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# East Baton Rouge Mortgage Finance Authority

*Management's Discussion and Analysis, Financial Statements for the Year Ended December 31, 2003 and Supplementary Information and Independent Auditors' Report Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting*

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of East Baton Rouge Mortgage Finance Authority's (the "Authority") financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended December 31, 2003. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the Authority's financial statements, which begin on page 7.

The combined general purpose financial statements include the totals of the similar accounts of each of the Authority's bond programs and the Authority's Unrestricted Fund. Because the assets of the bond programs are restricted by the related bond resolutions and indentures, the totaling of the accounts, including the assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the resolutions and indentures relating to the separate programs. However, for purposes of this analysis, we will refer to the combined totals in order to assist the reader in understanding the overall financial status of the Authority.

### FINANCIAL HIGHLIGHTS

- During 2003, historically low mortgage rates have caused a significant amount of the Authority's mortgage loans to first time home buyers to be prepaid. This large amount of prepayments reduced the Authority's mortgage related assets by $67 million. Prepayments from mortgage loans (whether from whole loans or as the underlying collateral for the Mortgage Backed Securities) are used to retire bonds prior to their maturity. Fewer assets results in lower mortgage related interest income and fewer bonds results in lower bond interest expense.

- The Authority's assets exceeded its liabilities at the close of fiscal year 2003 by $55,197,000, which represents a $2,522,000 decrease from 2002.

- The Authority's gross revenue (exclusive of the "Net increase/decrease in the fair market value of investments and gains on sales of investments") decreased $4,086,000.

- There was a $17,847,000 decrease in net income from the prior year primarily as a result of the change in the fair value of investments in 2003 compared to 2002 ($15,325,000 net income in 2002 to a net loss of $2,522,000 in 2003). Net income was $1,018,000 in 2003 and $1,563,000 in 2002 excluding the effects of the change in the fair value of investments and the gains on the sale of investments.

### OVERVIEW OF THE FINANCIAL STATEMENTS

These general purpose financial statements consist of three sections – Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements), and the supplemental information.

#### Basic Financial Statements

The basic general purpose financial statements include information on a combined basis for the Authority as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this statement include the combining balance sheets; the combining statements of revenues, expenses, and changes in net assets; and the combining statements of cash flows.

The combining balance sheets (pages 7 & 8) present the assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The combining statements of revenues, expenses, and changes in net assets (pages 9 & 10) present information showing how the Authority's net assets changed as a result of the current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The combining statements of cash flows (pages 11 through 14) present information showing how the Authority's cash changed as a result of the current year's operations. The combining cash flow statements are prepared using the direct method and includes the reconciliation of net income (loss) to net cash provided by (used in) operating activities (indirect method) as required by Statement No. 34 of the Governmental Accounting Standards Board.

## FINANCIAL ANALYSIS OF THE AUTHORITY

### Combined Statements of Net Assets
### as of December 31, 2003 and 2002
(In thousands)

| | Total | |
|---|---|---|
| | 2003 | 2002 |
| Mortgage backed securities & mortgage loans receivable | $ 208,327 | $ 275,014 |
| Guaranteed investment contracts and investments | 142,726 | 135,926 |
| Other assets | 13,891 | 17,476 |
| Total assets | 364,944 | 428,416 |
| Other liabilities | 3,703 | 4,702 |
| Long-term debt outstanding | 306,044 | 365,995 |
| Total liabilities | 309,747 | 370,697 |
| Net assets: | | |
| Restricted | 28,395 | 36,602 |
| Unrestricted | 26,802 | 21,117 |
| Total net assets | $ 55,197 | $ 57,719 |

Restricted net assets represent those net assets that are not available for general use due to the terms of the various bond trust indentures under which assets are held and pledged as security for the bonds of the Authority's Mortgage Revenue Bond Programs. Conversely, unrestricted net assets are those assets for which there are no such limitations.

Net assets of the Authority decreased by $2,522,000 from December 31, 2002 to December 31, 2003. This decrease in net assets can be attributed to the net loss of $2,522,000 which is primarily due to a decrease in the fair value of securities of $3,540,000.

| | 2003 | 2002 |
|---|---|---|
| Revenues | $ 17,452 | $ 38,840 |
| Expenses | 19,974 | 23,515 |
| Net (Loss) Income | $ (2,522) | $ 15,325 |

**Revenue**

The Authority's revenues decreased primarily due to lower mortgage interest income as a result of a shrinking asset base of mortgage backed securities in a climate of falling interest rates stimulating early payoffs and refinancing and decreasing volume in housing program activity. In addition, the Authority had a net decrease in the fair value of investments of $3,540,000 in 2003 compared to a net increase in the fair value of investments of $13,462,000 and a gain on the sale of investments of $300,000 in 2002. Expenses decreased as a result of reduced interest payments due to the early retirement of bonds payable.

The Authority's total revenues exclusive of "Net increase/decrease in the fair market value of investments and gains on sale of investments" decreased by $4,086,000. The total cost of all programs and services decreased by $3,541,000. These decreases were primarily a result of a decrease in interest expense of $2,758,000.

**Debt**

The Authority had $306,044,000 in bonds and Federal Home Loan Bank Advances outstanding at the end of 2003, compared to $365,995,000 at the end of 2002, as shown in the table below.

**Outstanding Debt at Year-End**
**(in thousands)**

| | 2003 | 2002 |
|---|---|---|
| Federal Home Loan Bank Advances | $ - | $ 10,556 |
| Mortgage Revenue Bonds | 215,139 | 294,108 |
| Convertible program notes | 70,905 | 41,331 |
| Lines of credit | 20,000 | 20,000 |
| Totals | $ 306,044 | $ 365,995 |

The decreased debt level resulted from the new single family bond program being less than the nearly ninety million dollars in bond redemptions made during the year. Additionally, the Authority discontinued the warehousing credit arrangement with the Federal Home Loan Bank whereby borrowings were advanced to the Authority up to $19,406,400 for the purpose of funding Single Family Program loans. Advances under this arrangement were paid in full in June 2003.

The Authority's bond rating continues to carry the A3 rating for general revenue bonds, and an Aaa rating for the debt of its Mortgage Revenue Bonds.

The Authority has accounts payable and accrued interest payable of $3,703,000 outstanding at year-end compared with $4,702,000 last year.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority's appointed officials considered the following factors and indicators when setting next year's budget. These factors and indicators include:

- The reductions in interest rates stimulated early payoffs and refinancing, shrinking the Authority asset base of mortgage backed securities and thereby reduced mortgage interest income and issuer fees the Authority receives.
- It is no longer advantageous for the Authority to use the Federal Home Loan Bank of Dallas warehousing credit arrangement. Therefore interest earnings from this program will decrease.

## CONTACTING THE EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY MANAGEMENT

This Financial report is designed to provide Louisiana's citizens and taxpayers, as well as the Authority's customers and creditors with a general overview of the East Baton Rouge Mortgage Finance Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact

Victoria Theriot
Program Administrator
8641 United Plaza Blvd., Suite 206
Baton Rouge, LA. 70809

225-922-5111 Phone
225-922-5114 FAX
vickie.theriot@fcsiebr.com

**Deloitte.**

Deloitte & Touche LLP
Suite 3700
701 Poydras Street
New Orleans, LA 70139-3700
USA

Tel: +1 504 581 2727
Fax: +1 504 561 7293
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

Board of Trustees
East Baton Rouge Mortgage Finance Authority

We have audited the accompanying combining general purpose financial statements of the East Baton Rouge Mortgage Finance Authority (the "Authority") as of December 31, 2003, and for the year then ended, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized memorandum only totals have been derived from the general purpose financial statements of the East Baton Rouge Mortgage Finance Authority as of December 31, 2002 and for the year then ended and, in our report dated April 25, 2003, we expressed an unqualified opinion on those financial statements.

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 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 financial statements referred to above present fairly, in all material respects, the financial position of each of the individual programs and the unrestricted fund of the Authority at December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Authority adopted Governmental Accounting Standards Board Statements Numbers 34, 37 and 38 as of and for the year ended December 31, 2003.

Management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2004 on our consideration of internal control over financial reporting and our tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

June 11, 2004

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED BALANCE SHEETS**
**DECEMBER 31, 2003**
**(In thousands)**

| ASSETS | 1984 Program | 1985 Program | 1987 Program | MRCMO Program | 1992 A&B Program | 1992 C Program | 1992 D Program | 1993 A&B Program | 1993 C Program | 1994 A&B Program | 1995 B Program | 1996 B Program | 1997 (C1-C3) Program |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CASH AND CASH EQUIVALENTS | $ - | $ 18 | $ - | $ - | $ 142 | $ 44 | $ - | $ 6 | $ 2 | $ 3 | $ 56 | $ 8 | $ 454 |
| GUARANTEED INVESTMENT AGREEMENTS | | 894 | | | | 596 | | 1,415 | 720 | 1,958 | 2,137 | 1,430 | 3,838 |
| U. S. GOVERNMENT AND AGENCY SECURITIES | | | | 2,044 | | | | | | | | | |
| MORTGAGE-BACKED SECURITIES | | | 527 | | | 3,792 | | 9,308 | 2,323 | 5,746 | 11,315 | 10,854 | 11,063 |
| MORTGAGE LOANS RECEIVABLE—Net | | 1,004 | | | | | | | 1,470 | | | | 4,133 |
| ACCRUED INTEREST RECEIVABLE | | 29 | 4 | | | 32 | | 58 | 27 | 60 | 86 | 77 | 121 |
| DEFERRED FINANCING COSTS | | 2 | 2 | 2 | | 30 | | 111 | 37 | 101 | 167 | 151 | 373 |
| DOWNPAYMENT AND AUTHORITY ASSISTANCE PROGRAMS | | | | | | | | | | | 51 | 108 | 700 |
| INTER-PROGRAM RECEIVABLE (PAYABLE) | | | | | (13) | (72) | | (50) | (31) | (175) | (7) | (9) | (9) |
| PREPAID INSURANCE AND OTHER ASSETS | | 2 | | 2 | | | | | 2 | | | 1 | 4 |
| TOTAL ASSETS | $ - | $1,949 | $ 533 | $2,048 | $ 129 | $4,422 | $ - | $10,848 | $4,550 | $ 7,693 | $13,805 | $12,620 | $20,677 |
| **LIABILITIES AND NET ASSETS** | | | | | | | | | | | | | |
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | $ - | $ - | $ - | $ - | $ 1 | $ 1 | $ - | $ 6 | $ 4 | $ 2 | $ 4 | $ 2 | $ 4 |
| ACCRUED INTEREST PAYABLE | | 14 | 1 | | | 45 | | 129 | 47 | 110 | 190 | 168 | 151 |
| BONDS AND LINES OF CREDIT PAYABLE—Net | | 411 | 259 | 1,298 | | 2,595 | | 9,810 | 3,725 | 6,640 | 12,285 | 11,205 | 17,405 |
| Total liabilities | | 425 | 260 | 1,298 | 1 | 2,641 | | 9,945 | 3,776 | 6,752 | 12,479 | 11,375 | 17,560 |
| NET ASSETS: | | | | | | | | | | | | | |
| Restricted | | 1,524 | 273 | 750 | | 1,781 | | 903 | 774 | 941 | 1,326 | 1,245 | 3,117 |
| Unrestricted | | | | | 128 | | | | | | | | |
| Total net assets | | 1,524 | 273 | 750 | 128 | 1,781 | | 903 | 774 | 941 | 1,326 | 1,245 | 3,117 |
| TOTAL LIABILITIES AND NET ASSETS | $ - | $1,949 | $ 533 | $2,048 | $ 129 | $4,422 | $ - | $10,848 | $4,550 | $ 7,693 | $13,805 | $12,620 | $20,677 |

(Continued)

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED BALANCE SHEETS**
**DECEMBER 31, 2003**
**(In thousands)**

| ASSETS | 1997 D Program | 1998 B Program | 1998 D Program | 1999 A Program | 2000 A&B Program | 2000 CD&E Program | 2002 A Program | 2002 CPN Program | 2002B Escrow Fund | 2003A Program | Federal Home Loan Bank Account | Unrestricted Fund | (Memorandum Only) Combined 2003 | (Memorandum Only) Combined 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CASH AND CASH EQUIVALENTS | $ 7 | $ 68 | $ 33 | $ 56 | $ 588 | $ 19 | $ 16 | $ 29 | $ 21 | $ - | $ 1,032 | $ 138 | $ 2,740 | $ 4,743 |
| GUARANTEED INVESTMENT AGREEMENTS | 1,958 | 1,414 | 3,099 | 2,659 | 3,206 | 3,433 | 2,962 | | 20,000 | 46 | | | 51,765 | 75,708 |
| U. S. GOVERNMENT AND AGENCY SECURITIES | | | | | | | | 70,905 | | | | 18,012 | 90,961 | 60,218 |
| MORTGAGE-BACKED SECURITIES | 15,764 | 19,810 | 28,528 | 14,942 | 15,320 | 19,192 | 26,600 | | | | 99 | 4,805 | 199,988 | 263,919 |
| MORTGAGE LOANS RECEIVABLE—Net | | | | | | | | | | | | 1,732 | 8,339 | 11,095 |
| ACCRUED INTEREST RECEIVABLE | 110 | 117 | 171 | 114 | 137 | 148 | 174 | 75 | | | | 257 | 1,797 | 2,125 |
| DEFERRED FINANCING COSTS | 252 | 303 | 372 | 291 | 288 | 604 | 605 | | | 145 | | | 3,836 | 4,682 |
| DOWNPAYMENT AND AUTHORITY ASSISTANCE PROGRAMS | 220 | 511 | 916 | 484 | 796 | 768 | 620 | | | 118 | | | 5,292 | 5,626 |
| INTER-PROGRAM RECEIVABLE (PAYABLE) | (14) | (13) | (10) | (15) | (17) | (24) | (9) | | | | | 468 | | |
| PREPAID INSURANCE AND OTHER ASSETS | 1 | 2 | 2 | 2 | | 3 | 3 | | | | | 202 | 226 | 300 |
| TOTAL ASSETS | $18,298 | $22,212 | $33,111 | $18,533 | $20,318 | $24,143 | $30,971 | $71,009 | $20,021 | $ 309 | $ 1,131 | $25,614 | $364,944 | $428,416 |
| **LIABILITIES AND NET ASSETS** | | | | | | | | | | | | | | |
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | $ 2 | $ 3 | $ 4 | $ 27 | $ 448 | $ 157 | $ 4 | $ - | $ - | $ 161 | $ - | $ 71 | $ 901 | $ 841 |
| ACCRUED INTEREST PAYABLE | 234 | 261 | 388 | 228 | 196 | 239 | 326 | 75 | | | | | 2,802 | 3,861 |
| BONDS AND LINES OF CREDIT PAYABLE—Net | 16,305 | 19,405 | 29,910 | 16,210 | 17,212 | 21,413 | 29,051 | 70,905 | 20,000 | | | | 306,044 | 365,995 |
| Total liabilities | 16,541 | 19,669 | 30,302 | 16,465 | 17,856 | 21,809 | 29,381 | 70,980 | 20,000 | 161 | | 71 | 309,747 | 370,697 |
| NET ASSETS: | | | | | | | | | | | | | | |
| Restricted | 1,757 | 2,543 | 2,809 | 2,068 | 2,462 | 2,334 | 1,590 | 29 | 21 | 148 | | | 28,395 | 36,602 |
| Unrestricted | | | | | | | | | | | 1,131 | 25,543 | 26,802 | 21,117 |
| Total net assets | 1,757 | 2,543 | 2,809 | 2,068 | 2,462 | 2,334 | 1,590 | 29 | 21 | 148 | 1,131 | 25,543 | 55,197 | 57,719 |
| TOTAL LIABILITIES AND NET ASSETS | $18,298 | $22,212 | $33,111 | $18,533 | $20,318 | $24,143 | $30,971 | $71,009 | $20,021 | $ 309 | $ 1,131 | $25,614 | $364,944 | $428,416 |

See notes to financial statements.

(Concluded)

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**YEAR ENDED DECEMBER 31, 2003**
**(In thousands)**

| | 1984 Program | 1985 Program | 1987 Program | MRCMO Program | 1992 A&B Program | 1992 C Program | 1992 D Program | 1993 A&B Program | 1993 C Program | 1994 A&B Program | 1995 B Program | 1996 B Program | 1997 (C1-C3) Program |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| REVENUES: | | | | | | | | | | | | | |
| Income earned on mortgage loans receivable / mortgage-backed securities | $ 22 | $ 111 | $ 50 | $ - | $ - | $ 319 | $ 26 | $ 533 | $ 237 | $ 523 | $ 893 | $ 827 | $ 1,714 |
| Income earned on other investments | 2 | 82 | | 152 | | 40 | 3 | 55 | 36 | 115 | 135 | 120 | 167 |
| Net increase (decrease) in the fair value of investments | | | (31) | (70) | 1 | (98) | | 161 | (73) | (49) | (273) | (187) | (319) |
| Authority fee income | | | | | | | | | | | | | |
| Gain on sale of investments | | | | | | | | | | | | | |
| Other | | | | | | | 1 | | | | | | 40 |
| Total | 24 | 193 | 19 | 82 | 1 | 261 | 30 | 749 | 200 | 589 | 755 | 760 | 1,602 |
| EXPENSES: | | | | | | | | | | | | | |
| Interest | | 248 | 35 | 115 | | 237 | | 555 | 221 | 569 | 946 | 831 | 1,698 |
| Amortization of deferred financing costs | | 1 | 4 | 1 | | 19 | | 21 | 14 | 64 | 93 | 81 | 69 |
| Amortization of DAP & AAP | | | | | | | | | | | 51 | 54 | 100 |
| Authority fees | | | | | | 18 | | 13 | 8 | 25 | 35 | 44 | 53 |
| Servicing fees | | 3 | | | | | 1 | | 6 | | | | 21 |
| Insurance costs | 1 | 7 | | | | | | | 4 | | | | 6 |
| Administrative fees | | 4 | | | | 6 | 1 | 17 | 14 | 8 | 20 | 18 | 28 |
| Operating expenses | 1 | 1 | | | 1 | 7 | 1 | 14 | 9 | 9 | 10 | 13 | 20 |
| Expenses of other programs | | | | | | | | | | | | | |
| Total | 2 | 264 | 39 | 116 | 1 | 287 | 3 | 620 | 276 | 675 | 1,155 | 1,041 | 1,995 |
| NET INCOME (LOSS) | 22 | (71) | (20) | (34) | | (26) | 27 | 129 | (76) | (86) | (400) | (281) | (393) |
| TRANSFERS AMONG PROGRAMS | (1,703) | | | | | 6 | (2,338) | | | | | | (73) |
| NET ASSETS—Beginning of year | 1,681 | 1,595 | 293 | 784 | 128 | 1,801 | 2,311 | 774 | 850 | 1,027 | 1,726 | 1,526 | 3,583 |
| NET ASSETS—End of year | $ - | $ 1,524 | $ 273 | $ 750 | $ 128 | $ 1,781 | $ - | $ 903 | $ 774 | $ 941 | $ 1,326 | $ 1,245 | $ 3,117 |

(Continued)

# EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**YEAR ENDED DECEMBER 31, 2003**
**(In thousands)**

| | 1997 D Program | 1998 B Program | 1998 D Program | 1999 A Program | 2000 A&B Program | 2000 CD&E Program | 2002A Program | 2002 CPN Program | 2002B Escrow Fund | 2003A Program | Federal Home Loan Bank Account | Unrestricted Fund | (Memorandum Only) Combined 2003 | Combined 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| REVENUES: | | | | | | | | | | | | | | |
| Income earned on mortgage loans receivable / mortgage-backed securities | $1,178 | $1,315 | $1,840 | $1,173 | $1,507 | $1,784 | $1,053 | $ - | $ 263 | $ - | $ 397 | $ 330 | $16,095 | $19,214 |
| Income earned on other investments | 164 | 137 | 168 | 183 | 281 | 212 | 420 | 683 | | | 5 | 1,004 | 4,164 | 4,787 |
| Net increase (decrease) in the fair value of investments | (278) | (414) | (549) | (356) | (596) | (400) | 631 | | | | | (640) | (3,540) | 13,462 |
| Authority fee income | | | | | | | | | | | | 671 | 671 | 1,000 |
| Gain on sale of investment | | | | | | | | | | | | | | 300 |
| Other | | 3 | | | | | | 7 | | | | 11 | 62 | 77 |
| Total | 1,064 | 1,041 | 1,459 | 1,000 | 1,192 | 1,596 | 2,104 | 690 | 263 | | 402 | 1,376 | 17,452 | 38,840 |
| EXPENSES: | | | | | | | | | | | | | | |
| Interest | 1,156 | 1,242 | 1,750 | 1,106 | 1,428 | 1,409 | 1,430 | 675 | 242 | | 107 | | 16,000 | 18,758 |
| Amortization of deferred financing costs | 127 | 120 | 83 | 124 | 111 | 167 | 63 | | | | | | 1,162 | 1,048 |
| Amortization of DAP & AAP | 74 | 128 | 104 | 97 | 133 | 110 | 50 | | | | | | 901 | 1,049 |
| Authority fees | 75 | 61 | 48 | 44 | 94 | 122 | 31 | | | | | | 671 | 1,000 |
| Servicing fees | | | | | | | | | | | | 4 | 35 | 53 |
| Insurance costs | | | | | | | | | | | | | 18 | 36 |
| Administrative fees | 27 | 35 | 48 | 27 | 31 | 35 | 35 | | | | | 182 | 536 | 577 |
| Operating expenses | 16 | | 13 | 13 | 41 | 26 | 44 | | | 2 | 1 | 384 | 626 | 837 |
| Expenses of other programs | | | | | | | | | | | | 25 | 25 | 157 |
| Total | 1,475 | 1,586 | 2,046 | 1,411 | 1,838 | 1,869 | 1,653 | 675 | 242 | 2 | 108 | 595 | 19,974 | 23,515 |
| NET INCOME (LOSS) | (411) | (545) | (587) | (411) | (646) | (273) | 451 | 15 | 21 | (2) | 294 | 781 | (2,522) | 15,325 |
| TRANSFERS AMONG PROGRAMS | | (31) | (82) | | 1 | 4 | 380 | | | 150 | 41 | 3,645 | - | - |
| NET ASSETS—Beginning of year | 2,168 | 3,119 | 3,478 | 2,479 | 3,107 | 2,603 | 759 | 14 | | | 796 | 21,117 | 57,719 | 42,394 |
| NET ASSETS—End of year | $1,757 | $2,543 | $2,809 | $2,068 | $2,462 | $2,334 | $1,590 | $ 29 | $ 21 | $ 148 | $1,131 | $25,543 | $55,197 | $57,719 |

See notes to financial statements.

(Concluded)

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED STATEMENTS OF CASH FLOWS**
**YEAR ENDED DECEMBER 31, 2003**
**(In thousands)**

| | 1984 Program | 1985 Program | 1987 Program | MRCMO Program | 1992 A&B Program | 1992 C Program | 1992 D Program | 1993 A&B Program | 1993 C Program | 1994 A&B Program | 1995 B Program | 1996 B Program | 1997 (C1-C3) Program |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | | | | | | | | |
| Cash received: | | | | | | | | | | | | | |
| Investments, mortgage loans and mortgage-backed securities income | $ 33 | $ 112 | $ 52 | $ - | $ - | $ 329 | $ 39 | $ 538 | $ 244 | $ 543 | $ 930 | $ 862 | $ 1,433 |
| Collection of mortgage loans and mortgaged-backed securities | 943 | 294 | 366 | | 1 | 1,433 | 1,357 | 1,700 | 1,064 | 3,748 | 5,783 | 4,616 | 8,980 |
| Cash paid: | | | | | | | | | | | | | |
| Purchase of mortgage loans and mortgaged-backed securities | | | | | | | | | | | | | |
| Downpayment and Authority assistance programs | | | | | | | | | | | | | |
| Other items | | (14) | 1 | 1 | | (32) | (69) | (39) | (38) | (45) | (69) | (77) | (124) |
| Net cash provided by (used in) operating activities | 976 | 392 | 419 | 1 | 1 | 1,730 | 1,327 | 2,199 | 1,270 | 4,246 | 6,644 | 5,401 | 10,289 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | | | | | | | | |
| Investment purchases—net | | (35) | | (153) | | 20 | | (249) | 3 | 35 | 199 | 605 | 140 |
| Income on investments | 2 | 82 | | 152 | | 40 | 3 | 55 | 36 | 115 | 135 | 120 | 167 |
| Net cash provided by (used in) investing activities | 2 | 47 | | (1) | | 60 | 3 | (194) | 39 | 150 | 334 | 725 | 307 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | | | | | | | | | |
| Bond financing costs | | | | | | | | | | | | | |
| Proceeds from bond issues | | | | | | | | | | | | | |
| Retirement of notes and bonds payable | | (340) | (384) | | | (1,525) | | (1,430) | (1,080) | (3,775) | (5,935) | (5,216) | (9,210) |
| Interest paid | | (111) | (35) | | | (264) | | (574) | (235) | (631) | (1,037) | (909) | (1,432) |
| Interfund activities | (1,703) | | | | | 6 | (2,338) | | | | | | (73) |
| Net cash provided by (used in) noncapital financing activities | (1,703) | (451) | (419) | | | (1,783) | (2,338) | (2,004) | (1,315) | (4,406) | (6,972) | (6,125) | (10,715) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (725) | (12) | | | 1 | 7 | (1,008) | 1 | (6) | (10) | 6 | 1 | (119) |
| CASH AND CASH EQUIVALENTS—Beginning of year | 725 | 30 | | | 141 | 37 | 1,008 | 5 | 8 | 13 | 50 | 7 | 573 |
| CASH AND CASH EQUIVALENTS—End of year | $ - | $ 18 | $ - | $ - | $ 142 | $ 44 | $ - | $ 6 | $ 2 | $ 3 | $ 56 | $ 8 | $ 454 |

(Continued)

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED STATEMENTS OF CASH FLOWS**
**YEAR ENDED DECEMBER 31, 2003**
**(In thousands)**

| | 1997 D Program | 1998 B Program | 1998 D Program | 1999 A Program | 2000 A&B Program | 2000 CD&E Program | 2002A Program | 2002 CPN Program | 2002B Escrow Fund | 2003A Program | Federal Home Loan Bank Account | Unrestricted Fund | (Memorandum Only) Combined 2003 | Combined 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | | | | | | | | | |
| Cash received: | | | | | | | | | | | | | | |
| Investments, mortgage loans and mortgage-backed securities income | $ 1,221 | $ 1,360 | $ 1,875 | $1,211 | $ 1,584 | $1,826 | $ 939 | $ - | $ 263 | $ - | $ 397 | $ 228 | $ 16,019 | $ 19,106 |
| Collection of mortgage loans and mortgaged-backed securities | 6,440 | 5,897 | 7,558 | 6,990 | 10,428 | 8,643 | 3,342 | | | | 11,080 | 981 | 91,644 | 63,736 |
| Cash paid: | | | | | | | | | | | | | | |
| Purchase of mortgage loans and mortgaged-backed securities | | | | | | | (23,016) | | | | | (5,003) | (28,019) | (23,805) |
| Downpayment and Authority assistance programs | | | | | 1 | (4) | (445) | | | (118) | | | (566) | (437) |
| Other items | (127) | (187) | (132) | (130) | (153) | (195) | (101) | 7 | | 159 | (1) | 312 | (1,053) | (504) |
| Net cash provided by (used in) operating activities | 7,534 | 7,070 | 9,301 | 8,071 | 11,860 | 10,270 | (19,281) | 7 | 263 | 41 | 11,476 | (3,482) | 58,025 | 58,096 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | | | | | | | | | |
| Investment purchases—net | 687 | 983 | (718) | 126 | 1,067 | (705) | 21,830 | (29,564) | | (46) | | (1,096) | (6,871) | (46,317) |
| Income on investments | 164 | 137 | 168 | 183 | 281 | 212 | 420 | 647 | | | 5 | 1,004 | 4,128 | 4,675 |
| Net cash provided by (used in) investing activities | 851 | 1,120 | (550) | 309 | 1,348 | (493) | 22,250 | (28,917) | | (46) | 5 | (92) | (2,743) | (41,642) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | | | | | | | | | | |
| Bond financing costs | | | | | | | (130) | | | (145) | | | (275) | (601) |
| Proceeds from bond issues | | | | | | | | 29,574 | | | | | 29,574 | 102,848 |
| Retirement of notes and bonds payable | (7,145) | (7,515) | (7,030) | (7,205) | (11,864) | (8,550) | (1,970) | | | | (10,556) | | (90,730) | (98,958) |
| Interest paid | (1,257) | (1,335) | (1,832) | (1,196) | (1,309) | (1,317) | (1,394) | (637) | (242) | | (107) | | (15,854) | (18,152) |
| Interfund activities | | (31) | (82) | | 1 | 4 | 380 | | | 150 | 41 | 3,645 | | |
| Net cash provided by (used in) noncapital financing activities | (8,402) | (8,881) | (8,944) | (8,401) | (13,172) | (9,863) | (3,114) | 28,937 | (242) | 5 | (10,622) | 3,645 | (77,285) | (14,863) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (17) | (691) | (193) | (21) | 36 | (86) | (145) | 27 | 21 | | 859 | 71 | (2,003) | 1,591 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 24 | 759 | 226 | 77 | 552 | 105 | 161 | 2 | | | 173 | 67 | 4,743 | 3,152 |
| CASH AND CASH EQUIVALENTS—End of year | $ 7 | $ 68 | $ 33 | $ 56 | $ 588 | $ 19 | $ 16 | $ 29 | $ 21 | $ - | $ 1,032 | $ 138 | $ 2,740 | $ 4,743 |

(Continued)

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED STATEMENTS OF CASH FLOWS**
**YEAR ENDED DECEMBER 31, 2003**
**(In thousands)**

| | 1984 Program | 1985 Program | 1987 Program | MRCMO Program | 1992 A&B Program | 1992 C Program | 1992 D Program | 1993 A&B Program | 1993 C Program | 1994 A&B Program | 1995 B Program | 1996 B Program | 1997 (C1-C3) Program |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RECONCILIATION OF NET INCOME (LOSS) TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES: | | | | | | | | | | | | | |
| Net income (loss) | $ 22 | $ (71) | $ (20) | $ (34) | $ - | $ (26) | $ 27 | $ 129 | $ (76) | $ (86) | $ (400) | $ (281) | $ (393) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | | | | |
| Unrealized (gain) loss on investments | | | 31 | 70 | (1) | 98 | | (161) | 73 | 49 | 273 | 187 | 319 |
| Amortization of deferred financing costs | | 1 | 4 | 1 | | 19 | | 21 | 14 | 64 | 93 | 81 | 69 |
| Amortization of downpayment and Authority assistance programs | | | | | | | | | | | 51 | 54 | 100 |
| Interest expense | | 248 | 35 | 115 | | 237 | | 555 | 221 | 569 | 946 | 831 | 1,698 |
| Accretion of discount on loans | | | | | | | | | | | | | (408) |
| Gain on sale of investments | | | | | | | | | | | | | |
| Income on investments | (2) | (82) | | (152) | | (40) | (3) | (55) | (36) | (115) | (135) | (120) | (167) |
| Changes in: | | | | | | | | | | | | | |
| Accrued interest receivable | 11 | 1 | 2 | | | 10 | 13 | 5 | 7 | 20 | 37 | 35 | 127 |
| Accounts payable and accrued liabilities | | (1) | | | 1 | | (46) | 5 | 3 | | | | (31) |
| Purchases of mortgage-backed securities | | | | | | | | | | | | | |
| Collections of loans and mortgage-backed securities | 943 | 294 | 366 | | 1 | 1,433 | 1,357 | 1,700 | 1,064 | 3,748 | 5,783 | 4,616 | 8,980 |
| Downpayment programs | | | | | | | | | | | | | |
| Other—net | 2 | 2 | 1 | 1 | | (1) | (21) | | | (3) | (4) | (2) | (5) |
| Net cash provided by (used in) operating activities | $ 976 | $ 392 | $ 419 | $ 1 | $ 1 | $ 1,730 | $ 1,327 | $ 2,199 | $ 1,270 | $ 4,246 | $ 6,644 | $ 5,401 | $ 10,289 |

(Continued)

## EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

**INDIVIDUAL AND COMBINED STATEMENTS OF CASH FLOWS**
**YEAR ENDED DECEMBER 31, 2003**
**(In thousands)**

| | 1997 D Program | 1998 B Program | 1998 D Program | 1999 A Program | 2000 A&B Program | 2000 CD&E Program | 2002A Program | 2002 CPN Program | 2002B Escrow Fund | 2003A Program | Federal Home Loan Bank Account | Unrestricted Fund | (Memorandum Only) Combined 2003 | Combined 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RECONCILIATION OF NET INCOME (LOSS) TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES: | | | | | | | | | | | | | | |
| Net income (loss) | $ (411) | $ (545) | $ (587) | $ (411) | $ (646) | $ (273) | $ 451 | $ 15 | $ 21 | $ (2) | $ 294 | $ 781 | $ (2,522) | $15,325 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | | | | | |
| Unrealized (gain) loss on investments | 278 | 414 | 549 | 356 | 596 | 400 | (631) | | | | | 640 | 3,540 | (13,462) |
| Amortization of deferred financing costs | 127 | 120 | 83 | 124 | 111 | 167 | 63 | | | | | | 1,162 | 1,048 |
| Amortization of downpayment and Authority assistance programs | 74 | 128 | 104 | 97 | 153 | 110 | 50 | | | | | | 901 | 1,049 |
| Interest expense | 1,156 | 1,242 | 1,750 | 1,106 | 1,428 | 1,409 | 1,430 | 675 | 242 | | 107 | | 16,000 | 18,758 |
| Accretion of discount on loans | | | | | | | | | | | | | (408) | 475 |
| Gain on sale of securities | | | | | | | | | | | | | | (300) |
| Income on investments | (164) | (137) | (168) | (183) | (281) | (212) | (420) | (647) | | | (5) | (1,004) | (4,128) | (4,675) |
| Changes in: | | | | | | | | | | | | | | |
| Accrued interest receivable | 43 | 45 | 35 | 38 | 77 | 42 | (114) | (36) | | | | (70) | 328 | 255 |
| Accounts payable and accrued liabilities | (1) | (89) | (37) | (3) | 24 | 3 | 2 | | | 161 | | 69 | 60 | (154) |
| Purchases of mortgage-backed securities | | | | | | | (23,016) | | | | | (5,003) | (28,019) | (23,805) |
| Collections of loans and mortgage-backed securities | 6,440 | 5,897 | 7,558 | 6,990 | 10,428 | 8,643 | 3,342 | | | | 11,080 | 981 | 91,644 | 63,736 |
| Downpayment programs | | | | | | (4) | (445) | | | (118) | | 124 | (443) | (437) |
| Other—net | (8) | (5) | 14 | (43) | (10) | (15) | 7 | | | | | | (90) | 283 |
| Net cash provided by (used in) operating activities | $7,534 | $7,070 | $9,301 | $8,071 | $11,860 | $10,270 | $(19,281) | $ 7 | $ 263 | $ 41 | $11,476 | $ (3,482) | $ 78,025 | $58,096 |

See notes to financial statements.

(Concluded)

## 1. ORGANIZATION

The East Baton Rouge Mortgage Finance Authority (the "Authority") was created through a Trust Indenture dated August 14, 1974, pursuant to provisions of the Louisiana Revised Statutes of 1950, as amended. The initial legislation and subsequent amendments grant the Authority the power to obtain funds and to use the proceeds to promote the financing and development of any essential program conducted in the public interest within the boundaries of East Baton Rouge Parish, Louisiana.

The Authority's operations consist primarily of single family mortgage purchase bond programs under which the Authority promotes residential home ownership through the acquisition of mortgage loans secured by first mortgage liens on single family residential housing. Under the 1987, 1992 A&B, 1992 C, 1993 A&B, 1993 C, 1994 A&B, 1995 B, 1996 B, 1997 C1-C3, 1997D, 1998B, 1998 D, 1999A, 2000 A&B, 2000 C,D&E, and 2002 A Programs, these loans are pooled and sold to the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA) in exchange for mortgage-backed securities on which GNMA or FNMA guarantees payment of principal and interest when due. These securities are collateralized by the related loans. The Authority also issues short-term convertible program notes, which are securitized by government agency securities during the interim in preparation of long-term issues. The funds for the Authority's programs were obtained through the issuance of bonds in the following face value amounts (in thousands):

| | |
|---|---|
| 1979 Bonds dated March 1, 1979 | $ 100,000 |
| 1980 Program, dated September 1, 1980 (restructured) | 125,000 |
| 1982 Program, dated October 1, 1982 (restructured) | 30,000 |
| 1983 Program, dated April 14, 1983 (restructured) | 30,000 |
| 1984 Program, dated September 18, 1984 | 30,000 |
| 1985 Program, dated May 7, 1985 | 26,000 |
| 1987 Program, dated July 1, 1987 | 15,450 |
| 1988 C&D Program, dated August 1, 1988 | 26,975 |
| 1988 E&F Program, dated June 22, 1989 | 40,000 |
| Municipal Refunding Collateralized Mortgage Obligations (MRCMO) Program, dated January 25, 1989 | 67,905 |
| 1990 Program, dated August 1, 1990 | 56,000 |
| 1992 A&B Program, dated April 1, 1992 | 25,000 |
| 1992 C Program, dated April 1, 1992 | 38,310 |
| 1992 D Program, dated April 1, 1992 | 8,975 |
| 1993 A&B Program, dated October 27, 1993 | 36,720 |
| 1993 C Program, dated October 27, 1993 | 15,270 |
| 1994 A&B Program, dated August 15, 1994 | 31,210 |
| 1994 C Program, dated December 29, 1994 (remarketed) | 13,250 |
| 1995 A Program, dated February 23, 1995 (remarketed) | 8,840 |
| 1995 B Program, dated October 5, 1995 | 12,500 |
| 1995 C Program, dated September 28, 1995 (remarketed) | 5,820 |
| 1996 A Program, dated February 29, 1996 (remarketed) | 9,765 |

| | |
|---|---|
| 1996 B Program, dated October 24, 1996 | 12,500 |
| 1996 C Program, dated September 27, 1996 (remarketed) | 6,390 |
| 1997 B Program, dated March 27, 1997 (remarketed) | 10,775 |
| 1997 C1-C3 Program, dated December 31, 1997 | 101,400 |
| 1997 D Program, dated June 1, 1997 | 18,600 |
| 1997 F Program, dated September 25, 1997 (remarketed) | 5,135 |
| 1998 A Program, dated June 1, 1998 | 12,920 |
| 1998 B Program, dated June 1, 1998 | 23,595 |
| 1998 C Program, dated December 1, 1998 | 41,180 |
| 1998 D Program, dated December 1, 1998 | 6,000 |
| 1999 A Program, dated July 15, 1999 | 12,000 |
| 1999 B Program, dated July 15, 1999 | 16,485 |
| 2000 A Program, dated May 31, 2000 | 15,000 |
| 2000 B Program, dated May 31, 2000 | 42,208 |
| 2000 C Program, dated November 9, 2000 (remarketed from 2000 A&B Program) | 10,000 |
| 2000 D Program, dated November 9, 2000 (remarketed from 2000 A&B Program) | 6,294 |
| 2000 E Program, dated November 9, 2000 | 14,787 |
| 2000 CR Program, dated August 14, 2001 (remarketed from 2000 C Program) | 5,200 |
| 2000 DR Program, dated August 14, 2001 (remarketed from 2000 D Program) | 3,330 |
| 2000 ER Program, dated August 14, 2001 (remarketed from 2000 E Program) | 7,710 |
| 2002 A Program, dated June 18, 2002 | 30,925 |

The bonds issued by the Authority are general obligations of the Authority and are not obligations of the State of Louisiana or any other political subdivision thereof. The 1985 Program bonds are covered by comprehensive municipal bond insurance, which guarantees payment of all principal and interest when due.

The Authority's Board of Trustees is empowered under the bond trust indentures and the bond program agreements to contract with outside parties to conduct the day-to-day operations of the Authority and the programs it initiates. The Authority employs Financial Consulting Services, Inc. as its Program Administrator to provide administrative staff support for the Board of Trustees and its committees, general office administration for the Authority and program administration and supervision for each of its mortgage purchase bond programs. Under each of its single family mortgage purchase bond programs, the Authority utilizes area financial institutions to originate and service the mortgage loans acquired. In addition, an area bank has been designated as the Trustee of the separate bond programs and has the fiduciary responsibility for the custody and investment of funds.

The Program Administrator is responsible for the development of each new bond issue and loan program. Once the bond issue is closed, the Program Administrator supervises the origination of the mortgage loans, underwrites (reviews and approves) the new mortgage loans for purchase under each program, maintains computerized current records on all loans, and supervises the servicing and trustee functions for each program.

## 2. SUMMARY OF SIGNIFICANT REPORTING AND ACCOUNTING POLICIES

***Basis of Presentation–Fund Accounting***—The proprietary funds are used to account for the Authority's ongoing operations and activities which are similar to those in the private sector. Proprietary funds are accounted for using a flow of economic resource measurement focus under which all assets and all liabilities associated with the operation of these funds are included in the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in total net assets. The Authority maintains various proprietary fund types as detailed in the combining financial statements.

***Basis of Accounting***—The Authority prepares financial statements in accordance with accounting principles generally accepted in the United States of America. Such principles require 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

***Basis of Reporting***—Effective January 1, 2003, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and also adopted the required portions of GASB Statements No. 37 and 38, which modified the disclosure requirements of GASB No. 34. GASB No. 34 establishes standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt*—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted*—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted*—This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The net assets of the 1992 A&B Program, the Federal Home Loan Bank Account Program and the Unrestricted Fund are unrestricted. The net assets of all other programs are substantially restricted under the terms of the various bond indentures.

The adoption of GASBS No. 34 had no effect on the basic financial statements except for the classification of net assets in accordance with the statement, and the change from the indirect to the direct method of reporting cash flows from operating activities.

***Combined Totals***—The combined financial statements include the totals of the similar accounts of each of the Authority's bond programs and the Authority's Unrestricted Fund. Because the assets of the bond programs are restricted by the related bond resolutions and indentures, the totaling of the accounts, including the assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the resolutions and indentures relating to the separate programs.

***GASB Statement No. 31***—The Governmental Accounting Standards Board ("GASB") issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB Statement (GASBS) No. 31 became effective for the Authority for periods beginning after June 15, 1997 and was adopted by the Authority effective January 1, 1998. The Statement requires that most investments be recorded at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties and has generally been based upon quoted values. This method of accounting causes fluctuations in reported investment values based on fluctuations in the investment market. Fluctuations in the fair value of investments are recorded as income or expense in the statements of revenues, expenses and changes in net assets, and the amount is disclosed in the statements of cash flows as unrealized (gain) loss on investments. The Authority applies the provisions of the Statement to U.S. Government securities and mortgage-backed securities. Following is a summary of the unrealized gains (losses) as reflected in the accompanying financial statements (in thousands):

| | Unrealized Gain (Loss) | | |
|---|---|---|---|
| | Balance January 1, 2003 | Change During the Year Ended December 31, 2003 | Balance December 31, 2003 |
| 1987 Program | $ 77 | $ (31) | $ 46 |
| MRCMO Program | 703 | (70) | 633 |
| 1992 A&B Program | (1) | 1 | |
| 1992 C Program | 407 | (98) | 309 |
| 1993 A&B Program | (181) | 161 | (20) |
| 1993 C Program | 12 | (73) | (61) |
| 1994 A&B Program | 348 | (49) | 299 |
| 1995 B Program | 968 | (273) | 695 |
| 1996 B Program | 798 | (187) | 611 |
| 1997 C1-C4 Program | 925 | (319) | 606 |
| 1997 D Program | 1,148 | (278) | 870 |
| 1998 B Program | 1,046 | (414) | 632 |
| 1998 D Program | 1,142 | (549) | 593 |
| 1999 A Program | 1,055 | (356) | 699 |
| 2000 A&B Program | 1,401 | (596) | 805 |
| 2000 C, D, & E Program | 1,202 | (400) | 802 |
| 2002 A Program | 368 | 631 | 999 |
| Unrestricted | 928 | (640) | 288 |
| | $ 12,346 | $ (3,540) | $ 8,806 |

The sale of these investments by the Authority is subject to certain restrictions as described in the individual bond indentures.

***Amortization***—Bond issuance costs, including underwriters' discount on bonds sold, are being amortized ratably over the lives of the bonds based upon the principal amounts outstanding. The remaining unamortized balances of these costs are reflected on the accompanying balance sheets as "Deferred Financing Costs."

***Commitment Fees and Loan Origination Costs***—Nonrefundable commitment fees received subsequent to January 1, 1988 from originating financial institutions and certain direct loan origination costs are deferred and amortized over the lives of the related assets as a yield adjustment. Prior to 1988, such fees were recognized in current operations as received.

***Statement of Cash Flows***—For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

## 3. CASH AND INVESTMENTS

The Authority's programs maintain deposits at the Trustee bank. The balances of these deposits at December 31, 2003 were entirely insured. The Authority also has funds, classified as "Cash and Cash Equivalents" on the balance sheet, which represent interests in uninsured money market mutual funds.

Under certain of the Authority's programs, the Authority has entered into guaranteed investment agreements with various financial institutions. These agreements define the types of allowable investments and specify a guaranteed rate of return on such funds.

The approximate carrying values of the U.S. Government and Agency securities at December 31, 2003 are as follows (in thousands):

| | |
|---|---|
| MRCMO Program | $ 2,044 |
| Unrestricted Fund | 18,012 |
| 2002 CPN Program | 70,905 |
| Combined | $90,961 |

The MRCMO Program's U.S. Government Securities are restricted for debt service on the program's bonds and payment of various program expenses. These securities are held by the Trustee bank in the Authority's name.

The Authority's investments are categorized below to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker, or by its trust department, but not in the Authority's name.

| | Category 1 | Category 2 (in thousands) | Category 3 | Carrying Amount and Fair Value |
|---|---|---|---|---|
| U. S. Government and Agency Securities | $90,961 | $ - | $ - | $ 90,961 |
| Guaranteed Investment Agreements | | | 51,765 | 51,765 |
| | $90,961 | $ - | $51,765 | $ 142,726 |

## 4. MORTGAGE LOANS RECEIVABLE AND MORTGAGE-BACKED SECURITIES

*Mortgage Loans Receivable*

Mortgage notes acquired by the Authority from participating mortgage lenders under the following bond programs have scheduled maturities of thirty years and are secured by first mortgages on the related real property. The mortgages have stated interest rates as follows:

| | |
|---|---|
| 1985 Program | 9.98 % |
| 1993 C Program | 7.125 % |
| 1997 C1-C3 Program | 8.5 % |

In addition to the customary insurance required of the mortgagors, the mortgage loans are insured under special hazard policies, and supplemental mortgage trust policies for mortgagor defaults. Premiums for these policies are paid through the applicable Program's funds.

The exchange of U.S. Government securities and mortgage loans between the 1979 Program and the MRCMO Program in January 1989 resulted in the transfer of the mortgage loans to the MRCMO Program at a discount. The approximate effective yield on the MRCMO Program's mortgage loans is 13.63%, and the remaining unamortized discount was approximately $700,000 at December 31, 2003. These loans and the unamortized discount were transferred at amortized cost to the 1997 C1-C3 Program on December 31, 1997.

All of the single family mortgage loans are originated by participating mortgage lenders through conventional, FHA or VA programs sponsored by the mortgage lenders and are sold to the Authority without recourse. The participating mortgage lenders service the mortgage loans for the Authority and receive monthly compensation based upon the unpaid principal balance of the mortgage loans serviced.

***Mortgage-backed Securities***

As discussed in Note 1, the mortgage loans originated under certain Authority programs are pooled and sold to GNMA or FNMA in exchange for mortgage-backed securities on which GNMA or FNMA guarantees payment of principal and interest when due. These securities bear the following terms and interest rates:

| | Term | Pass Through Interest Rate |
|---|---|---|
| 1987 Program | 23 Years | 8.3 % |
| 1992 C Program | 30 Years | 7.75 % |
| 1993 A&B Program | 30 Years | 4.75% to 6.50 % |
| 1993 C Program | 30 Years | 4.50 % |
| 1994 A&B Program | 30 Years | 6.65% to 7.10% |
| 1995 B Program | 30 Years | 6.35% to 7.00% |
| 1996 B Program | 30 Years | 6.125% to 6.875% |
| 1997 C1-C3 Program | 30 Years | 5.0% to 6.625% |
| 1997 D Program | 30 Years | 5.875% to 6.625% |
| 1998 B Program | 30 Years | 5.125% to 8.35% |
| 1998 D Program | 30 Years | 4.25% to 6.125% |
| 1999 A Program | 30 Years | 5.625% to 6.625% |
| 2000 A&B Program | 30 Years | 6.375% to 7.35% |
| 2000 C, D, & E Program | 30 Years | 5.625% to 7.125% |
| 2002 A Program (1992 A&B) | 30 Years | 7.0% |
| Federal Home Loan Bank Account | 31 Years | 5.25% to 6.25% |

The change to the mortgage-backed securities type of program was prompted by various factors including the unavailability of mortgage pool and related insurance coverage required for conventional mortgage loan programs. The guarantees by FNMA and/or GNMA which the Authority receives under this type of program replaces the pool and related insurance coverage of the previous programs. Development of the new programs, origination of the mortgage loans and supervision of the servicing of the mortgage loans for compliance with federal mortgage bond tax laws by the Authority remain essentially the same.

As discussed in Note 2, nonrefundable commitment fees received from originating financial institutions and certain direct loan origination costs are amortized over the lives of the mortgage-backed securities owned by the 1993 A&B, 1994 A&B, 1995 B, 1996 B, 1997 D, 1998 B, 1998 D, 1999 A, 2000 A&B, 2000 C, D & E, and 2002 A Programs as a yield adjustment. The 2003 A Program also will have nonrefundable commitment fees. However, as the acquisition period for this program has not yet ended, nonrefundable commitment fees for this program will not be amortized until 2004.

The net unamortized balances of the deferred net fees for such programs have been deducted from the balances of mortgage-backed securities in the accompanying balance sheets. The following is a summary of the balances of deferred net fees at December 31, 2003.

| | Unamortized Deferred Net Fees |
|---|---|
| 1993 A&B Program | $ 4,000 |
| 1994 A&B Program | 8,000 |
| 1995 B Program | 21,000 |
| 1996 B Program | 27,000 |
| 1997 D Program | 53,000 |
| 1998 B Program | 68,000 |
| 1998 D Program | 133,000 |
| 1999 A Program | 58,000 |
| 2000 A&B Program | 78,000 |
| 2000 CD&E Program | 358,000 |
| 2002A Program | 38,000 |

## 5. BONDS AND LINES OF CREDIT PAYABLE

The net proceeds obtained from the bond issues are used to establish funds authorized by the Bond Trust Indentures to purchase eligible mortgage loans, secured by first mortgage liens on single family owner-occupied residences, or to purchase GNMA and/or FNMA mortgage-backed securities from qualified mortgage lenders accepted for participation in the programs by the Authority.

The Bond Trust Indentures provide that bond principal and interest are secured by pledges of all mortgage loans and mortgage-backed securities acquired, all revenues and collections with respect to such loans and securities and all funds established by the Indenture, together with all of the proceeds generated therefrom.

Outstanding bonds and lines of credit payable consist of the following at December 31, 2003 (in thousands):

| | |
|---|---|
| *1985 Program:* Term bonds due 2016, bearing interest at 10% payable semiannually | $ 830 |
| Less unamortized bond discount | (419) |
| Total—1985 Program | 411 |
| *1987 Program,* term bonds due 2011, bearing interest at 8.25% payable monthly | 259 |
| *MRCMO Program:* Zero coupon bonds due 2014, priced to yield 9.33% at maturity | 3,500 |
| Less unamortized bond discount | (2,202) |
| Total—MRCMO Program | 1,298 |
| *1992 C Program,* term bonds due 2032, bearing interest at 7% payable semiannually | 2,595 |
| *1993 A&B Program*, due serially and term from 2004 through 2025, bearing interest at 4.45% to 5.5% payable semiannually | 9,810 |
| *1993 C Program*, due serially and term from 2004 through 2025, bearing interest at 4.55% to 5.5% payable semiannually | 3,725 |
| *1994 A&B Program*, term due serially and from 2004 through 2028, bearing interest at 5.45% to 6.8% payable semiannually | 6,640 |
| *1995 B Program*, due serially and term from 2004 through 2028, bearing interest at 4.7% to 6.35% payable semiannually | 12,285 |
| *1996 B Program*, due serially and term from 2004 through 2029, bearing interest at 4.75% to 6.2% payable semiannually | 11,205 |
| *1997 C1-C3 Program:* Capital appreciation bonds due term 2030 priced to yield 5.85% at maturity | 33,045 |
| Serial and term bonds due from 2004 through 2018, bearing interest at 4.75% to 6.75% payable semiannually | 10,340 |
| Less unamortized bond discount | (25,980) |
| Total—1997 C1-C3 Program | 17,405 |

| | |
|---|---|
| *1997 D Program*, due serially and term from 2004 through 2030, bearing interest at 4.60% to 5.9% payable semiannually | 16,305 |
| *1998 B Program*, due serially and term from 2004 through 2030, bearing interest at 4.15% to 5.45% payable semiannually | 19,405 |
| *1998 D Program*, due serially and term from 2004 through 2033, bearing interest at 3.90% to 5.25% payable semiannually | 29,910 |
| *1999 A Program*, due serially and term from 2004 through 2033, bearing interest at 4.0% to 5.7% payable semiannually | 16,210 |
| *2000A&B Program:* | |
| Capital appreciation bonds due serially and term from 2013 to 2032 priced to yield 6.1% to 6.83% at maturity | 21,655 |
| Serial and term bonds due from 2004 through 2026, bearing interest at 4.9% to 6.38% payable semiannually | 12,490 |
| Less unamortized bond discount | (16,933) |
| Total—2000A&B Program | 17,212 |
| *2000 C, D & E Program:* | |
| Capital appreciation bonds due serially and term from 2014 to 2034 priced to yield 5.8% to 6.5% at maturity | 18,345 |
| Serial and term bonds due from 2004 through 2027, bearing interest at 4.5% to 5.95% payable semiannually | 17,655 |
| Less unamortized bond discount | (14,587) |
| Total—2000 C, D & E Program | 21,413 |
| *2002 A Program:* | |
| Capital appreciation bonds due serially and term from 2013 to 2016 priced to yield 5.0% to 5.3% at maturity | 2,435 |
| Serial and term bonds due from 2004 through 2033, bearing interest at 2.3% to 5.6% payable semiannually | 27,665 |
| Less unamortized bond discount | (1,049) |
| Total—2002 A Program | 29,051 |
| *2002 CPN Program* (convertible program notes) due in 2004 bearing interest at a variable interest rate (0.9% at December 31, 2003) payable monthly | 70,905 |
| Total bonds payable | 286,044 |
| *Lines of credit:* | |
| 2002 B Escrow fund, due in 2004 | 20,000 |
| | $ 306,044 |

The 1987 Program bonds are structured such that the monthly principal remittances received from the GNMA securities are passed on to bondholders as principal redemptions of bonds payable on a monthly basis.

The bonds are subject to early redemption provisions as described in the Bond Trust Indentures at redemption prices equal to the principal amounts of the bonds redeemed plus accrued interest to the applicable call dates. In connection with early bond redemptions, deferred financing costs related to the bonds called are charged to expense. Early bond redemptions and related deferred financing costs expensed during the year ended December 31, 2003 were as follows (in thousands):

| | Early Bond Redemptions | Related Deferred Financing Costs Expensed |
|---|---|---|
| 1985 Program | $ 340 | $ 1 |
| 1987 Program | 384 | 4 |
| 1992 C Program | 1,525 | 17 |
| 1993 A&B Program | 1,210 | 12 |
| 1993 C Program | 975 | 10 |
| 1994 A&B Program | 3,570 | 54 |
| 1995 B Program | 5,720 | 77 |
| 1996 B Program | 5,010 | 67 |
| 1997 C1-C3 Program | 8,235 | 40 |
| 1997 D Program | 6,840 | 105 |
| 1998 B Program | 7,370 | 99 |
| 1998 D Program | 6,630 | 55 |
| 1999 A Program | 7,010 | 99 |
| 2000 A&B Program | 11,850 | 87 |
| 2000 C, D & E Program | 6,660 | 121 |
| 2002A Program | 4,910 | 76 |
| | $ 78,239 | $ 924 |

Following is a summary of changes in debt during the year ended December 31, 2003:

| | |
|---|---|
| Balance—January 1, 2003 | $ 365,995 |
| Proceeds from issuance | 29,574 |
| Repayments—including early bond redemptions | (90,730) |
| Amortization of bond discount | 1,205 |
| Balance—December 31, 2003 | $ 306,044 |

Following is a schedule of the future principal and interest payments of the Authority's debt based on the stated maturity dates of the debt. Actual repayment dates will likely occur earlier since substantially all of the debt is subject to early redemption provisions. These early redemption provisions relate to payments received on the mortgage-backed securities and mortgage loans receivable and certain other factors. These early redemptions will also reduce future interest payments.

Scheduled principal payments (in thousands):

| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| 1985 Program | $ - | $ - | $ - | $ - | $ - | $ 830 | $ 830 |
| 1987 Program | | | | | | 259 | 259 |
| MRCMO Program | | | | | | 3,500 | 3,500 |
| 1992 C Program | | | | | | 2,595 | 2,595 |
| 1993 A&B Program | 190 | 200 | | | | 9,420 | 9,810 |
| 1993 C Program | 85 | 85 | | | | 3,555 | 3,725 |
| 1994 A&B Program | 130 | 145 | 155 | 160 | 165 | 5,885 | 6,640 |
| 1995 B Program | 195 | 210 | 230 | 240 | 255 | 11,155 | 12,285 |
| 1996 B Program | 175 | 190 | 190 | 200 | 205 | 10,245 | 11,205 |
| 1997 C1-C3 Program | 1,015 | 1,100 | | | | 41,270 | 43,385 |
| 1997 D Program | 255 | 275 | 295 | 310 | 330 | 14,840 | 16,305 |
| 1998 B Program | 20 | 25 | 25 | | | 19,335 | 19,405 |
| 1998 D Program | 165 | 175 | 180 | 190 | 205 | 28,995 | 29,910 |
| 1999 A Program | | | | | | 16,210 | 16,210 |
| 2000 A&B Program | | | | | 390 | 33,755 | 34,145 |
| 2000 C, D & E Program | 5 | 5 | | 525 | 575 | 34,890 | 36,000 |
| 2002 A Program | 445 | 475 | 510 | 495 | 535 | 27,640 | 30,100 |
| 2002 CPN Program | 70,905 | | | | | | 70,905 |
| | $ 73,585 | $ 2,885 | $ 1,585 | $ 2,120 | $ 2,660 | $ 264,379 | 347,214 |
| Less unamortized bond discount | | | | | | | (41,170) |
| Total outstanding at December 31, 2003 | | | | | | | $ 306,044 |

Scheduled interest payments (in thousands):

| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| 1985 Program | $ 83 | $ 83 | $ 83 | $ 83 | $ 83 | $ 623 | $ 1,038 |
| 1987 Program | 21 | 21 | 21 | 21 | 21 | 52 | 157 |
| 1992 C Program | 182 | 182 | 182 | 182 | 182 | 4,087 | 4,997 |
| 1993 A&B Program | 486 | 476 | 471 | 471 | 471 | 6,301 | 8,676 |
| 1993 C Program | 184 | 180 | 178 | 178 | 178 | 1,647 | 2,545 |
| 1994 A&B Program | 395 | 386 | 377 | 368 | 377 | 4,105 | 6,008 |
| 1995 B Program | 731 | 719 | 706 | 692 | 706 | 6,941 | 10,495 |
| 1996 B Program | 667 | 656 | 645 | 633 | 645 | 7,018 | 10,264 |
| 1997 C1-C3 Program | 590 | 527 | 494 | 494 | 494 | 3,701 | 6,300 |
| 1997 D Program | 971 | 955 | 938 | 920 | 938 | 14,387 | 19,109 |
| 1998 B Program | 970 | 969 | 967 | 967 | 967 | 16,154 | 20,994 |
| 1998 D Program | 1,491 | 1,483 | 1,474 | 1,465 | 1,474 | 27,598 | 34,985 |
| 1999 A Program | 892 | 892 | 892 | 892 | 892 | 15,962 | 20,422 |
| 2000 A&B Program | 749 | 749 | 749 | 749 | 738 | 8,190 | 11,924 |
| 2000 C, D & E Progran | 1,059 | 1,059 | 1,059 | 1,043 | 1,073 | 14,270 | 19,563 |
| 2002 A Program | 1,372 | 1,349 | 1,325 | 1,299 | 1,323 | 22,644 | 29,312 |
| 2002 CPN Program | 1,064 | | | | | | 1,064 |
| | $ 11,907 | $ 10,686 | $ 10,561 | $ 10,457 | $ 10,562 | $ 153,680 | $ 207,853 |

The 2002 CPN Program bonds are expected to be refinanced on a long-term basis in 2004.

## 6. OPERATING EXPENSES

The members of the Authority's Board of Trustees receive a per diem fee for all committee and board meetings attended. For the year ended December 31, 2003, the following amounts were paid to the Authority's Board members:

| Board Member | |
|---|---|
| Randy Bonnecaze | $ 7,600 |
| Astrid Clements | 6,800 |
| Robert Gaston, III | 5,400 |
| William G. Gauthier | 6,600 |
| Henry Henegan | 5,600 |
| Sidney W. Longwell, Sr. | 4,800 |
| Jake L. Netterville | 6,600 |
| Loretta Pourciau | 7,000 |
| Jacqui Vines | 4,400 |
| Total | $ 54,800 |

These amounts are paid through the Unrestricted Fund and included in operating expenses in the accompanying statements of revenues, expenses and changes in net assets.

## 7. AUTHORITY FEES

Beginning with the 1992 Programs, the Authority instituted an authority fee which is paid to the Unrestricted Fund by the individual programs. The Unrestricted Fund recognizes authority fee income related to the fees paid by the individual programs. The fee income received by the Unrestricted Fund is currently being used to provide the upfront funds required of the Authority's annual programs in order to finance such things as costs of issuance of bonds, subsidizing lower income mortgagor's with waivers of discount points and providing down payment assistance to mortgagors. The actual fees paid by each program varies in accordance with the provisions of the respective program's indenture agreement. Authority fee income recognized by the Unrestricted Fund, and Authority fee expense recognized by the individual programs are disclosed separately in the Individual and Combined Statements of Revenues, Expenses and Changes in Net Assets.

## 8. DOWNPAYMENT ASSISTANCE AND AUTHORITY ASSISTANCE PROGRAMS

During fiscal year 1996, the Authority began the Downpayment Assistance Program which provides funds to borrowers that meet certain criteria in order to assist borrowers with closing costs or down payments. The amount of funds is based on a percentage of the loan amount (generally 3% to 4%). The interest rate charged on these loans is greater than the interest rate on loans that do not utilize this program. Also during 1996, the Authority initiated the Authority Assistance Program which waives the discount points on loans made to households whose income is under $27,500.

Costs related to these programs are capitalized and are being amortized over the lives of the related assets as yield adjustments based upon the average lives of the underlying assets. The remaining unamortized balances are classified on the accompanying balance sheets in the same caption as the related assets. Following is a summary of the activity with respect to these programs during the year ended December 31, 2003 (in thousands):

| | December 31, 2002 | Paid in 2003 | 2003 Amortization | December 31, 2003 |
|---|---|---|---|---|
| 1995 B Program | $ 102 | $ - | $ (51) | $ 51 |
| 1996 B Program | 162 | | (54) | 108 |
| 1997 C1-C3 Program | 800 | | (100) | 700 |
| 1997 D Program | 294 | | (74) | 220 |
| 1998 B Program | 639 | | (128) | 511 |
| 1998 D Program | 1,020 | | (104) | 916 |
| 1999 A Program | 581 | | (97) | 484 |
| 2000 A&B Program | 929 | | (133) | 796 |
| 2000 C, D & E Program | 874 | 4 | (110) | 768 |
| 2002A | 225 | 445 | (50) | 620 |
| 2003A | - | 118 | | 118 |
| | $5,626 | $ 567 | $ (901) | $5,292 |

## 9. TRANSFERS AMONG PROGRAMS

Transfers among programs generally consist of nonrecurring transfers associated with (1) the initial issuance of bonds, (2) transfers to the unrestricted fund of remaining fund assets of closed funds once bonds are redeemed, and (3) balances in the cost of issuance accounts.

* * * * * *

## SUPPLEMENTAL INFORMATION

# Deloitte.

Deloitte & Touche LLP
Suite 3700
701 Poydras Street
New Orleans, LA 70139-3700
USA

Tel: +1 504 581 2727
Fax: +1 504 561 7293
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees
East Baton Rouge Mortgage Finance Authority

We have audited the general purpose financial statements of East Baton Rouge Mortgage Finance Authority (the "Authority"), as of and for the year ended December 31, 2003, and have issued our report thereon dated June 11, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority's general purpose 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 Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Baton Rouge Mortgage Finance 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 solely for the information and use of the audit committee, management, and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Deloitte + Touche LLP

June 11, 2004