the Trust Indentures; these include variable rate notes, U.S. Treasury bonds, U.S. Treasury bills, U.S. government agencies, certificates of deposit, and investment agreements.

Cash and cash equivalents include the following at December 31, 1997:

One Group U.S. Treasury Securities Money Market Fund:		
1984 Issue (Single Family)	$	41,162
1988 Issue (Refunding)		526,294
Operating Account		732,016
		1,299,472
Trust Account Cash:		
1984 Issue (Single Family)		39,878
1995 Issue (Single Family – Refunding)		15,377
		55,255
First Funds U.S. Treasury Mutual Fund – 1995 Issue (Multi-Family – Refunding)		318,849
Total cash and cash equivalents	$	1,673,576

The above cash equivalents are not insured or collateralized and are therefore considered to be in credit risk category 3 as defined by Governmental Accounting Standards Board Statement Number 3.

Investment securities are as follows:

		Carrying Amount	Market Value
1984 Issue (Single Family) - Bank One, MBank Investment Agreements	$	103,362	103,362
1995 Issue (Single Family - Refunding) - Bayerische Landesbank Investment Agreements		5,866,819	5,866,819
	$	5,970,181	5,970,181

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. All investments are Category 2 investments. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or safekeeping agent in the Authority's name.

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
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Notes to Combined Financial Statements

(5) **Bonds Payable**

Bonds payable at December 31, 1997, consist of:

1995 Issue (Single Family – Refunding) — Single Family Mortgage Revenue Refunding Bonds, 1995A dated December 1, 1995 - $1,385,000 Current Interest Bonds due serially each August 1, 1998 until 2006, at interest rates of 4.25% to 5.2%; $6,615,000 Term Bonds due August 2028 at 6.0% interest; $1,450,000 Term Bonds due August 1, 2013, at 5.2% interest	$	9,450,000
1995 Issue (Multi-Family – Refunding) — Multi-Family Housing Revenue Refunding Bonds, Series 1995A dated March 14, 1995 - $4,360,000 Current Interest Bonds due September 1, 2025, at an initial interest rate of 6.4% until the Initial Adjustment Date (March 1, 2006); $75,000 Series 1995B Taxable Current Interest Bonds dated March 14, 1995, due September 1, 1998, at 8.45% interest	$	4,410,000
1988 Issue (Refunding) — Taxable Collateralized Mortgage Refunding Bonds, Series 1988-A dated July 1, 1988, due in monthly installments of approximately $259,000 including interest (based on the payments of the mortgage loan pool collateralizing the Issue) at an interest rate of 6.8%	$	17,289,485
Unaccreted discount		(2,109,460)
	$	15,180,025
1984 Issue (Single Family) — Single Family Mortgage Revenue Bonds, 1984 Series A dated November 1, 1984; Compound Interest Term Bonds due May 1, 2016, at an approximate yield of 11.25%	$	8,925,000
Unaccreted discount		(7,724,648)
	$	1,200,352
	$	30,240,377

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
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Notes to Combined Financial Statements

A summary of scheduled bond maturities and interest follows:

	(thousands of dollars)											
	Total	1998	1999	2000	2001	2002	2003-2007	2008-2012	2013-2017	2018-2022	2023-2027	2028-2032
Bonds:												
1984 Single Family Issue	$ 8,925	—	—	—	—	—	—	—	8,925	—	—	
1988 Refunding Issue	17,289	1,557	1,678	1,808	1,949	2,100	8,197	—	—	—	—	
1995 Multi-Family Refunding Issue	4,410	50	—	—	—	—	—	—	—	—	4,360	
1995 Single Family Refunding Issue	9,450	130	135	140	145	150	685	—	1,450	—	—	6,615
Total principal on bonds	40,074	1,737	1,813	1,948	2,094	2,250	8,882	—	10,375	—	4,360	6,615
Less: Unamortized discount	9,834	190	205	221	238	256	1,000	—	7,724	—	—	—
Net principal	30,240	1,547	1,608	1,727	1,856	1,994	7,882	—	2,651	—	4,360	6,615
Interest	27,037	1,952	1,830	1,706	1,572	1,428	4,831	3,757	3,455	3,380	2,729	397
Total	$ 57,277	3,499	3,438	3,433	3,428	3,422	12,713	3,757	6,106	3,380	7,089	7,012

The 1995 Issue (Multi-Family – Refunding) may be redeemed in whole or in part on or after December 1, 2005, upon notice, at a redemption price beginning at 102% and subsequently declining to par. The 1995 Issue (Single Family – Refunding) may be redeemed, in whole or part, at par, after March 1, 2006. Certain mandatory redemption provisions are described in the Bond Indentures which require redemption at a price equal to the principal and accrued interest to the redemption date. For the 1984 Issue, there are no optional redemption features.

Payments of principal on the 1988 Issue are based on payments of the mortgage pool collateralizing the Issue. Prepayments of these mortgage loans are used to prepay principal on the 1988 Issue. Additionally, the bonds are subject to redemption at the option of the bondholder on thirty days' notification to the Authority. The redemption value would be the lesser of the then outstanding principal and interest on the bonds or the fair market value of the mortgage loans. The Trustee is authorized to act at the direction of the bondholder to sell the mortgage loans on the redemption date.

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The bonds in the 1988, 1984, and 1995 (Single Family – Refunding) Issues are collateralized by and payable from the income, revenues, and receipts derived by the Authority from the mortgage loans and the funds and accounts held under or pledged to the Authority pursuant to the Trust Indentures. The bonds in the 1995 (Multi-Family – Refunding) Issue are collateralized by the revenues and other amounts derived by the Authority from the note receivable and the funds and accounts established under the Trust Indenture. A credit enhancer is also contained in the Trust Indenture that guarantees that no loss will be incurred on the sale of the property should a default occur on the debt being serviced by the investor.

There are a number of limitations and restrictions contained in the various bond indentures. The Authority is in compliance with all significant limitations and restrictions.

On March 14, 1995, the Authority issued $4,435,000 in bonds, the 1995 Issue (Multi-Family – Refunding), to advance refund the $4,360,000 1983-B Issue bearing interest at 6.4%, and pay part of the issuance costs of the new bonds. The 1983-B Issue bonds are considered defeased and have been removed from the Authority's financial statements. At December 31, 1997, the principal outstanding on the refunded bonds was $4,360,000.

The 1979 Issue bonds are considered defeased and have been removed from the Authority's financial statements. At December 31, 1997, $40,980,000 of bonds in the 1979 Issue are still outstanding.

(6) Restricted Assets

Substantially all amounts reflected in the combined balance sheet represent assets in such accounts or funds designated under the Trust Indenture for each Issue to be invested and/or held for subsequent disbursement in such manner and at such time as specifically defined in the respective Trust Indenture.

All of the assets of the Mortgage Purchase Program Funds are restricted by, and the use thereof is governed by, the Trust Indentures.

The balance at December 31, 1997, of the restricted assets of each fund or account established under the respective Trust Indenture and a reconciliation to total assets by Issue is as follows:

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
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Notes to Combined Financial Statements

1995 Issue (Single Family - Refunding)

Mortgage loan account	$	3,690,365
Accrued interest receivable		162,055
Investments		5,694,290
Total assets in restricted funds		9,546,710
Less interfund payables		(83,526)
Total restricted assets		9,463,184
Bond issuance costs, net		211,144
Total assets	$	9,674,328

1995 Issue (Multi-Family - Refunding)

Total assets, all restricted	$	4,742,691

1988 Issue (Refunding)

Mortgage loan account	$	15,455,512
Reserve funds		491,096
Total assets in restricted funds		15,946,608
Less interfund payables		(780,112)
Total restricted assets		15,166,496
Bond issuance costs, net		109,994
Total assets	$	15,276,490

1984 Issue (Single Family)

Mortgage loan account	$	1,217,366
Reserve fund		33,636
Total assets in restricted funds		1,251,002
Less interfund payables		(50,650)
Total restricted assets	$	1,200,352

(Continued)

SHREVEPORT HOME MORTGAGE AUTHORITY
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Notes to Combined Financial Statements

(7) Commitments

Under the terms of the applicable Trust Indentures, the Authority is required to redeem bonds prior to maturity when balances in certain funds exceed specified levels. The 1988 Issue is redeemable, as described in note 5, based on mortgage prepayments or at the option of the bondholders.

KPMG Peat Marwick LLP

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333 Texas Street
Shreveport, LA 71101-3692

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Shreveport Home Mortgage Authority
Shreveport, Louisiana:

We have audited each of the combined balance sheets of the various funds of the Shreveport Home Mortgage Authority (the "Authority"), a component unit of the City of Shreveport, as of December 31, 1997, and each of the related combined statements of revenue, expenses, and changes in retained earnings and cash flows for the year then ended, and have issued our report thereon dated March 6, 1998. 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

Compliance with laws, regulations, contracts, and grants applicable to the Authority is the responsibility of the Authority's management. As part of obtaining reasonable assurance about whether the Authority's 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 no instances of noncompliance that are required to be reported under *Government Audit Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 your information, management, and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 6, 1998