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LOUISIANA HOUSING FINANCE AGENCY

FINANCIAL REPORT

JUNE 30, 2004 AND 2003

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

Release Date 9-8-04

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LOUISIANA HOUSING FINANCE AGENCY

FINANCIAL REPORT

JUNE 30, 2004 AND 2003

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LOUISIANA HOUSING FINANCE AGENCY

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Louisiana Housing Finance Agency
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Housing Finance Agency's General Fund (a component unit of the State of Louisiana), as of June 30, 2004 and 2003 as presented in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 basic 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 audits provide a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Louisiana Housing Finance Agency's General Fund and are not intended to present fairly the combined financial position, combined results of operations, or the combined cash flows of the Louisiana Housing Finance Agency's mortgage revenue bond programs in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Housing Finance Agency's General Fund as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10, are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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 the information and express no opinion on it.

8550 United Plaza Blvd, Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2004, on our consideration of the Louisiana Housing Finance Agency's internal control over financial reporting and our tests of its 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.

The Annual Financial Statement Reporting Packet, presented as supplementary information, is not a required part of the basic financial statements, but is supplementary information required by Louisiana's Office of Statewide Reporting and Accounting Policy. This information has been subjected to the auditing procedures applied in the audit of the accompanying financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the accompanying financial statements taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 25, 2004

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (LHFA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2004 AND JUNE 30, 2003

The Management's Discussion and Analysis of the LHFA's financial performance presents a narrative overview and analysis of LHFA's financial activities for the year ended June 30, 2004. 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 LHFA's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

<u>2004</u>

★ The LHFA's assets exceeded its liabilities at the close of fiscal year 2004 by $92,056,392, which represents a .2% decrease from last fiscal year.

★ The LHFA's operating revenues decreased $1,249,178 (or 11.3%) and the net results from operating activities decreased by $2,972,622 (or 71.4%).

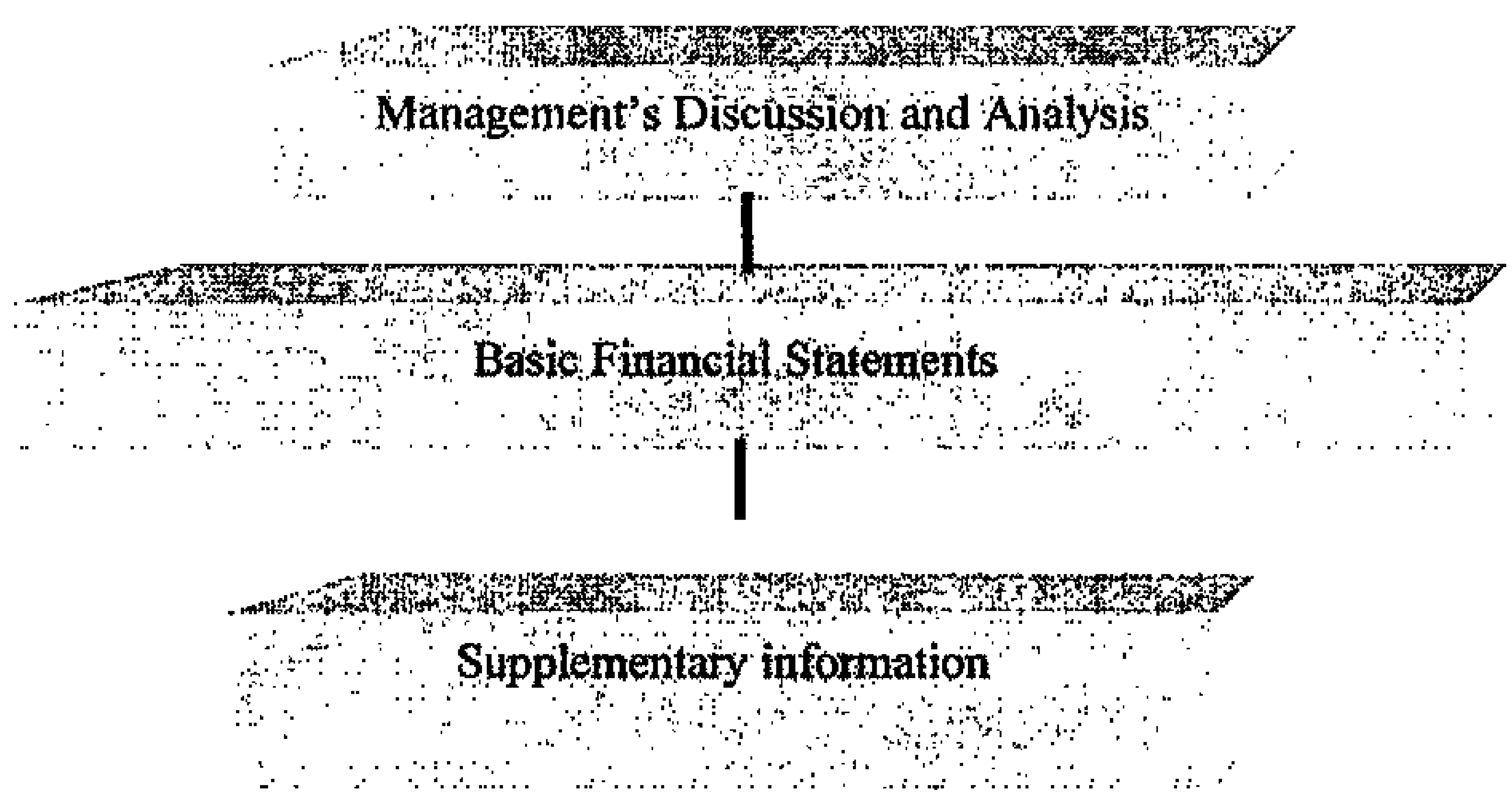
<u>2003</u>

★ The LHFA's assets exceeded its liabilities at the close of fiscal year 2003 by $92,272,663, which represents a 0.6% increase from last fiscal year.

★ The LHFA's operating revenues increased $2,280,673 (or 26.0%) and the net results from operating activities increased by $922,316 (or 28.5%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, <u>Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments</u>.



STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (LHFA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2004 AND JUNE 30, 2003

These 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 supplementary information.

Basic Financial Statements

The basic financial statements present information for the LHFA as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Balance Sheets; the Statements of Revenues, Expenses, and Changes in Net Assets; and the Statements of Cash Flows.

The <u>Balance Sheets</u> (pages 11 - 12) 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 LHFA is improving or deteriorating.

The <u>Statements of Revenues, Expenses, and Changes in Net Assets</u> (page 13) present information showing how LHFA's net assets changed as a result of 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 <u>Statements of Cash Flow</u> (pages 14 - 15) present information showing how LHFA's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

Statement of Net Assets
as of June 30, 2004, June 30, 2003, and June 30, 2002
(in thousands)

	Total		
	2004	2003	2002
Current and other assets	$ 49,321	$ 51,031	$ 115,194
Restricted assets	113,935	42,220	47,743
Capital assets	11,332	11,318	8,150
Total assets	174,588	104,569	171,087
Other liabilities	13,172	3,261	69,867
Long-term debt outstanding	69,360	9,035	9,500
Total liabilities	82,532	12,296	79,367
Net assets:			
Invested in Capital Assets, net of related debt	2,782	2,283	0
Restricted	42,772	41,994	46,909
Unrestricted	46,502	47,996	44,811
Total net assets	$ 92,056	$ 92,273	$ 91,720

Amounts invested in capital assets represent the carrying amount of property and equipment less the balance of the related bonds payable that were issued to fund the construction of LHFA's home office. Restricted net assets represent those assets that are not available for spending as a result of grant requirements and bond trust indentures. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be used for.

2004

Net assets of the LHFA decreased by $216,271, or 0.2%, from June 30, 2003 to June 30, 2004. This decrease in net assets can be attributed to the significant decrease in net operating income and net increase in transfers to MRB Programs.

LHFA's operating revenues decreased primarily as a result of the market value reduction of its investment portfolio and reduced mortgage loan interest income. Operating expenses increased as a result of increased personnel expenses incurred in order to service a number of new housing programs. Net non-operating results improved, primarily as a result of more federal program loans being capitalized on the balance sheet rather than being expensed.

2003

Net assets of the LHFA increased by $552,712, or 0.6%, from June 30, 2002 to June 30, 2003. This increase in net assets can be attributed to increased operating income which was offset by a net increase in net non-operating expense as well as transfers-out to the Mortgage Revenue Bond Program Trusts.

LHFA's operating revenues increased primarily as a result of higher fee income generated, and mortgage loan interest income generated from the purchase of housing program mortgage loans. Operating expenses increased as a result of increased personnel expenses incurred in order to service a number of new housing programs, and as a result of interest expense on a new warehouse line of credit obtained from the Federal Home Loan Bank. The Agency experienced a favorable interest spread between the interest income on the program loans funded with the line of credit and the interest expense on the FHLB advances. Non-operating expenses increased due primarily to an increase in the provision for loan loss on HOME program loans.

Statements of Revenues, Expenses, and Changes in Net Assets
for the years ended June 30, 2004, June 30, 2003, and June 30, 2002
(in thousands)

	Total		
	2004	2003	2002
Operating revenues	$ 9,800	$ 11,050	$ 8,769
Operating expenses	8,611	6,888	5,530
Operating income	1,189	4,162	3,239
Non-operating revenues(expenses)	210	(3,460)	(233)
Income(loss) before transfers	1,399	702	3,006
Transfers in (out)	(1,615)	(149)	868
Increase(decrease) in net assets	$ (216)	$ 553	$ 3,874

2004

The LHFA's total revenues (including operating and non-operating) increased by $39,138,512 or 59.9%. The total cost of all programs and services increased by $ 38,441,611 or 59.5%. These increases were a result of increases in operating and non-operating revenues and expenses, as well as a substantial increase in federal grants received and disbursed. During the year ended June 30, 2004, the Agency was awarded the Annual Contributions Contract by the Department of Housing and Urban Development for project-based Section 8 Contract Administration for the State of Louisiana.

2003

The LHFA's total revenues (including operating and non-operating) increased by $27,059,833 or 70.8%. The total cost of all programs and services increased by $ 29,365,403 or 83.4%. These increases were a result of increases in operating revenues and expenses, as well as a substantial increase in federal grants received and disbursed. This increase is attributable to a full year of funding as well as increased funding under the Temporary Assistance for Needy Families (TANF) and Low Income Housing Energy Assistance Payments (LIHEAP) grants. Additionally, during the year ended June 30, 2003, the Agency was awarded the Annual Contributions Contract by the Department of Housing and Urban Development for project-based Section 8 Contract Administration for the State of Louisiana.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the Louisiana Housing Finance Agency had $11.3 million invested in a broad range of capital assets, including a three story building facility to better conduct business operations. (See Table below). This amount represents a net increase (including additions and deductions) of $ 14.0 thousand, or a .1% increase over last year.

At the end of 2003, the Louisiana Housing Finance Agency had $11.3 million invested in a broad range of capital assets, including the construction of a new building facility in order to better conduct business operations. (See Table below). This amount represents a net increase (including additions and deductions) of $ 3.1 million, or a 38.9%, over last year.

	2004	2003	2002
Land	$ 712	$ 712	$ 712
Construction in Progress	-	-	7,116
Land Improvements (net of accum. dep.)	119	126	-
Building (net of accumulated depreciation)	9,656	9,602	-
Equipment (net of accumulated depreciation)	845	878	322
Totals	$ 11,332	$ 11,318	$ 8,150

2004

This year's changes included (in thousands):

• Construction and renovations of buildings	$	308
• Equipment acquisitions and replacements		350
• Depreciation	(	644)

2003

This year's changes included (in thousands):

• Continued construction of new building and grounds	$	789
• Equipment acquisitions and replacements		746
• Write-offs of dispositions	(	132)

DEBT

2004

The Louisiana Housing Finance Agency had $72,105,000 in bonds and notes outstanding at year-end, compared to $ 9,035,000 at the end of last year as shown in the table below. This increase is due to Risk Sharing MR Bonds being issued for $64,695,000 to assist 18 projects with funds for rehabilitation work, with LHFA being liable for the bonds.

2003

The Louisiana Housing Finance Agency had $9,035,000 in bonds and notes outstanding at year-end, compared to $ 74,475,000 at the end of last year as shown in the table below:

Outstanding Debt at Year-end
(in thousands)

	2004	2003	2002
General Revenue Office Building Bonds, Series 2001	$ 8,555	$ 9,035	$ 9,500
Federal Home Loan Bank Advances	-	-	64,975
Multi Family MR Bonds, (Section 8 Assisted - 202 Elderly Projects), Series 2003A	63,550	-	-
Totals	$ 72,105	$ 9,035	$ 74,475

2004

The LHFA's bond rating continues to carry the A2 rating for general revenue bonds and the 202 Elderly MR Bonds, and Aaa rating for the debt of its other Mortgage Revenue Bonds which are not considered to be the Agency's general debt and are excluded from these financial statements.

The LHFA has accounts payable and accrued interest payable of $2,031,885 outstanding at year-end compared with $1,515,078 last year. Other obligations include accrued vacation pay and sick leave, and deferred revenue.

DEBT (continued)

2003

The Agency discontinued the warehousing credit arrangement with the Federal Home Loan Bank whereby borrowings were advanced to the Agency up to $140 million for the purpose of funding single family loans. Advances under this arrangement were paid in full on June 2, 2003.

The LHFA's bond rating continues to carry the A2 rating for general revenue bonds, and Aaa rating for the debt of its Mortgage Revenue Bonds which are not considered to be the Agency's general debt and are excluded from these financial statements.

The LHFA has accounts payable and accrued interest payable of $2,113,178 outstanding at year-end compared with $3,488,688 last year. Other obligations include accrued vacation pay and sick leave, and deferred revenue.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- Low interest rates continue to encourage early payoffs and refinancing, shrinking the Agency asset base of mortgage backed securities and thereby reducing the issuer fees the Agency receives.
- An Executive Order MJF 04-02 was issued in Fiscal 04. The Governor set aside funds in the amount of $30 M for Bond Financing that will generate somewhere in the neighborhood of $30,000 fees for the LHFA which will be a one time only transaction.
- A PHA CAP Fund Initiative (a one time transaction) in the amount of $150M will generate about $150,000 dollars in Multi Family Issuer Fees.

The LHFA expects that next year's results will be mixed based on the following:

- Risk Sharing and the related risk sharing notes produce interest income with fees between six and eight percent that will significantly improve expected revenue over last year's budget. Additionally, Risk Sharing will have new fees associated with the addition of new Section 8 202 projects.
- The TANF program will no longer be administered by the Agency, thereby reducing administrative fees.
- Implementation of the Housing Trust Fund and its related contributions.

CONTACTING THE LOUISIANA HOUSING FINANCE AGENCY'S MANAGEMENT

This financial report is designed to provide Louisiana's citizens and taxpayers, as well as the Agency's customers, investors and creditors with a general overview of the Louisiana Housing Finance Agency's finances and to show the LHFA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jonathan Rovira, Chief Fiscal Officer.

LOUISIANA HOUSING FINANCE AGENCY

BALANCE SHEETS
JUNE 30, 2004 AND 2003

ASSETS

	2004	2003
CASH AND CASH EQUIVALENTS	$ 4,941,563	$ 6,353,758
INVESTMENTS	38,421,863	38,683,606
MORTGAGE LOANS	1,319,013	1,339,498
ACCRUED INTEREST RECEIVABLE	329,784	344,994
DUE FROM GOVERNMENTS	1,958,186	2,143,646
DUE FROM MRB PROGRAMS	1,710,030	1,684,838
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $2,145,459 and $1,531,893, respectively)	11,332,160	11,318,320
OTHER ASSETS	640,314	479,879
	60,652,913	62,348,539
RESTRICTED ASSETS		
Cash and cash equivalents	8,823,181	3,095,110
Investments	4,906,295	-
Mortgage loans receivable (net of allowance for loan losses of $37,953,364 and $23,825,540, respectively)	87,677,328	28,983,775
Accrued interest receivable	12,528,428	10,141,424
	113,935,232	42,220,309
TOTAL ASSETS	$ 174,588,145	$ 104,568,848

The accompanying notes are an integral part of these statements.

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LIABILITIES AND NET ASSETS

		2004		2003
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$	1,784,572	$	1,481,095
ACCRUED INTEREST PAYABLE		247,313		33,983
DUE TO GOVERNMENTS		1,085,279		178,040
COMPENSATED ABSENCES PAYABLE		347,214		311,092
DEFERRED INCOME		230,233		327,445
AMOUNTS HELD IN ESCROW		6,732,142		929,530
		10,426,753		3,261,185
BONDS PAYABLE				
Due within one year		2,745,000		480,000
Due in more than one year		69,360,000		8,555,000
		72,105,000		9,035,000
TOTAL LIABILITIES		82,531,753		12,296,185
NET ASSETS				
Invested in capital assets (net of related debt)		2,781,613		2,283,320
Restricted		42,772,115		41,993,767
Unrestricted		46,502,664		47,995,576
TOTAL NET ASSETS		92,056,392		92,272,663
TOTAL LIABILITIES AND NET ASSETS	$	174,588,145	$	104,568,848

LOUISIANA HOUSING FINANCE AGENCY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES		
MRB program issuer fees	$ 1,344,532	$ 1,339,925
Low income housing tax credit program fees	664,981	780,918
Compliance and application fees	58,350	61,904
Federal program administrative fees	5,361,382	3,134,598
Mortgage loan income	2,361,689	2,982,577
Investment income (loss)	(123,009)	2,477,915
Other income	132,762	272,028
	9,800,687	11,049,865
OPERATING EXPENSES		
Personnel services	3,866,358	3,138,893
Supplies	159,663	349,836
Travel	197,393	146,801
Operating services	437,623	371,010
Professional services	1,317,112	986,781
Interest expense	1,989,135	1,304,571
Depreciation	644,170	590,118
	8,611,454	6,888,010
Operating Income	1,189,233	4,161,855
NON-OPERATING REVENUES (EXPENSES)		
Other non-operating	17,813	112,024
Restricted mortgage loan interest income	2,155,205	2,580,174
Federal grants drawn	91,401,874	50,432,743
Federal grant funds disbursed	(80,280,029)	(48,444,157)
Provision for HOME program loan losses	(14,127,824)	(9,245,529)
Net income from rental property	1,042,776	1,105,037
	209,815	(3,459,708)
Income before transfers	1,399,048	702,147
Transfers to MRB Programs	(1,615,319)	(149,435)
CHANGE IN NET ASSETS	(216,271)	552,712
NET ASSETS - Beginning of year	92,272,663	91,719,951
NET ASSETS - End of year	$ 92,056,392	$ 92,272,663

The accompanying notes are an integral part of these statements.

LOUISIANA HOUSING FINANCE AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from:		
Fee revenue collected	$ 7,458,685	$ 7,310,068
Investment and mortgage loan income	4,056,517	5,460,492
Mortgage principal collections	2,495,973	126,919,265
Cash paid to:		
Suppliers of services	(1,802,371)	(3,251,588)
Employees and benefit providers	(3,830,236)	(3,121,970)
Mortgage purchases	(76,449,300)	(61,177,065)
Creditors for interest (net of capitalized interest)	(1,775,805)	(1,423,838)
Net cash provided by (used in) operating activities	(69,846,537)	70,715,364
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Net transfers to MRB programs	(1,615,319)	(149,435)
Receipts of federal grants	91,401,874	50,078,606
Disbursements of federal grants	(79,372,790)	(48,444,157)
Net FHLB advances (Repayments)	-	(64,975,300)
Proceeds of bond issuance	64,695,000	-
Issuance/repayment of bonds	(1,145,000)	-
Net change in escrow accounts	5,802,612	929,529
Other non-operating income	1,363,749	112,024
Net cash provided by (used in) noncapital financing activities	81,130,126	(62,448,733)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments purchased	(20,224,902)	(19,330,383)
Investments redeemed	13,352,423	18,687,568
Net cash from rental properties	1,042,776	963,899
Net cash provided by (used in) investing activities	(5,829,703)	321,084
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchase of property and equipment	(658,010)	(1,535,016)
Issuance/repayment of bonds	(480,000)	(465,000)
Net cash provided by (used in) capital financing activities	(1,138,010)	(2,000,016)

The accompanying notes are an integral part of these statements.

LOUISIANA HOUSING FINANCE AGENCY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 4,315,876	$ 6,587,699
CASH AND CASH EQUIVALENTS, beginning of year	9,448,868	2,861,169
CASH AND CASH EQUIVALENTS, end of year	$ 13,764,744	$ 9,448,868
Presented on the Balance Sheet as:		
Unrestricted	$ 4,941,563	$ 6,353,758
Restricted	8,823,181	3,095,110
	$ 13,764,744	$ 9,448,868
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating Income	$ 1,189,233	$ 4,161,855
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	644,170	443,258
Net change in fair value	1,802,627	(767,280)
Amortization of bond issuance costs	5,943	5,943
Change in accrued interest receivable	15,210	390,915
Change in due from governments	185,460	1,994,536
Change in due from MRB programs	(25,192)	(90,517)
Change in accounts payable and accrued expenses	303,477	(1,256,243)
Change in compensated absences payable	36,122	16,923
Change in deferred income	(97,212)	(24,759)
Change in other assets	(166,378)	217,800
Change in accrued interest payable	213,330	(119,267)
Mortgage loans purchased	(76,449,300)	(3,105,031)
Collections of mortgage loans	2,495,973	68,847,231
Net cash provided by (used in) operating activities	$ (69,846,537)	$ 70,715,364

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

1. Organization of the Agency

The Louisiana Housing Finance Agency (the Agency) is a political subdivision and instrumentality of the State of Louisiana established in 1980 pursuant to the Louisiana Housing Finance Act contained in Chapter 3-A of Title 40 of the Louisiana Revised Statutes of 1950, as amended. The initial enabling legislation and subsequent amendments grant the Agency the authority to undertake various programs to assist in the financing of housing needs in the State of Louisiana for persons of low and moderate incomes. Programs implemented by the Agency for this purpose consist of Mortgage Revenue Bond Programs, the Low Income Housing Tax Credit Program, the mark-to-market program and various federal award programs including the Low Income Housing Energy Assistance Program, the Weatherization Assistance Program, Section 8 Contract Administration, and programs under Temporary Assistance for Needy Families grants.

2. Significant Accounting Policies

The financial statements of the Louisiana Housing Finance Agency (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Agency's significant accounting policies are described below:

a. Reporting Entity

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the State of Louisiana. The accompanying statements present only transactions of the Louisiana Housing Finance Agency's General Fund, determined to be a component unit of the State of Louisiana. The Agency's "General Fund" refers to the fund that accounts for the Agency's general operating activities and is not meant to denote a governmental type general fund of a primary government.

Annually, the Louisiana Housing Finance Agency issues combined financial statements which include the activity contained in the accompanying financial statements, along with the Agency's Mortgage Revenue Bond Programs.

Annually, the State of Louisiana issues basic financial statements which include the activity contained in the accompanying financial statements. The basic financial statements are issued by the Louisiana Division of Administration-Office of Statewide Reporting and Accounting Policy and are audited by the Louisiana Legislative Auditor.

b. Basis of Accounting

The Funds of the Agency are proprietary fund types and are presented as business type activities. Proprietary fund types are used to account for governmental activities that are similar to those found in the private sector where the determination of operating income and changes in net assets is necessary or useful for sound financial administration. The Generally Accepted Accounting Principles (GAAP) used for proprietary funds are generally those applicable to similar businesses in the private sector (accrual basis accounting). Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

2. **Significant Accounting Policies** (continued)

b. **Basis of Accounting** (continued)

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the balance sheet is not presented in a classified format.

c. **Investments and Securitized Mortgage Loans**

Governmental Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, requires certain types of investment securities to be carried at fair value. In accordance with this statement, the Agency carries all debt securities with an original term of greater than 90 days at fair value. The change in fair value of such securities is recognized as revenue as a component of investment income for U. S. Government and Agency securities and as a component of mortgage loan income for GNMA and FNMA securities purchased as part of Agency programs. Guaranteed Investment Contracts (GICs) are carried at cost, which approximates fair value.

d. **Allowance for Loan Losses**

The allowance is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of groups of credits, loss experience of similar type loans, current and future estimated economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance. Past due status is based on contractual terms. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance.

e. **Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. The Agency capitalizes all property and equipment with initial, individual costs of greater than $1,000. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	40 years
Equipment	3 – 7 years
Automobiles	5 years

f. **Bond Issuance Costs**

Bond issuance costs including underwriters' discounts on bonds sold, are deferred and amortized over the life of the indebtedness based on the principle amounts of the bonds outstanding; a method that approximates the interest method.

g. **Operating / Non-operating Revenue and Expenses**

Operating revenues consist of program administration fees, bond issue fees, and investment income as these revenues are generated from the Agency's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Federal grant revenues and expenses, and income from rental properties are ancillary to the Agency's statutory purpose and are classified as non-operating.

2. Significant Accounting Policies (continued)

h. Compensated Absences

The Agency has the following policy on annual and sick leave:

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited, however, use of annual leave through time off is limited to 780 hours. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits.

As the Agency is a proprietary type fund, the cost of leave privileges, computed in accordance with GASB Codification Section C60, is recognized as a current year expense when the leave is earned.

i. Estimates

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

j. Reclassification

Certain amounts in the 2003 financial statements have been reclassified to conform to the current year's presentation.

3. Cash, Cash Equivalents and Investments

Authority

For reporting purposes, cash and cash equivalents include cash on hand, financial institution deposits and all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates market value. Under state law the Louisiana Housing Finance Agency may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the Agency may purchase time certificates of deposit of state banks organized under the laws of Louisiana, national banks having their principal office in the state of Louisiana, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate amounts of federally or state chartered credit unions.

Under Louisiana Revised Statute of 1950, as amended, the Agency may invest in obligations of the U. S. Treasury, U.S. Agencies and instrumentalities, repurchase agreements, certificates of deposit as provided by the statute mentioned above, and other investments as required by the terms of bond trust indentures.

3. **Cash, Cash Equivalents and Investments** (continued)

Cash and Cash Equivalents

The Louisiana Housing Finance Agency had cash and cash equivalents as of June 30 consisting of:

	2004	2003	Rating
Demand Deposits	$ 1,438,329	$ 1,067,705	N/A
Federal Home Loan Bank deposits	2,342,691	2,992,246	N/A
Money Market Accounts	9,983,724	5,388,917	AAAm
	$ 13,764,744	$ 9,448,868	

The deposits and money market accounts are subject to custodial credit risk; that is, in the event of a bank failure, the deposit may not be returned. To mitigate this risk, state law requires deposits to be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The fair value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The amount of Agency deposits (bank balance) which were not covered by FDIC insurance or pledged collateral held in the name of the Agency and thereby exposed to custodial credit risk was $10,993,414 and $7,232,153 at June 30, 2004 and 2003, respectively.

Investments

As of June 30, 2004, the Agency had the following investments and maturities (in years):

		Years				
Investment Type	Fair Value	Less than 1	1 to 2	2 to 4	4 – 6	6 – 8
U.S. Treasury Notes	$11,454,178	$ 2,192,009	$ 1,332,723	$ 4,131,394	$ 3,836,558	$ -
U.S. Sponsored Agencies	23,045,139	2,761,360	1,061,284	7,978,908	4,031,991	7,608,342
GNMA's	8,828,841	-	-	3,158,565	5,235,024	-
Total	$43,328,158	$ 4,953,369	$ 2,394,007	$15,268,867	$ 13,103,573	$ 7,608,342

Interest rate risk. The Agency manages interest rate risk by duration. They forecast future changes in interest rates and the slope of the yield curve and then select a duration strategy for the portfolio. For example, when forecasts are for higher interest rates, the general strategy is to shorten the overall duration of a portfolio to mitigate the adverse affects of higher interest rates. Conversely, if forecasts are for lower interest rates, then the duration of the portfolio is lengthened.

Credit Risk. State law limits investments to those indicated under the authority caption within this footnote. It is the Agency's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of June 30, 2004, and 2003, all of the Agency's investments were rated AAA by Standard & Poors.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency's investments are held by the custodial bank as an agent for the Agency, in the Agency name, and are thereby not exposed to custodial credit risk.

3. **Cash, Cash Equivalents and Investments** (continued)

Investments (continued)

Concentration of Credit Risk. The Agency places no limit on the amount they may invest in any one issuer. As of June 30, 2004, the Agency had investments of the following issuers which represented more than 5 percent of total investments:

Federal Home Loan Bank	24%
Federal Farm Credit Bank	10%
Federal National Mortgage Association	11%
Federal Home Loan Mortgage Corporation	9%

Net unrealized gain (loss) on investment securities and securitized program loans was ($136,090) and $1,666,537 at June 30, 2004 and 2003, respectively. The change in fair value of ($1,802,627) and $767,280 was included in investment income for June 30, 2004 and 2003, respectively.

4. **Bonds Payable**

Limited Obligations

As authorized by the initial enabling legislation, the Agency issues revenue bonds to assist in the financing of housing needs in the state of Louisiana. The bonds are limited obligations of the Agency, payable only from the income, revenues and receipts derived from the mortgage loans and other investments held under and pursuant to the trust indentures and pledged therefore and are considered to be conduit debt of the Agency. The bonds do not constitute an obligation, either general or special, of the State of Louisiana, any municipality or any other political subdivision of the State. Bonds issued by the Agency for which the Agency and the State have no responsibility for repayment are not recorded in the accompanying financial statements. Accordingly, the Agency has revenue bonds outstanding in fifty-seven bond programs totaling approximately $731 million at June 30, 2004. Outstanding bond issues at June 30, 2004 include:

				In Thousands		
Bond Issue	Interest Rate	Date Issued	Maturity Dates	Amount Issued	Retired to Date	Outstanding at 6/30/04
1992 A-B Single Family	5.20-6.90%	06/25/92	Various	$ 5,000	($ 2,920)	$ 2,080
1992 A_1-B_1 Single Family	5.25-6.80%	09/23/94	Various	15,000	(9,815)	5,185
1992 A_2-B_2 Single Family	5.00-6.60%	04/25/95	Various	15,000	(8,545)	6,455
1994 B Single Family	5.35-8.00%	09/01/94	Various	10,482	(9,214)	1,268
1995 A_1-A_2 Single Family	5.00-7.80%	04/01/95	Various	38,014	(34,701)	3,313
1995 C_1-C_2 Single Family	5.10-6.45%	12/01/95	Various	53,723	(42,399)	11,324
1996 B_1-B_4 Single Family	4.75-6.30%	04/15/96	Various	36,485	(26,537)	9,948
1996 D_1-D_4Single Family	4.75-8.00%	09/01/96	Various	67,405	(58,981)	8,424
1997 A_1-A_3 Single Family	3.75-6.75%	03/01/97	Various	85,850	(76,579)	9,271
1997 B_1-B_3 Single Family	4.00-6.75%	09/20/97	Various	45,143	(30,378)	14,765
1997 C_1-C_2 Single Family	4.20-6.75%	11/01/97	Various	46,046	(30,254)	15,792
1998 A_1-A_3 Single Family	4.10-6.65%	05/01/98	Various	69,708	(42,559)	27,149
1998 B_1-B_3 Single Family	4.00-6.20%	09/01/98	Various	73,353	(35,121)	38,232
1999 A_1-A_3 Single Family	3.40-5.90%	02/15/99	Various	45,359	(22,675)	22,684
1999 B_1-B_3 Single Family	4.00-6.66%	07/01/99	Various	78,214	(53,789)	24,425

4. **Bonds Payable** (continued)

Limited Obligations (continued)

Bond Issue	Interest Rate	Date Issued	Maturity Dates	In Thousands Amount Issued	Retired to Date	Outstanding at 6/30/04
1999 C Single Family	4.90-6.40%	06/01/00	Various	17,275	(9,195)	8,080
1999 D_1-D_2 Single Family	4.00-6.67%	10/01/99	Various	43,876	(25,475)	18,401
2000 A_1-A_3 Single Family	4.50-7.49%	02/01/00	Various	45,928	(32,772)	13,156
2000 B_1-B_3, 2000 C Single Family	5.10-8.07%	06/07/00	Various	51,706	(40,401)	11,305
2000 D Single Family	4.60-7.33%	10/11/00	Various	30,115	(16,651)	13,464
2001 A Single Family	3.65-6.40%	03/14/01	Various	44,540	(15,579)	28,961
2001 B1-B3 Single Family	3.50-6.75%	08/22/01	Various	30,459	(11,184)	19,275
2001 C-2002 Single Family	2.10-5.60%	03/15/02	Various	30,000	(9,820)	20,180
2001 D_1-D_3 Single Family	3.00-6.80%	11/01/01	Various	30,638	(9,121)	21,517
2002 A_1-A_3 Single Family	2.9-6.375%	06/13/02	Various	51,036	(16,731)	34,305
2002 B Single Family	2.2-5.625%	12/01/02	Various	25,504	(1,609)	23,895
2003 A_1-A_2 Single Family	3.40-5.60%	04/01/03	Various	36,133	(1,464)	34,669
2003 A Draw-Down Single Family	Various	05/01/03	05/31/05	99,527	(23,639)	75,888
2003 B Single Family	Various	12/11/03	Various	20,670	(103)	20,567
2004 A Single Family	Various	03/30/04	Various	20,710	(85)	20,625
2004 B Single Family	Various	06/30/04	Various	20,710	(63)	20,647
2004 Drawdown Single Family	Various	03/30/04	Various	41,356	(911)	40,445
1988 N.O. Multifamily	Various	04/11/88	Various	10,655	(915)	9,740
1988 K.C. Multifamily	9.00%	06/13/88	08/01/13	850	(350)	500
1988 P.H. Multifamily	7.50-8.00%	12/01/88	Various	1,250	(120)	1,130
1989 T.A. Multifamily	7.31%	09/01/89	07/01/10	450	(223)	227
1990 W.V. Multifamily	7.80%	04/01/90	Various	3,745	(369)	3,376
1991 W.V.II Multifamily	7.60-8.00%	01/01/91	Various	3,715	(240)	3,475
1991 A&B Multifamily	6.90-8.50%	12/01/91	Various	9,700	(4,385)	5,315
1992 O.T. Multifamily	6.20-10.0%	03/01/92	Various	19,700	(5,562)	14,138
1992 E.P. Multifamily	6.25-7.10%	07/01/92	Various	3,678	(442)	3,236
1993-2003 W.W. Multifamily	Various	08/24/03	Various	10,090	(1,356)	8,734
1993 T.T. Multifamily	4.50-6.30%	12/01/93	Various	7,817	(7,055)	762
1995 S.D.A.L. Multifamily	5.8-7.0%	03/01/95	Various	8,488	(391)	8,097
1995 A.L. Multifamily	9.00%	03/31/95	03/01/25	19,045	(3,713)	15,332
1997 M.S. Multifamily	5.25-6.50%	03/01/97	Various	6,078	(404)	5,674
1998 P.C.T. Multifamily	7.125-9.0%	02/01/98	01/01/28	9,503	(4,593)	4,910
2002 M. Multifamily	2.60-5.15%	10/01/02	10/15/29	4,500	(-)	4,500
2002 R. Multifamily	Various	12/13/02	12/01/32	4,665	(-)	4,665
2003 V.M. Multifamily	Various	08/01/98	Various	2,803	(215)	2,588
2004 Galilee City	4.25- 5.05%	06/01/03	Various	3,265	(-)	3,265
2004 VOA-New Orleans	6.55-6.80%	06/01/04	Various	6,154	(-)	6,154
				$ 1,468,843	($ 737,330)	$ 731,513

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4. **Bonds Payable** (continued)

General Obligations

During the fiscal year ended June 30, 2002, the Agency issued $9,500,000 of General Revenue Office Building Bonds, series 2001 to finance the construction of a building to house its operations. The bonds are general obligations of the Agency, secured by and payable from any and all funds of the Agency not otherwise required to be irrevocably dedicated to other purposes. The bonds are due to mature serially beginning December 1, 2002 through December 1, 2016. Bonds scheduled to mature on or after December 1, 2010 are callable for redemption at the option of the Agency. The bonds bear interest at various rates, depending on the maturity, ranging from 3.50% to 8.00% per annum.

During the fiscal year ended June 30, 2004, the Agency issued $64,695,000 of Multifamily Series Elderly Projects (Section 202) bonds as part of its multifamily housing program. The bonds are general obligations of the Agency payable from any and all funds of the Agency not otherwise required to be irrevocably dedicated to other purposes. Certain invested assets and mortgage loans are held in trust and dedicated to the repayment of the bonds. The bonds are due to mature serially and term beginning June 1, 2004 through June 1, 2033 and bear interest at various rates, depending on the maturity, ranging from 1.2% to 4.85% per annum. Minimum and future debt service requirements for the Agency's general obligation debt are scheduled to occur as follows:

Year Ended June 30,	Principal	Interest	Total
2005	$ 2,745,000	$ 3,013,476	$ 5,758,476
2006	2,800,000	2,898,242	5,698,242
2007	1,695,000	2,785,980	4,480,980
2008	2,895,000	2,717,348	5,612,348
2009	2,975,000	2,542,337	5,517,337
2010-2014	16,505,000	11,017,699	27,522,699
2015-2019	20,535,000	7,134,584	27,669,584
2020-2024	14,260,000	3,282,810	17,542,810
2025-2029	5,422,324	1,156,641	6,578,965
2030-2034	2,272,676	190,519	2,463,195
	$ 72,105,000	$ 36,739,636	$ 108,844,636

Federal Home Loan Bank Advances

During year ended June 30, 2003, the Agency borrowed funds under an agreement with the Federal Home Loan Bank of Dallas (FHLB) which allowed advances up to $140 million to be obtained for the purpose of funding the purchase of securitized mortgage loans originated in its Single Family Programs. The advances bore interest at the overnight liquidity rate of the FHLB. This credit agreement has been terminated as of June 30, 2003. Short-term debt activity under this agreement was as follows:

	2003
Balance, beginning of year	$ 64,975,300
Advances	54,095,550
Repayments	(119,070,850)
Balance, end of year	$ -

5. Federal Financial Assistance

Federal grant programs represent an important source of funding to finance housing programs which are beneficial to the State of Louisiana. These grants are recorded as non-operating income and expense to the Agency and any assets held in relation to the programs are restricted. Receivables are established when eligible expenditures are incurred. The grants normally specify the purpose for which funds may be used and are subject to audit in accordance with Office of Management and Budget Circular A-133 under the "Single Audit Concept".

In the normal course of operations, the Agency receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

During 2004 and 2003, the following amounts were expended under various grants and entitlements:

	2004	2003
Section 8	$ 57,271,467	$ 2,610,235
HOME Investment Partnerships	16,043,970	7,033,127
Low Income Housing Energy Assistance	13,995,156	25,181,166
Weatherization Assistance	2,393,801	2,309,002
Temporary Assistance for Needy Families	7,100,690	16,229,778
	$ 96,805,084	$ 53,363,308

Additionally, administrative fees received in relation to these and other federally sponsored programs administered by the Agency of $5,361,382 and $3,134,598 for the years ended June 30, 2004 and 2003, respectively, are recognized as revenue from operations.

6. Board of Commissioners Expenses

The appointed members of the Agency's Board of Commissioners receive a per diem payment for meetings attended and services rendered, and are also reimbursed for their actual expenses incurred in the performance of their duties as Commissioners. For the year ended June 30, 2004, the following per diem payments were made to the members of the Agency's Board and are included in operating expenses:

Robert Austin Sr.	$ 500
David Bell	200
Wayne Woods	250
Lloyd Cockerham	50
Michael Domingue	250
Larry Ferdinand	200
Eleria Hunter	300
Debra White Lockwood	400
Mark Madderra	500
Phillip Miller	550
Albert S. Pappalardo	100
	$ 3,300

7. Retirement Benefits

Substantially all of the employees of the Agency are members of the Louisiana State Employees Retirement System (System), a cost sharing multiple-employer, defined benefit pension plan. The System is a statewide public employee retirement system (PERS) for the benefit of state employees, which is administered and controlled by a separate board of trustees.

All full-time Agency employees are eligible to participate in the System. Benefits vest with 10 years of service. At retirement age, employees are entitled to annual benefits equal to $300 plus 2.5% of their highest consecutive 36 months' average salary multiplied by their years of credit service.

Vested employees are entitled to a retirement benefit, payable monthly for life at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. In addition, vested employees have the option of reduced benefits at any age with 20 years of service. The System also provides death and disability benefits. Benefits are established or amended by state statute. The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0608 or (800) 256-3000.

Members are required by state statute to contribute 7.5% of gross salary, and the Agency is required to contribute at an actuarially determined rate as required by R.S. 11:102. The contribution rates were 15.8%, 14.1% and 13.0% for fiscal years ended June 30, 2004, 2003 and 2002, respectively. The Agency contributions to the System for the years ending June 30, 2004, 2003 and 2002 were $445,959, $321,886, and $204,844, respectively, equal to the required contributions for each year.

8. Post Retirement Health Care and Life Insurance Benefits

Substantially all Agency employees become eligible for post employment health care, dental and life insurance benefits if they reach normal retirement age while working for the Agency. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose premiums are paid jointly by the employee and the Agency. The Agency recognizes the cost of providing these benefits as an expense as they are paid. For 2004 and 2003, the cost of providing those benefits totaled $65,408 and $41,391, respectively.

9. Property and Equipment

A summary of changes in property and equipment is as follows:

	Balance June 30, 2003	Additions	Deletions and Adjustments	Balance June 30, 2004
Equipment	$ 1,694,277	$ 349,719	($ 30,604)	$ 2,013,392
Building	10,312,658	308,291	-	10,620,949
Land and Land Improvements	843,278	-	-	843,278
	12,850,213	658,010	(30,604)	13,477,619
Accumulated depreciation	(1,531,893)	(644,170)	30,604	(2,145,459)
	$ 11,318,320	$ 13,840	($ -)	$ 11,332,160

9. Property and Equipment (continued)

	Balance June 30, 2002	Additions	Deletions and Adjustments	Balance June 30, 2003
Equipment	$ 1,036,170	$ 789,932	($ 131,825)	$ 1,694,277
Building	2,484,894	7,827,764	-	10,312,658
Construction in Progress	7,116,056	-	(7,116,056)	-
Land and Land Improvements	712,338	130,940	-	843,278
	11,349,458	8,748,636	(7,247,881)	12,850,213
Accumulated depreciation	(1,073,600)	(590,118)	131,825	(1,531,893)
	$ 10,275,858	$ 8,158,518	($ 7,116,056)	$ 11,318,320

10. Commitments and Contingencies

In the ordinary course of business, the Agency has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements. In addition, the Agency is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, except for the matter described in the paragraph below and in Note 15, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial condition of the Agency.

One of the Agency's HUD Disposition Projects is involved in a legal action that arose as a result of events that occurred in the course of operations. The management company has also been named as a defendant in the lawsuit. It is doubtful that the Agency's insurance will cover the management company as a party to this lawsuit. After consulting with legal counsel, an accrual of $75,000 has been made in the accompanying financial statements relating to this matter.

11. Cooperative Endeavor Agreements

The Agency has entered into Cooperative Endeavor Agreements with local housing authorities throughout Louisiana whereby the Agency's bond programs may refund scheduled maturities and redemptions due to mortgage prepayments for previously issued bonds of the local authority. In return, the Agency's bond programs receive a like sum of funds from the local authority that would have been used to fund the bond calls and redemptions, and uses these funds to originate new mortgage loans in the respective geographic region. Bonds refunded under the Cooperative Endeavor Agreements for the fiscal year ended June 30, 2004 and 2003 totaled approximately $6.7 and $8.9 million, respectively.

12. HUD Disposition Properties

The Agency is the owner of two low income multifamily rental properties that were originally purchased from the U.S. Department of Housing and Urban Development (HUD) at a cost of $1 each. Included in the tenant population are Section 8 qualified persons for which the Agency receives housing assistance payments. As owner of these properties, the Agency assumes all rights and responsibilities with regard to rents, maintenance and compliance with federal regulations. Since acquiring the properties from HUD, the Agency has funded renovations to these properties totaling approximately $2.8 million. It is the Agency's intent to dispose of these properties.

Assets and liabilities of the properties are considered to be restricted and the net income to be non-operating revenue to the Agency.

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13. Restricted Loans

As part of its HOME and multifamily programs, the Agency has made loans to qualified low income single family homebuyers and to developers of low income multifamily projects. The HOME loans are issued as a supplement to primary financing and are collateralized by a second mortgage on the property financed. Payments on these loans are deferred until the earlier of: a) the date that the primary loan is paid out, or b) a specified future date. Additionally, these loans are uninsured.

As part of its multifamily program, the Agency has made loans under its Section 202 HOME/Risk Sharing Program. The Program is designed to make loans to eligible projects pursuant to Section 202 of the Housing Act of 1959, as amended, and the Risk-Sharing Program administered by HUD. The multifamily Section 202 loans are collateralized by a first mortgage on the property with principle and interest payments due monthly through 2033. These loans are insured by the Federal Housing Administration.

The loan portfolio at June 30 is as follows:

	2004	2003	Interest Rate
HOME Multifamily Mortgage Loans	$ 55,527,081	$ 43,777,613	1% - 6%
HOME Single Family Mortgage Loans	8,199,176	9,031,702	Non-interest bearing
202 Elderly Project Mortgage Loans	61,904,435	-	6%
Reserve for loan losses	(37,953,364)	(23,825,540)	
	$ 87,677,328	$ 28,983,775	

The Agency's collections from the HOME loans are restricted to funding future lending programs. The multifamily section 202 loans are held in trust and pledged to repay the bonds (see Note 4), the principal balances and accruals of interest receivable on these loans are reported as restricted assets.

The increase in the reserve for loan losses was a result of additions of $14,127,824 and $9,245,530 to the provision for loan losses account for fiscal 2004 and 2003, respectively.

14. Concentration of Credit Risk

The Agency's HOME program loans are issued to single family borrowers and multifamily low income housing projects throughout Louisiana. A substantial portion of the multifamily low income housing project loans have been issued among entities with a common ownership.

15. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. To provide coverage for these risks, the Agency participates with the State of Louisiana's Office of Risk Management, a public entity risk pool currently operating as a common risk management and insurance program for branches of state government. This Agency pays an annual premium to ORM for this coverage.

16. Pending Claim

The Agency is involved in a matter with the Department of Housing and Urban Development Board of Contract Appeals relating to a multifamily mortgage loan claim paid by HUD in 1990. HUD now asserts that the Notice of Default, which was a required part of the procedures for processing such a claim, was filed with HUD beyond the required deadline. It is important to note that this process was the responsibility of the Servicing Agent that the Agency contracted to service this loan.

HUD is claiming that the Agency (or its trust account, which no longer exists) was overpaid by $804,384. Furthermore, HUD claims entitlement to interest and penalties on this amount, bringing the total potential liability to approximately $1.3 million. The Agency has an indemnification agreement with the Servicing Agent for matters such as this; however, a formal claim has not been filed by the Agency against the Servicing Agent. The Agency has accrued $1,000,000 in the accompanying financial statements relating to this matter.

SUPPLEMENTARY INFORMATION

Louisiana Housing Finance Agency
STATE OF LOUISIANA
Annual Financial Statements
June 30, 2004

CONTENTS

Schedule Number

STATE OF LOUISIANA
Annual Financial Statements
Fiscal Year Ending June 30, 2004

Louisiana Housing Finance Agency

Division of Administration
Office of Statewide Reporting
and Accounting Policy
P. O. Box 94095
Baton Rouge, LA 70804-9095

Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

AFFIDAVIT

Personally came and appeared before the undersigned authority, Helena R. Cunningham, President of Louisiana Housing Finance Agency who duly sworn, deposes and says, that the financial statements herewith given present fairly the financial position of Louisiana Housing Finance Agency at June 30, 2004 and the results of operations for the year then ended in accordance with policies and practices established by the Division of Administration or in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board. Sworn and subscribed before me, this 27th day of August, 2004.

Helena R. Cunningham
Signature of Agency Official

Loretta Wallace
NOTARY PUBLIC

LORETTA WALLACE ID #053916

Prepared by: Jonathan P. Rovira

Title: Vice President/CFO

Telephone No.: 225-763-8700

Date: August 27, 2004

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (LHFA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2004

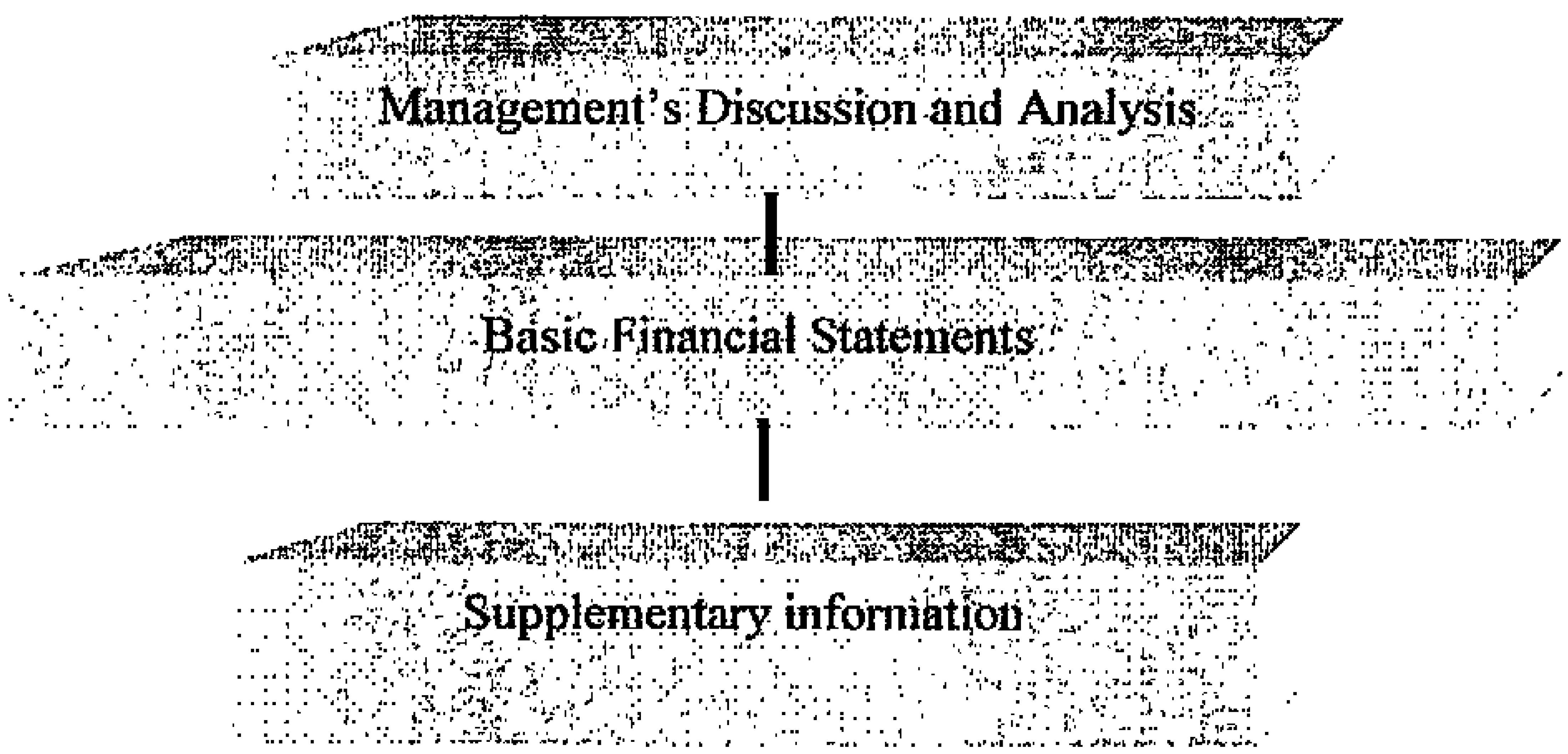
The Management's Discussion and Analysis of the LHFA's financial performance presents a narrative overview and analysis of LHFA's financial activities for the year ended June 30, 2004. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the LHFA's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- ★ The LHFA's assets exceeded its liabilities at the close of fiscal year 2004 by $92,056,392, which represents a .2% decrease from last fiscal year.
- ★ The LHFA's operating revenues decreased $1,249,178 (or 11.3%) and the net results from operating activities decreased by $2,972,622 (or 71.4%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, <u>Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments</u>.



STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (LHFA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2004

These 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 supplementary information.

Basic Financial Statements

The basic financial statements present information for the LHFA as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Balance Sheets; the Statements of Revenues, Expenses, and Changes in Net Assets; and the Statements of Cash Flows.

The Balance Sheets 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 LHFA is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how LHFA's net assets changed as a result of 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 Statements of Cash Flow present information showing how LHFA's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

Statement of Net Assets
as of June 30, 2004 and 2003
(in thousands)

	2004	2003
Current and other assets	$ 49,321	$ 51,031
Restricted assets	113,935	42,220
Capital assets	11,332	11,318
Total assets	174,588	104,569
Other liabilities	13,172	3,261
Long-term debt outstanding	69,360	9,035
Total liabilities	82,532	12,296
Net assets:		
Invested in Capital Assets, net of related debt	2,782	2,283
Restricted	42,772	41,994
Unrestricted	46,502	47,996
Total net assets	$ 92,056	$ 92,273

Amounts invested in capital assets represent the carrying amount of property and equipment less the balance of the related bonds payable that were issued to fund the construction of LHFA's home office. Restricted net assets represent those assets that are not available for spending as a result of grant requirements and bond trust indentures. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be used for.

Net assets of the LHFA decreased by $216,271, or 0.2%, from June 30, 2003 to June 30, 2004. This decrease in net assets can be attributed to the significant decrease in net operating income and net increase in transfers to MRB Programs.

LHFA's operating revenues decreased primarily as a result of the market value reduction of its investment portfolio and reduced mortgage loan interest income. Operating expenses increased as a result of increased personnel expenses incurred in order to service a number of new housing programs. Net non-operating results improved, primarily as a result of more federal program loans being capitalized on the balance sheet rather than being expensed.

Statements of Revenues, Expenses, and Changes in Net Assets
for the years ended June 30, 2004 and 2003
(in thousands)

	2004	2003
Operating revenues	$ 9,800	$ 11,050
Operating expenses	8,611	6,888
Operating income	1,189	4,162
Non-operating revenues(expenses)	210	(3,460)
Income(loss) before transfers	1,399	702
Transfers in (out)	(1,615)	(149)
Increase(decrease) in net assets	$ (216)	$ 553

The LHFA's total revenues (including operating and non-operating) increased by $39,138,512 or 59.9%. The total cost of all programs and services increased by $ 38,441,611 or 59.5%. These increases were a result of increases in operating and non-operating revenues and expenses, as well as a substantial increase in federal grants received and disbursed. During the year ended June 30, 2004, the Agency was awarded the Annual Contributions Contract by the Department of Housing and Urban Development for project-based Section 8 Contract Administration for the State of Louisiana.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the Louisiana Housing Finance Agency had $11.3 million invested in a broad range of capital assets, including a three story building facility to better conduct business operations. (See Table below). This amount represents a net increase (including additions and deductions) of $ 14.0 thousand, or a .1% increase over last year.

	2004	2003
Land	$ 712	$ 712
Land Improvements (net of accum. dep.)	119	126
Building (net of accumulated depreciation)	9,656	9,602
Equipment (net of accumulated depreciation)	845	878
Totals	$ 11,332	$ 11,318

This year's changes included (in thousands):

• Construction and renovations of buildings	$ 308
• Equipment acquisitions and replacements	350
• Depreciation	(644)

DEBT

The Louisiana Housing Finance Agency had $72,105,000 in bonds and notes outstanding at year-end, compared to $ 9,035,000 at the end of last year as shown in the table below. This increase is due to Risk Sharing MR Bonds being issued for $64,695,000 to assist 18 projects with funds for rehabilitation work, with LHFA being liable for the bonds.

Outstanding Debt at Year-end
(in thousands)

	2004	2003
General Revenue Office Building Bonds, Series 2001	$ 8,555	$ 9,035
Federal Home Loan Bank Advances	-	-
Multi Family MR Bonds, (Section 8 Assisted - 202 Elderly Projects), Series 2003A	63,550	-
Totals	$ 72,105	$ 9,035

DEBT (continued)

The LHFA's bond rating continues to carry the A2 rating for general revenue bonds and the 202 Elderly MR Bonds, and Aaa rating for the debt of its other Mortgage Revenue Bonds which are not considered to be the Agency's general debt and are excluded from these financial statements.

The LHFA has accounts payable and accrued interest payable of $2,031,885 outstanding at year-end compared with $1,515,078 last year. Other obligations include accrued vacation pay and sick leave, and deferred revenue.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- Low interest rates continue to encourage early payoffs and refinancing, shrinking the Agency asset base of mortgage backed securities and thereby reducing the issuer fees the Agency receives.
- An Executive Order MJF 04-02 was issued in Fiscal 04. The Governor set aside funds in the amount of $30 M for Bond Financing that will generate somewhere in the neighborhood of $30,000 fees for the LHFA which will be a one time only transaction.
- A PHA CAP Fund Initiative (a one time transaction) in the amount of $150M will generate about $150,000 dollars in Multi Family Issuer Fees.

The LHFA expects that next year's results will be mixed based on the following:

- Risk Sharing and the related risk sharing notes produce interest income with fees between six and eight percent that will significantly improve expected revenue over last year's budget. Additionally, Risk Sharing will have new fees associated with the addition of new Section 8 202 projects.
- The TANF program will no longer be administered by the Agency, thereby reducing administrative fees.
- Implementation of the Housing Trust Fund and its related contributions.

CONTACTING THE LOUISIANA HOUSING FINANCE AGENCY'S MANAGEMENT

This financial report is designed to provide Louisiana's citizens and taxpayers, as well as the Agency's customers, investors and creditors with a general overview of the Louisiana Housing Finance Agency's finances and to show the LHFA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jonathan Rovira, Chief Fiscal Officer.

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (BTA)
BALANCE SHEET
AS OF JUNE 30, 2004

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note C1)	$	4,941,563
Investments (Note C2)		38,421,863
Receivables (net of allowance for doubtful accounts)(Note U)		
Due from other funds (Note Y)		1,710,030
Due from federal government		1,958,186
Inventories		
Prepayments		
Notes receivable		3,631
Other current assets		970,098
Total current assets		48,005,371
NONCURRENT ASSETS:		
Restricted assets (Note F):		
Cash		8,823,181
Investments		4,906,295
Receivables		12,528,428
Notes receivable		88,992,710
Capital assets (net of depreciation)(Note D)		
Land		712,338
Buildings and improvements		9,649,906
Machinery and equipment		969,916
Infrastructure		
Construction in progress		
Other noncurrent assets		
Total noncurrent assets		126,582,774
Total assets	$	174,588,145
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accruals (Note V)	$	1,698,942
Due to other funds (Note Y)		
Due to federal government		506,957
Deferred revenues		230,233
Amounts held in custody for others		
Other current liabilities		
Current portion of long-term liabilities:		
Contracts payable		
Reimbursement contracts payable		
Compensated absences payable (Note K)		205,181
Capital lease obligations - (Note J)		
Notes payable		
Liabilities payable from restricted assets (Note Z)		7,643,407
Bonds payable		2,745,000
Other long-term liabilities		
Total current liabilities		13,029,720
NON-CURRENT LIABILITIES:		
Contracts payable		
Reimbursement contracts payable		
Compensated absences payable (Note K)		142,033
Capital lease obligations (Note J)		
Notes payable		69,360,000
Liabilities payable from restricted assets (Note Z)		
Bonds payable		
Other long-term liabilities		
Total long-term liabilities		69,502,033
Total liabilities		82,531,753
NET ASSETS		
Invested in capital assets, net of related debt		2,781,613
Restricted for:		
Capital projects		
Debt service		
Unemployment compensation		
Other specific purposes		42,772,115
Unrestricted		46,502,664
Total net assets		92,056,392
Total liabilities and net assets	$	174,588,145

The accompanying notes are an integral part of this financial statement.

Statement A

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (BTA)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

OPERATING REVENUES		
Sales of commodities and services	$	
Assessments		
Use of money and property		
Licenses, permits, and fees		7,429,245
Other		2,371,442
Total operating revenues		9,800,687
OPERATING EXPENSES		
Cost of sales and services		
Administrative		7,967,284
Depreciation		644,170
Amortization		
Total operating expenses		8,611,454
Operating income(loss)		1,189,233
NON-OPERATING REVENUES(EXPENSES)		
State appropriations		
Intergovernmental revenues (expenses)		91,401,874
Taxes		
Use of money and property		
Gain (loss) on disposal of fixed assets		
Federal grants		(80,280,029)
Interest expense		2,155,205
Other		(13,067,235)
Total non-operating revenues(expenses)		209,815
Income(loss) before contributions and transfers		1,399,048
Capital contributions		
Transfers in		
Transfers out		(1,615,319)
Change in net assets		(216,271)
Total net assets – beginning as restated		92,272,663
Total net assets – ending	$	92,056,392

The accompanying notes are an integral part of this financial statement.

Statement B

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (BTA)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Entity	$ 103,019,307	$ 7,429,245	$ 91,401,874	$	$ (4,188,188)
General revenues:					
Taxes					
State appropriations					
Grants and contributions not restricted to specific programs					
Interest					4,393,885
Miscellaneous					1,193,351
Special items					
Transfers					(1,615,319)
Total general revenues, special items, and transfers					3,971,917
Change in net assets					(216,271)
Net assets - beginning					92,272,663
Net assets - ending					$ 92,056,392

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (BTA)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash flows from operating activities		
Cash received from customers	$ 14,011,175	
Cash payments to suppliers for goods and services	(1,802,371)	
Cash payments to employees for services	(3,830,236)	
Payments in lieu of taxes		
Internal activity-payments to other funds		
Claims paid to outsiders		
Other operating revenues(expenses)	(78,225,105)	
Net cash provided(used) by operating activities		(69,846,537)
Cash flows from non-capital financing activities		
State appropriations		
Proceeds from sale of bonds	64,695,000	
Principal paid on bonds	(1,145,000)	
Interest paid on bond maturities		
Proceeds from issuance of notes payable		
Principal paid on notes payable		
Interest paid on notes payable		
Operating grants received	91,401,874	
Other	(72,206,429)	
Transfers In		
Transfers Out	(1,615,319)	
Net cash provided(used) by non-capital financing activities		81,130,126
Cash flows from capital and related financing		
Proceeds from sale of bonds		
Principal paid on bonds	(480,000)	
Interest paid on bond maturities		
Proceeds from issuance of notes payable		
Principal paid on notes payable		
Interest paid on notes payable		
Acquisition/construction of capital assets	(658,010)	
Proceeds from sale of capital assets		
Capital contributions		
Other		
Net cash provided(used) by capital and related financing activities		(1,138,010)
Cash flows from investing activities		
Purchases of investment securities	(20,224,902)	
Proceeds from sale of investment securities	13,352,423	
Interest and dividends earned on investment securities	1,042,776	
Net cash provided(used) by investing activities		(5,829,703)
Net increase(decrease) in cash and cash equivalents		4,315,876
Cash and cash equivalents at beginning of year		9,448,868
Cash and cash equivalents at end of year		$ 13,764,744

The accompanying notes are an integral part of this statement.

Statement D

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (BTA)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Reconciliation of operating income(loss) to net cash provided(used) by operating activities:

Operating income(loss)		$ 1,189,233
Adjustments to reconcile operating income(loss) to net cash		
Depreciation/amortization	650,113	
Provision for uncollectible accounts		
Changes in assets and liabilities:		
(Increase)decrease in accounts receivable, net	839,699	
(Increase)decrease in due from other funds	(25,192)	
(Increase)decrease in prepayments		
(Increase)decrease in inventories		
(Increase)decrease in other assets	(72,742,777)	
Increase(decrease) in accounts payable and accruals	303,477	
Increase(decrease) in accrued payroll and related benefits		
Increase(decrease) in compensated absences payable	36,122	
Increase(decrease) in due to other funds		
Increase(decrease) in deferred revenues	(97,212)	
Increase(decrease) in other liabilities		
Net cash provided(used) by operating activities		$ (69,846,537)

Schedule of noncash investing, capital, and financing activities:

Borrowing under capital lease	
Contributions of fixed assets	
Purchases of equipment on account	
Asset trade-ins	
Other (specify)	
Total noncash investing, capital, and financing activities:	-

(Concluded)

The accompanying notes are an integral part of this statement.

Statement D

INTRODUCTION

The Louisiana Housing Finance Agency was created by the Louisiana State Legislature under the provisions of Louisiana Revised Statutes of 1950, as amended, Chapter 3-A of Title 40. The following is a brief description of the operations of the Agency which includes the parish/parishes in which the Agency is located:

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF ACCOUNTING

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. The GASB has issued a Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles.

The accompanying financial statements of the Agency present information only as to the transactions of the programs of the Agency as authorized by Louisiana statutes and administrative regulations.

Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounts of the Agency are maintained in accordance with applicable statutory provisions and the regulations of the Division of Administration – Office of Statewide Reporting and Accounting Policy as follows:

Revenue Recognition

Revenues are recognized using the full accrual basis of accounting; therefore, revenues are recognized in the accounting period in which they are earned and become measurable.

Expense Recognition

Expenses are recognized on the accrual basis; therefore, expenses, including salaries, are recognized in the period incurred, if measurable.

B. BUDGETARY ACCOUNTING N/A

The appropriations made for the operations of the various programs of the Agency are annual lapsing appropriations.

1. The budgetary process is an annual appropriation valid for one year.
2. The agency is prohibited by statute from over expending the categories established in the budget.
3. Budget revisions are granted by the Joint Legislative Budget Committee, a committee of the Louisiana Legislature. Interim emergency appropriations may be granted by the Interim Emergency Board.
4. The budgetary information included in the financial statements include the original appropriation plus subsequent amendments as follows:

		APPROPRIATIONS
Original approved budget	$	
Amendments:		
Final approved budget	$	-

C. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (If all agency cash and investments are deposited in the State Treasury, disregard Note C.)

1. DEPOSITS WITH FINANCIAL INSTITUTIONS

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Under state law the Agency may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the (BTA) may invest in time certificates of deposit of state banks organized under the laws of Louisiana, national banks having their principal office in the state of Louisiana, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

For the purpose of the Statement of Cash Flows, all highly liquid investments (including restricted assets with a maturity of three months or less when purchased) are considered to be cash equivalents.

Deposits in bank accounts are stated at cost, which approximates market. Under state law these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts held by the State Treasurer.

Following the issuance of GASB Statement 3, deposits were classified into three categories of custodial credit risk depending on whether they were insured or collateralized, and who held the collateral and how it was held.

Category 1 – Deposits that are covered by insurance (FDIC) or collateralized with securities that are held by the entity in the entity's name or registered in the entity's name. **(separate disclosure no longer required)**
Category 2 – Deposits that are not insured but are collateralized with securities that are held by the financial institution's trust department or agent and are in the entity's name. **(separate disclosure no longer required)**
Category 3 – Deposits that are not covered by insurance and also are not collateralized. Not collateralized includes when the securities (collateral) are held by the financial institution's trust department or agent and they are not in the entity's name. **(separate disclosure still required)**

GASB Statement 40 only requires any category 3 deposits to be disclosed in the custodial credit risk section of Note C. If an entity has deposits exposed to custodial credit risk category 3, it should disclose the amount of those balances, the fact that they are uninsured, and whether the balances are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the entity's name.

The deposits at June 30, 2004, consisted of the following:

	Cash	Certificates of Deposit	Other (Describe)	Total
Deposits in bank accounts per balance sheet	$ 13,764,744	$	$	$ 13,764,744
Bank balances (**category 3 only, if any**) **Identify amounts reported as category 3 by the descriptions below:**				
a. Uninsured and uncollateralized	$ 10,993,414	$	$	$ 10,993,414
b. Uninsured and collateralized with securities held by the pledging institution				-
c. Uninsured and collateralized with securities held by the pledging institution's trust department or agent <u>but not in the entity's name</u>				-
Total category 3 bank balances	$ 10,993,414	$ -	$ -	$ 10,993,414
Total bank balances **(All categories including category 3 reported above)**	$ 14,482,687	$	$	$ 14,482,687

NOTE: The "Total Bank Balances" will not necessarily equal the "Deposits in Bank Account per Balance Sheet".

The following is a breakdown by banking institution, program, account number, and amount of the balances shown above:

Banking institution	Program	Amount
1. Bank One	General and Federal	$ 2,959,637
2. Hibernia	HUD Disposition	529,635
3. Hancock	General, Elderly	8,650,724
4. Federal Home Loan Bank	General	2,342,691
Total		$ 14,482,687

Cash in State Treasury and petty cash are not required to be reported in the note disclosure. However, to aid in reconciling amounts reported on the balance sheet to amounts reported in this note, list below any cash in treasury and petty cash that are included on the balance sheet.

Cash in State Treasury	$
Petty cash	$ 250

2. INVESTMENTS

The Agency does/does not maintain investment accounts as authorized by Louisiana Revised Statues of 1950, as amended and may invest in obligations of the U.S. Treasury, agencies, an instrumentalities, repurchase agreements, and other investments.

Investments can be classified according to the level of risk to the entity. Using the following categories, list each type of investment disclosing the carrying amount, market value, and applicable category of risk. **Beginning with fiscal year ending June 30, 2004, only risk category 3 has to be broken out**

separately. However, the total reported amount and fair value columns still must be reported for total investments (including category 3).

Category 1 - Insured or registered in the entity's name, or securities held by the entity or its agent in the entity's name. **(separate disclosure no longer required)**

Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name. **(separate disclosure no longer required)**

Category 3 - Unsecured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name. **(separate disclosure still required)**

NOTE: GASB Statement 40 requires investments to be listed by type, and whether any of those are category 3 investments. If so, those category 3 investments are reported in one of two separate columns depending upon whether they are held by a counterparty, or held by a counterparty's trust department or agent not in the entity's name.

Type of Investment	Amount Reported in Risk Category 3, if Any: Held by Counterparty	Held by Counterparty's Trust Dept. or Agent Not in Entity's Name	Total Reported Amount - All Categories (Including Category 3)	Total Fair Value - All Categories (Including Category 3)
Repurchase agreements	$	$	$	$
U.S. Government securities			20,830,019	20,830,019
Common & preferred stock				
Commercial paper				
Corporate bonds				
Other: (identify)				
U.S. Sponsored Agencies			23,045,139	23,045,139
Total investments	-	-	$ 43,875,158	$ 43,875,158

The institution does not invest in **derivatives** as part of its investment policy.

- *Interest rate risk.* The Agency manages interest rate risk by duration. They forecast future changes in interest rates and the slope of the yield curve and then select a duration strategy for the portfolio. For example, when forecasts are for higher interest rates, the general strategy is to shorten the overall duration of a portfolio to mitigate the adverse affects of higher interest rates. Conversely, if forecasts are for lower interest rates, then the duration of the portfolio is lengthened.

- *Credit Risk.* State law limits investments to those indicated under the authority caption within this footnote. It is the Agency's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of June 30, 2004, and 2003, all of the Agency's investments were rated AAA by Standard & Poors.

- *Concentration of Credit Risk.* The Agency places no limit on the amount they may invest in any one issuer. As of June 30, 2004, the Agency had investments of the following issuers which represented more than 5 percent of total investments:

Federal Home Loan Bank	24%
Federal Farm Credit Bank	10%
Federal National Mortgage Association	11%
Federal Home Loan Mortgage Corporation	9%

Net unrealized gain (loss) on investment securities and securitized program loans was $ (136,090) and $1,666,537 at June 30, 2004 and 2003, respectively. The change in fair value of $ (1,802,627) and $767,280 was included in investment income for June 30, 2004 and 2003, respectively.

3. Other Disclosures Required for Investments

a. Investments in pools managed by other governments or mutual funds ___none___

b. Securities underlying reverse repurchase agreements ___none___

c. Unrealized investment losses ___136,090___

d. Commitments as of June 30, 2004 to <u>resell</u> securities under yield maintenance repurchase agreements:

1. Carrying amount and market value at June 30 of securities to be resold ___n/a___
2. Description of the terms of the agreement ___n/a___

e. Losses during the year due to default by counterparties to deposit or investment transactions ___none___

f. Amounts recovered from prior-period losses which are not shown separately on the balance sheet ___none___

<u>Legal or Contractual Provisions for Reverse Repurchase Agreements</u> **N/A**

g. Source of legal or contractual authorization for use of reverse repurchase agreements ______

h. Significant violations of legal or contractual provisions for reverse repurchase agreements that occurred during the year ______

Reverse Repurchase Agreements as of Year-End **N/A**

i. Credit risk related to the reverse repurchase agreements outstanding at year end, that is, the aggregate amount of reverse repurchase agreement obligations including accrued interest compared to aggregate market value of the securities underlying those agreements including interest ______

j. Commitments on ______ (fiscal close), to repurchase securities under yield maintenance agreements ______

k. Market value on ______ (fiscal close), of the securities to be repurchased ______

l. Description of the terms of the agreements to repurchase ______

m. Losses recognized during the year due to default by counterparties to reverse repurchase agreements ______

n. Amounts recovered from prior-period losses which are not separately shown on the operating statement ______

Fair Value Disclosures

o. Methods and significant assumptions used to estimate fair value of investments, if fair value is not based on quoted market prices **N/A**

p. Basis for determining which investments, if any, are reported at amortized cost CASH EQUIVALENTS

q. For investments in external investment pools that are not SEC-registered, a brief description of any regulatory oversight for the pool NONE

r. Whether the fair value of your investment in the external investment pool is the same as the value of the pool shares N/A

s. Any involuntary participation in an external investment pool N/A

t. Whether you are unable to obtain information from a pool sponsor to determine the fair value of your investment in the pool, methods used and significant assumptions made in determining that fair value and the reasons for having had to make such an estimate N/A

u. Any income from investments associated with one fund that is assigned to another fund N/A

Credit Risk, Concentration of Credit Risk, Interest Rate Risk, and Foreign Currency Risk Disclosures

v. Briefly describe the deposit and /or investment policies related to the custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk disclosed in this note. If no policy exists concerning the risks disclosed, please state that fact.
NONE

w. List, by amount and issuer (not including U.S. government securities, mutual funds, and investment pools), investments in any one issuer that represents 5% or more of total investments SEE PAGE 6

x. List the fair value and terms of any debt investments that are highly sensitive to changes in interest rates due to the terms of the investment (eg. coupon multipliers, reset dates, etc.)
NONE

y. Disclose the credit risk of debt investments by credit quality ratings as described by rating agencies as of the fiscal year end. All debt investments regardless of type can be aggregated by credit quality rating (if any are unrated, disclose that amount).

SEE PAGE 6

z. Disclose the interest rate risk of debt investments by listing the investment type and the method that is used to identify and manage the interest rate risk of those investments (by, using one of the following 5 methods that is used to identify and manage interest rate risk: a) segmented time distribution, b) specific identification, c) weighted average maturity, d) **duration**, or e) simulation model.)

As of June 30, 2004, the Agency had the following investments and maturities (in years):

		Years				
Investment Type	Fair Value	Less than 1	1 to 2	2 to 4	4 – 6	6 – 8
U.S. Treasury Notes	$11,454,178	$ 2,192,009	$ 1,332,723	$ 4,131,394	$ 3,836,558	$ -
U.S. Sponsored Ag.	23,045,139	2,761,360	1,061,284	7,978,908	4,031,991	7,608,342
GNMA's	8,828,841	-	-	3,158,565	5,235,024	-
Total	$43,328,158	$ 4,953,369	$ 2,394,007	$15,268,867	$ 13,103,573	$ 7,608,342

aa. Disclose the U.S. dollar balances of any deposits or investments that are exposed to foreign currency risk (deposits or investments denominated in foreign currencies). List by currency denomination and investment type, if applicable.
NONE

D. CAPITAL ASSETS – INCLUDING CAPITAL LEASES ASSETS

The fixed assets used in the Special Purpose Government Engaged only in Business-Type Activities are included on the balance sheet of the entity and are capitalized at cost. Depreciation of all exhaustible fixed assets used by the entity are charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation for financial reporting purposes is computed by the straight-line method over the useful lives of the assets.

	Year ended June 30, 2004						
	Balance 6/30/2003	Prior Period Adjustment	Adjusted Balance 7/1/2003	Additions	Transfers*	Retirements	Balance 6/30/2004
Capital assets not being depreciated							
Land	712,338	--	--	--	--	--	712,338
Non-depreciable land improvements	--	--	--	--	--	--	--
Capitalized collections	--	--	--	--	--	--	--
Construction in progress	--	--	--	--	--	--	--
Total capital assets not being depreciated	712,338	--	--	--	--	--	712,338
Other capital assets							
Furniture, fixtures, and equipment	1,694,277	--	--	349,719	--	(30,604)	2,013,392
Less accumulated depreciation	(815,783)	--	--	(305,070)	--	30,604	(1,090,249)
Total furniture, fixtures, and equipment	878,494	--	--	44,649	--	--	923,143
Buildings and improvements	10,312,658	--	--	308,291	--	--	10,620,949
Less accumulated depreciation	(710,730)	--	--	(332,745)	--	--	(1,043,475)
Total buildings and improvements	9,601,928	--	--	(24,454)	--	--	9,577,474
Depreciable land improvements	130,939	--	--	--	--	--	130,939
Less accumulated depreciation	(5,379)	--	--	(6,355)	--	--	(11,734)
Total depreciable land improvements	125,560	--	--	(6,355)	--	--	119,205
Infrastructure	--	--	--	--	--	--	--
Less accumulated depreciation	--	--	--	--	--	--	--
Total infrastructure	--	--	--	--	--	--	--
Total other capital assets	10,605,982	--	--	13,840	--	--	10,619,822
Capital Asset Summary:							
Capital assets not being depreciated	712,338	--	--	--	--	--	712,338
Other capital assets, at cost	12,137,874	--	--	658,010	--	(30,604)	12,765,280
Total cost of capital assets	12,850,212	--	--	658,010	--	(30,604)	13,477,618
Less accumulated depreciation	(1,531,892)	--	--	(644,170)	--	30,604	(2,145,458)
Capital assets, net	11,318,320	--	--	13,840	--	--	11,332,160

* Should be used only for those completed projects coming out of construction-in-progress to fixed assets; not associated with transfers reported elsewhere in this packet.

E. INVENTORIES

The unit's inventories are valued at ________ N/A ______________ (method of valuation). These are perpetual inventories and are expensed when used. **NOTE: DO NOT INCLUDE POSTAGE. THIS IS SHOWN AS A PREPAYMENT.**

F. RESTRICTED ASSETS

Restricted assets in the Agency at June 30, 2004 reflected at $26,257,904 in the non-current assets section on Statement A, consist of $8,823,181 in cash with fiscal agent, $12,528,428 in receivables, and $4,906,295 investment in U.S. Sponsored Agency securities.

G. LEAVE

1. COMPENSATED ABSENCES

The Agency has the following policy on annual and sick leave:

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited; however, use of annual leave through time off is limited to 780 hours. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits.

The cost of leave privileges, computed in accordance with GASB Codification Section C60, is recognized as a current year expenditure in the fund when leave is actually taken; it is recognized in the enterprise funds when the leave is earned. The cost of leave privileges applicable to general government operations not requiring current resources is recorded in long-term obligations.

2. COMPENSATORY LEAVE

Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned (K-time). Upon termination or transfer, an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employees' hourly rate of pay at termination or transfer. The liability for accrued payable compensatory leave at June 30, 2004 computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be insignificant. The leave payable is not recorded in the accompanying financial statements.

H. RETIREMENT SYSTEM

Substantially all of the employees of the Agency are members of the Louisiana State Retirement System (System), a cost sharing multiple-employer, defined benefit pension plan. The System is a statewide public employee retirement system (PERS) for the benefit of state employees, which is administered and controlled by a separate board of trustees.

All full-time Agency employees are eligible to participate in the System. Benefits vest with 10 years of service. At retirement age, employees are entitled to annual benefits equal to $300 plus 2.5% of their highest consecutive 36 months' average salary multiplied by their years of credited service.

Vested employees are entitled to a retirement benefit, payable monthly for life at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. In addition, vested employees have the option of reduced benefits at any age with 20 years of service. The System also provides death and disability benefits. Benefits are established or amended by state statute. The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0608 or (800) 256-3000.

Members are required by state statute to contribute 7.5% of gross salary, and the (BTA) is required to contribute at an actuarially determined rate as required by R.S. 11:102. The contribution rate for the fiscal year ended June 30, 2004, increased to 15.8% of annual covered payroll from the 14.1% and 13.0% required in fiscal years ended June 30, 2003 and 2002, respectively. The Agency contributions to the System for the years ending June 30, 2004, 2003, and 2002, were $445,949, $321,886, and $204,844, respectively, equal to the required contributions for each year.

I. *POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS*

GASB 12 requires the following disclosures about an employer's accounting for post retirement health care and life insurance benefits:

1. A description of the benefits provided and the employee group covered.
2. A description of the accounting and funding policies followed for those benefits.
3. The cost of those benefits recognized for the period, unless the costs are not readily determinable.**
4. The effect of significant matters affecting the comparability of the costs recognized for all periods presented.

**If the cost of any post retirement health care or life insurance benefits cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, the total cost of providing those benefits to active employees and retirees, as well as the number of active employees and the number of retirees covered by the plan must be disclosed.

Substantially all Agency employees become eligible for post employment health care, dental and life insurance benefits if they reach normal retirement age while working for the Agency. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose premiums are paid jointly by the employee and the Agency. For 2004, the cost of providing those benefits for the Agency's retirees totaled $65,408.

J. LEASES N/A

1. OPERATING LEASES **N/A**

The total payments for operating leases during fiscal year_______amounted to $_______. A schedule of payments for operating leases follows:

Nature of lease	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010-2014	FY2015-2019
	$	$	$	$	$	$	$
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -

2. CAPITAL LEASES **N/A**

Capital leases are (are not) recognized in the accompanying financial statements. The amounts to be accrued for capital leases and the disclosures required for capital and operating leases by National Council on Governmental Accounting (NCGA) Statement No. 5, as adopted by the Governmental Accounting Standards Board, and FASB 13 should be reported on the following schedules:

Capital leases are defined as an arrangement in which <u>any one</u> of the following conditions apply: (l) ownership transfers by the end of the lease, (2) the lease contains a bargain purchase option, (3) the lease term is 75% of the asset life or, (4) the discounted minimum lease payments are 90% of the fair market value of the asset.

SCHEDULE A – TOTAL AGENCY CAPITAL LEASES EXCEPT LEAF

Nature of lease	Gross Amount of Leased Asset (Historical Costs)	Remaining interest to end of lease	Remaining principal to end of lease
a. Office space	$	$	$
b. Equipment			
c. Land			
Total	$ -	$ -	$ -

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of (last day of your fiscal year) and a breakdown of yearly principal and interest:

Year ending June 30 :	Total
2005	$
2006	
2007	
2008	
2009	
2010-2014	
2015-2019	
2020-2024	
Total minimum lease payments	-
Less amounts representing executory costs	
Net minimum lease payments	-
Less amounts representing interest	
Present value of net minimum lease payments	$ -

SCHEDULE B – NEW AGENCY CAPITAL LEASES EXCEPT LEAF

Nature of lease	Gross Amount of Leased Asset (Historical Costs)	Remaining interest to end of lease	Remaining principal to end of lease
a. Office space	$	$	$
b. Equipment			
c. Land			
Total	$ -	$ -	$ -

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of (last day of your fiscal year) and a breakdown of yearly principal and interest:

Year ending June 30:	Total
2005	$
2006	
2007	
2008	
2009	
2010-2014	
2015-2019	
2020-2024	
Total minimum lease payments	-
Less amounts representing executory costs	
Net minimum lease payments	-
Less amounts representing interest	
Present value of net minimum lease payments	$ -

SCHEDULE C – LEAF CAPITAL LEASES

Nature of lease	Gross Amount of Leased Asset (Historical Costs)	Remaining interest to end of lease	Remaining principal to end of lease
a. Office space	$	$	$
b. Equipment			
c. Land			
Total	$ -	$ -	$ -

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of (last day of your fiscal year) and a breakdown of yearly principal and interest:

Year ending June 30:	Total
2005	$
2006	
2007	
2008	
2009	
2010-2014	
2015-2019	
2020-2024	
Total minimum lease payments	-
Less amounts representing executory costs	
Net minimum lease payments	-
Less amounts representing interest	
Present value of net minimum lease payments	$ -

3. LESSOR DIRECT FINANCING LEASES **N/A**

A lease is classified as a direct financing lease (1) when any one of the four capitalization criteria used to define a capital lease for the lessee is met and (2) when both the following criteria are satisfied:

- Collectibility of the minimum lease payments is reasonably predictable.
- No important uncertainties surround the amount of the unreimbursable costs yet to be incurred by the lessor under the lease.

Provide a general description of the direct financing agreement, and complete the chart below:

Composition of lease	Date of lease	Minimum lease payment receivable	Remaining interest to end of lease	Remaining principal to end of lease
a. Office space		$	$	$
b. Equipment				
c. Land				
Less amounts representing executory costs				
Minimum lease payment receivable		-		
Less allowance for doubtful accounts				
Net minimum lease payments receivable		-		
Less estimated residual value of leased property				
Less unearned income				
Net investment in direct financing lease		$ -		

Minimum lease payments do not include contingent rentals which may be received as stipulated in the lease contracts. Contingent rental payments occur if, for example, the use of the equipment, land, or building etc., exceeds a certain level of activity each year. Contingent rentals received for fiscal year 2004 were $_________ for office space, $________ for equipment, and $________ for land.

The following is a schedule by year of minimum leases receivable for the remaining fiscal years of the lease as of ___________ (the last day of your fiscal year):

Year ending ____________:	
2005	$
2006	
2007	
2008	
2009	
2010-2014	
2015-2019	
2020-2024	
Total	$ -

4. LESSOR – OPERATING LEASE **N/A**

When a lease agreement does not satisfy at least one of the four criteria (common to both lessee and lessor accounting), and both of the criteria for a lessor (collectibility and no uncertain reimbursable costs), the lease is classified as an operating lease. In an operating lease, there is no simulated sale and the lessor simply records rent revenues as they become measurable and available.

Provide the cost and carrying amount, if different, of property on lease or held for lease organized by major class of property and the amount of accumulated depreciation as of __________ 20___:

	Cost	Accumulated depreciation	Carrying amount
a. Office space	$	$	$
b. Equipment			
c. Land			
Total	$ -	$ -	$ -

The following is a schedule by years of minimum future rentals on non-cancelable operating lease(s) as of __________ (the last day of your fiscal year):

Year Ended June 30,	Office Space	Equipment	Land	Other	Total
2005	$	$	$	$	$ -
2006					-
2007					-
2008					-
2009					-
2010-2014					-
2015-2019					-
Total	$ -	$ -	$ -	$ -	$ -

Current year lease revenues received in fiscal year ______ totaled $_______________.

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY (BTA)
Notes to the Financial Statement
As of and for the year ended June 30, 2004

Contingent rentals received from operating leases received for your fiscal year was $__________ for office space, $__________ for equipment, and $__________ for land.

K. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the entity for the year ended June 30, 2004.

	Balance June 30, 2003	Year ended June 30, 2004 Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Bonds and notes payable:					
Notes payable	$	$	$	$ --	$
Reimbursement contracts payable				--	
Bonds payable	9,035,000	64,695,000	1,625,000	72,105,000	2,745,000
Total notes and bonds	9,035,000	64,695,000	1,625,000	72,105,000	2,745,000
Other liabilities:					
Contracts payable				--	
Compensated absences payable	311,092	36,122		347,214	205,181
Capital lease obligations				--	
Liabilities payable from restricted assets	580,565		580,565	--	
Claims and litigation				--	
Other long-term liabilities				--	
Total other liabilities	891,657	36,122	580,565	347,214	205,181
Total long-term liabilities	9,926,657	64,731,122	2,205,565	72,452,214	2,950,181

A detailed summary, by issues, of all debt outstanding at June 30, 2004, including outstanding interest of $36,739,636 is shown on schedule 4D. Schedule 4D is an amortization schedule of the outstanding debt.

L. LITIGATION

1. The Agency is a defendant in litigation seeking damages as follows:

Date of Action	Description of Litigation and Probable outcome (Remote, reasonably possible, or probable)	Primary Attorney	Damages Claimed	Insurance Coverage
08/01/02	HUD Claim	Adams & Reese	$ 1,000,000	$
	Near Drowning	Steven Witman	75,000	
Totals			$ 1,075,000	$ -

The Agency is involved in a matter with the Department of Housing and Urban Development Board of Contract Appeals relating to a multifamily mortgage loan claim paid by HUD in 1990. HUD now asserts that the Notice of Default, which was a required part of the procedures for processing such a claim, was filed with HUD beyond the required deadline. It is important to note that this process was the responsibility of the Servicing Agent that the Agency contracted to service this loan.

HUD is claiming that the Agency (or its trust account, which no longer exist) was overpaid by $804,384. Furthermore, HUD claims entitlement to interest and penalities on this amount, bringing the total potential liability to approximately $1.3 million. The Agency ha an indemnification agreement with the Servicing Agent for matters such a this; however, a formal claim has not been filed by the Agency against the Servicing Agent. The Agency has accrued $1,000,000 in the accompanying financial statements relating to this matter.

One of the Agency's HUD Disposition Projects is involved in a legal action that arose as a result of events that occurred in the course of operations. The management company has also been named as a defendant in the lawsuit. It is doubtful that the Agency's insurance will conver the management company as a part to this lawsuit. After consulting with legal counsel, an accrual of $75,000 has been made in the accompanying financial statements relating to this matter.

2. Claims and litigation costs of $ 209,314 were incurred in the current year and are reflected in the accompanying financial statement.

M. RELATED PARTY TRANSACTIONS

(FASB 57 requires disclosure of the description of the relationship, the transaction(s), the dollar amount of the transaction(s) and any amounts due to or from which result from related party transactions. List all related party transactions).

NONE

N. ACCOUNTING CHANGES N/A

Accounting changes made during the year involved a change in accounting ______________ (principle, estimate, error or entity). The effect of the change is being shown in ________________.

O. IN-KIND CONTRIBUTIONS N/A

(List all in-kind contributions that are not included in the accompanying financial statements.)

In-Kind Contributions	Cost/Estimated Cost/Fair Market Value/As Determined by the Grantor
______________	$ ______________
______________	______________
______________	______________
______________	______________
______________	______________
Total	$ -

P. DEFEASED ISSUES N/A

In ______N/A______, 20____, the ________________N/A__________________(BTA), issued $__________________ of taxable bonds. The purpose of the issue was to provide monies to advance refund portions of ______________ bonds. In order to refund the bonds, portions of the proceeds of the new issue $_______________, plus an additional $____________of sinking fund monies together with certain other funds and/or securities, were deposited and held in an escrow fund created pursuant to an escrow deposit agreement dated _______________,_____ between the (BTA) and the escrow trustee. The amount in the escrow, together with interest earnings, will be used to pay the principal, redemption premium, and interest when due. The refunding resulted in reducing the total debt service payments by almost $ ________________ and gave the (BTA) an economic gain (difference between the present values of the debt service payments on the old and new debt)of $________________.

Q. COOPERATIVE ENDEAVORS

LRS 33:9022 defines cooperative endeavors as any form of economic development assistance between and among the state of Louisiana, its local governmental subdivisions, political corporations, public benefit corporations, the United States government or its agencies, or any public or private association, corporation, or individual. The term cooperative endeavor includes cooperative financing, cooperative development, or any form of cooperative economic development activity. The state of Louisiana has entered into cooperative endeavor agreements with certain entities aimed at developing the economy of the state.

The Agency has entered into Cooperative Endeavor Agreements with local housing authorities throughout Louisiana whereby the Agency's bond programs (no obligation to the Agency) may refund scheduled maturities and redemptions due to mortgage prepayments for previously issued bonds of the local authority. In return, the Agency's bond programs (no obligation to the Agency) receive a like sum of funds from the local authority that would have been used to fund the bond calls and redemptions, and uses these funds to originate new mortgage loans in the respective geographic region. Bonds refunded under the Cooperative Endeavor Agreements for the fiscal year ended June 30, 2004 and 2003 totaled approximately $6.7 and $8.9 million, respectively.

Some cooperative endeavor contracts are not coded with a document type of "COP" on the Contract Financial Management Subsystem (CFMS), but are considered cooperative endeavors. Include these below with your cooperative endeavor contracts coded with a document type of "COP". Examples of contracts that are considered cooperative endeavors, but are not coded with a document type of "COP" include contracts that fall under delegated authority, Facility Planning and Control "CEA" contracts, certain federal government contracts, contracts that legislative auditors may have designated as such within your agency, work incumbent programs, etc. In prior years, this information was requested as supplemental documentation after the AFRs were submitted, usually in October or November.

The liability outstanding as of June 30, 2004, by funding source, is as follows:

Funding Source		Balance June 30, 2004
State General Fund	$	N/A
Self-generated revenue		N/A
Statutorily dedicated revenue		N/A
General obligation bonds		N/A
Federal funds		N/A
Interagency transfers		N/A
Other funds/combination		N/A

NOTE: Amounts in excess of contract limits **cannot** be used to reduce the outstanding contract balance at June 30, 2004. For example, if a contract specifies a percentage of usage for each month (25%) and usage exceeds that percentage (75%), you cannot claim actual usage that exceeds contract requirements (50%).

NOTE: In order to compute your ending balances by funding source, you should begin with your balances at June 30, 2003. These amounts will be increased by amounts for new contracts and amendments and decreased for payments as well as for liquidations.

R. GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS (GRANTS) N/A

The following government-mandated nonexchange transactions (grants) were received during fiscal year 2003-2004:

CFDA Number	Program Name	State Match Percentage	Total Amount of Grant
			$
Total government-mandated nonexchange transactions (grants)			$ -

S. VIOLATIONS OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISIONS N/A

At June 30, 20__, the __________________ (BTA) was not in compliance with the provisions of ____ Bond Reserve Covenant that requires ______________________________. The ____ (BTA) did ________________________ to correct this deficiency.

T. SHORT-TERM DEBT (N/A)

The ______________________(BTA) issues short-term notes for the following purpose(s)____________ ____.

Short-term debt activity for the year ended June 30, 20__, was as follows:

List the type of S-T debt (e.g., tax anitcipation notes	Beginning Balance	Issued	Redeemed	Ending Balance
	$	$	$	$ -

The ______________________(BTA) uses a revolving line of credit for the following to finance ____(list purpose for the S-T debt). Short-term debt activity for the year ended June 30, 20__, was as follows:

	Beginning Balance	Draws	Redeemed	Ending Balance
Line of credit	$	$	$	$ -

U. DISAGGREGATION OF RECEIVABLE BALANCES

Receivables at June 30, 2004, were as follows:

Activity	Customer Receivables	Taxes	Receivables from other Governments	Other Receivables	Total Receivables
	$	$	$ -	$ -	$ -
					-
Gross receivables	$ -	$ -	$ -	$ -	$ -
Less allowance for uncollectible accounts	-	-	-	-	-
Receivables, net	$ -	$ -	$ -	$ -	$ -
Amounts not scheduled for collection during the subsequent year	$	$	$	$	$ -

V. DISAGGREGATION OF PAYABLE BALANCES

Payables at June 30, 2004, were as follows:

Activity	Vendors	Salaries and Benefits	Accrued Interest	Other Payables	Total Payables
	$ 490,456	$ 102,403	$ 31,083	$ 1,075,000	$ 1,698,942
					-
Total payables	$ 490,456	$ 102,403	$ 31,083	$ 1,075,000	$ 1,698,942

W. SUBSEQUENT EVENTS (N/A)

[Disclose any material event(s) affecting the (BTA) occurring between the close of the fiscal period and issuance of the financial statement.] ____

X. SEGMENT INFORMATION (N/A)

Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. For purposes of this disclosure, a segment is an identifiable activity (or group of activities), reported as or within an enterprise fund or an other stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately. This requirement for separate accounting applies if imposed by an external party, such as accounting and reporting requirements set forth in bond indentures. Disclosure requirements for each segment should be met by identifying the types of goods and services provided and by presenting condensed financial statements in the notes, including the elements in A through C below (GASB 34, paragraph 122, as modified by GASB 37, paragraph 17.)

Type of goods or services provided by the segment____________________________________.

A. Condensed balance sheet:
   (1) Total assets – distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or BTA's should be reported separately.
   (2) Total liabilities – distinguishing between current and long-term amounts. Amounts payable to other funds or BTA's should be reported separately.
   (3) Total net assets – distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts invested in capital assets, net of related debt.

Condensed Balance sheet:

	Segment #1	Segment #2
Current assets	$	$
Due from other funds		
Capital assets		
Other assets		
Current liabilities		
Due to other funds		
Long-term liabilities		
Restricted net assets		
Unrestricted net assets		
Invested in capital assets, net of related debt		

B. Condensed statement of revenues, expenses, and changes in net assets:

   (1) Operating revenues (by major source).
   (2) Operating expenses. Depreciation (including any amortization) should be identified separately.
   (3) Operating income (loss).
   (4) Nonoperating revenues (expenses) – with separate reporting of major revenues and expenses.

   (5) Capital contributions and additions to permanent and term endowments.
   (6) Special and extraordinary items.
   (7) Transfers
   (8) Change in net assets.
   (9) Beginning net assets.

(10) Ending net assets.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets:

	Segment #1	Segment #2
Operating revenues	$	$
Operating expenses		
Depreciation and amortization		
Operating income (loss)	-	-
Nonoperating revenues (expenses)		
Capital contributions/additions to permanent and term endowments		
Special and extraordinary items		
Transfers in		
Transfers out		
Change in net assets	-	-
Beginning net assets		
Ending net assets	-	-

C. Condensed statement of cash flows:
   (1) Net cash provided (used) by:
      (a) Operating activities
      (b) Noncapital financing activities
      (c) Capital and related financing activities
      (d) Investing activities
   (2) Beginning cash and cash equivalent balances
   (3) Ending cash and cash equivalent balances

Condensed Statement of Cash Flows:

	Segment #1	Segment #2
Net cash provided (used) by operating activities	$	$
Net cash provided (used) by noncapital financing activities		
Net cash provided (used) by capital and related financing activities		
Net cash provided (used) by investing activities		
Beginning cash and cash equivalent balances		
Ending cash and cash equivalent balances	-	-

Y. DUE TO/DUE FROM AND TRANSFERS

1. List by fund type the amounts **due from other funds** detailed by individual fund at your fiscal year end:

Type of Fund	Name of Fund	Amount
		$
ENTERPRISE	MRB PROGRAM FUNDS	1,710,030
Total due from other funds		$ 1,710,030

2. List by fund type the amounts **due to other funds** detailed by individual fund at fiscal year end:

Type of Fund	Name of Fund	Amount
		$
Total due to other funds		$

3. List by fund type **all transfers from other funds for the fiscal year:**

Type of Fund	Name of Fund	Amount
		$
Total transfers from other funds		$

4. List by fund type **all transfers to other funds for the fiscal year:**

Type of Fund	Name of Fund	Amount
ENTERPRISE	MRB PROGRAM FUNDS	$ 1,615,319
Total transfers to other funds		$ 1,615,319

Z. LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Liabilities payable from restricted assets in the Agency at June 30, 2004, reflected at $ 7,643,407 in the current liabilities section on Statement A, consist of $695,035 in accounts payable, $ 216,230 in accrued interest, and $6,732,142 in amounts held in escrow.

AA. PRIOR-YEAR RESTATEMENT OF NET ASSETS (N/A)

The following adjustments were made to restate beginning net assets for June 30, 20__.

Ending net assets July 1, 2003, previously reported	Adjustments + or (-)	Beginning net assets, July 1, 2003, As restated
	$	$ --
		--
		--
		--
		--
		--

Each adjustment must be explained in detail on a separate sheet.

(NOTE: Net Assets at July 1, 20__, previously reported, must correspond to Net Assets at June 30, 20__, per the information received from OSRAP.)

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY
SCHEDULE OF PER DIEM PAID TO BOARD MEMBERS
For the Year Ended June 30, 2004

Name	Amount
ROBERT AUSTIN, SR	$ 500
DAVID BELL	200
WAYNE WOODS	250
LLOYD COCKERHAM	50
MICHAEL DOMINQUE	250
LARRY FERDINAND	200
ELERIA HUNTER	300
DEBRA WHITE LOCKWOOD	400
MARK MADDERRA	500
PHILLIP MILLER	550
ALBERT S. PAPPALARDO	100
	$ 3,300

STATE OF LOUISIANA

________________________________(BTA)

SCHEDULE OF STATE FUNDING

For the Year Ended ____________

(Fiscal Close)

	Description of Funding		Amount
1.		$	
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
	Total	$	**N/A**

STATE OF LOUISIANA

_____________________________(BTA)

SCHEDULE OF REIMBURSEMENT CONTRACTS PAYABLE

_____________, 20__

(Fiscal Close)

Issue	Date of Issue	Original Issue	Principal Outstanding 6/30/PY	Redeemed (Issued)	Principal Outstanding 6/30/CY	Interest Rates	Interest Outstanding 6/30/CY
N/A		$ 0	$ 0	$ 0	$ 0	0	$ 0
Total		$ N/A	$ N/A	$ N/A	$ N/A		$ N/A

*Send copies of new amortization schedules

STATE OF LOUISIANA

______________________________(BTA)

SCHEDULE OF NOTES PAYABLE

______________, 20__

(Fiscal close)

Issue	Date of Issue	Original Issue	Principal Outstanding 6/30/PY	Redeemed (Issued)	Principal Outstanding 6/30/CY	Interest Rates	Interest Outstanding 6/30/CY
N/A		$	$	$	$		$
Total		$	$	$	$		$

*Send copies of new amortization schedules

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY
SCHEDULE OF BONDS PAYABLE
JUNE 30, 2004

Issue	Date of Issue	Original Issue	Principal Outstanding 6/30/03	Redeemed (Issued)	Principal Outstanding 6/30/04	Interest Rates	Interest Outstanding 6/30/04
General Revenue Office Building Bonds, Series 2001	8/22/2001	$9,500,000	$9,035,000	$ 480,000	$8,555,000	3.50 - 8.00%	$31,083
Elderly Projects	11/1/2003	64,695,000	0	1,145,000	63,550,000	1.20 – 4.80%	$216,230
Total		$ 74,195,000	$ 9,035,000	$ 1,625,000	$ 72,105,000		$ 247,313

*Send copies of new amortization schedules

STATE OF LOUISIANA

____________________________(BTA)

SCHEDULE OF REIMBURSEMENT CONTRACTS PAYABLE AMORTIZATION

For The Year Ended ____________

(Fiscal Close)

Fiscal Year Ending:	Principal	Interest
2005	$	$
2006		
2007		
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
Total	$ N/A	$ N/A

STATE OF LOUISIANA

_____________________________(BTA)

SCHEDULE OF CAPITAL LEASE AMORTIZATION

For The Year Ended June 30, 20__

Fiscal Year Ending:	Payment	Interest	Principal	Balance
2005	$	$	$	$ --
2006				--
2007				--
2008				--
2009				--
2010-2014				--
2015-2019				--
2020-2024				--
2025-2029				--
Total	$ N/A	$ N/A	N/A	N/A

STATE OF LOUISIANA

______________________________(BTA)

SCHEDULE OF NOTES PAYABLE AMORTIZATION

Fiscal Year Ending:	Principal	Interest
2005	$	$
2006		
2007		
2008		
2009		
2010-2014		
2015-2019		
2020-2024		
2025-2029		
Total	$ N/A	$ N/A

STATE OF LOUISIANA
LOUISIANA HOUSING FINANCE AGENCY
SCHEDULE OF BONDS PAYABLE AMORTIZATION
For The Year Ended June 30, 2004

Fiscal Year Ending:	Principal	Interest
2005	$ 2,745,000.00	$ 3,013,476.00
2006	2,800,000.00	2,898,242.00
2007	1,695,000.00	2,785,980.00
2008	2,895,000.00	2,717,348.00
2009	2,975,000.00	2,542,337.00
2010	3,070,000.00	2,419,180.00
2011	3,175,000.00	2,351,769.00
2012	3,290,000.00	2,220,792.00
2013	3,415,000.00	2,084,256.00
2014	3,555,000.00	1,941,702.00
2015	5,235,000.00	1,792,427.00
2016	3,985,000.00	1,573,632.00
2017	4,180,000.00	1,405,035.00
2018	3,480,000.00	1,252,737.00
2019	3,655,000.00	1,110,753.00
2020	3,835,000.00	961,629.00
2021	3,910,000.00	793,656.00
2022	2,840,000.00	622,398.00
2023	2,075,000.00	498,006.00
2024	1,600,000.00	407,121.00
2025	1,365,969.00	337,041.00
2026	1,164,281.00	277,212.00
2027	1,061,824.00	226,216.00
2028	987,310.00	179,708.00
2029	842,939.00	136,464.00
2030	875,539.00	99,543.00
2031	866,225.00	61,195.00
2032	381,884.00	23,254.00
2033	149,029.00	6,527.00
Total	$ 72,105,000.00	$ 36,739,636.00

STATE OF LOUISIANA

Louisiana Housing Finance Agency

COMPARISON FIGURES

To assist OSRAP in determining the reason for the change in financial position for the state and reason for the changes in the budget, please complete the schedule below. If the change is greater than 10%, explain the reason for the change.

		2004	2003	Difference	Percentage Change
1)	Revenues	$ 104,418,355	$ 65,279,843	$ 39,138,512	$ 59.95%
	Expenses	103,019,307	64,577,696	38,441,611	59.52%
2)	Capital assets	11,322,160	11,318,320	3,840	.03%
	Long-term debt	72,105,000	9,035,000	63,070,000	698.06%
	Net Assets	92,056,392	92,272,663	(216,271)	-.23%

Explanation for change:

Revenues: Significant increase is due to increases in federal grants received and interest income on loans

Expenses: Significant increase is due to the increases in federal grants disbursed and interest expense on new debt

Long-term Debt: Significant increase is due to the issuance of Elderly Projects general obligation bonds

3)		2004 Original Budget	2004 Final Budget	Difference	Percentage Change
	Revenues	$ n/a	$	$ -	$
	Expenditures	n/a		-	

Explanation of change:

	2004 Final Budget	2004 Actual Budget	Difference	Percentage Change
Revenues	n/a			
Expenditures	n/a			

Explanation of change:

LOUISIANA HOUSING FINANCE AGENCY

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

JUNE 30, 2004

P&N

TABLE OF CONTENTS

P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Louisiana Housing Finance Agency
Baton Rouge, Louisiana

We have audited the financial statements of the Louisiana Housing Finance Agency as of and for the year ended June 30, 2004, and have issued our report thereon dated August 25, 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 Louisiana Housing Finance Agency'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 Auditing Standards.* However, we noted certain immaterial instances of noncompliance, which we have reported to management of the Louisiana Housing Finance Agency in a separate letter dated August 25, 2004.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Louisiana Housing Finance Agency'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 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 operations that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated August 25, 2004.

8550 United Plaza Blvd, Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611

This report is intended for the information of the Agency's management, the Louisiana Legislative Auditor, and federal awarding agencies, and it 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 25, 2004

P&N

P&N

Postlethwaite & Netterville

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

To the Board of Commissioners
Louisiana Housing Finance Agency
Baton Rouge, Louisiana

Compliance
We have audited the compliance of the Louisiana Housing Finance Agency with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The Louisiana Housing Finance Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Louisiana Housing Finance Agency's management. Our responsibility is to express an opinion on the Louisiana Housing Finance Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004. However, the results of our audit procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-1 to 2004-3.

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Internal Control Over Compliance
The management of the Louisiana Housing Finance Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Louisiana Housing Finance Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be a material weakness.

Schedule of Expenditures of Federal Awards
We have audited the financial statements of the Louisiana Housing Finance Agency as of and for the year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the Agency's management, federal awarding agencies, and the 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 25, 2004

LOUISIANA HOUSING FINANCE AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

	Federal CFDA Number	Expenditures
U. S. Department of Housing Urban Development		
Section 8 Cluster		
New Construction and Substantial Rehabilitation	14.182	$ 1,742,357
Housing Assistance Payments – Special Allocations	14.195	55,529,110
Home Investment Partnerships Program (HOME)	14.239	16,043,970
U. S. Department of Health and Human Services		
Low Income Housing Energy Assistance Program (LIHEAP)	93.568	13,995,156
Temporary Assistance for Needy Families (TANF) (Passed through from Department of Social Services - State of Louisiana)	93.558	7,100,690
U. S. Department of Energy		
Weatherization Assistance Program (WAP) (Passed through from Department of Social Services – State of Louisiana)	81.042	2,393,801
		$ 96,805,084

See the accompanying notes to the schedule of expenditures of federal awards.

LOUISIANA HOUSING FINANCE AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUBRECIPIENTS

The Louisiana Housing Finance Agency provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided
Low Income Housing Energy Assistance Program (LIHEAP)	93.568	13,680,143
Weatherization Assistance Program (WAP)	81.042	2,285,706
Temporary Assistance for Needy Families (TANF)	93.558	5,873,773
		$ 21,839,622

NOTE C – PROGRAM INCOME

In accordance with terms of the loans funded under the HOME Program, program income totaling $836,404 was collected. That amount was used to reduce the amount of federal funds that would have been drawn to fund various single family and multifamily projects. The income was comprised of mortgage loan collections of principal and interest. The expenditure of the program income is included in the accompanying schedule of expenditures of federal awards.

LOUISIANA HOUSING FINANCE AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

NOTE D – RECONCILIATION TO THE FINANCIAL STATEMENTS.

Per financial statements:	
Federal awards expensed (non operating)	$ 80,280,029
Mortgage loans issued (capitalized)	11,749,468
Administrative costs within operating expenses	4,775,587
Per schedule of expenditures of federal awards	$ 96,805,084

LOUISIANA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

• Material weakness(es) identified?	____ yes	_x_ no
• Reportable condition(s) identified that are not considered to be material weaknesses?	____ yes	_x_ none reported
Noncompliance material to financial statements noted?	____ yes	_x_ no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____ yes	_x_ no
• Reportable condition(s) identified that are not considered to be material weaknesses?	____ yes	_x_ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_x_ yes	____ no
Dollar threshold used to distinguish between Types A and B Programs:	$2,904,152	
Auditee qualified as low risk auditee:	_x_ yes	____ no

LOUISIANA HOUSING FINANCE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
	Section 8 Cluster
14.182	New Construction and Substantial Rehabilitation
14.195	Housing Assistance Payments – Special Allocations

B. Findings – Financial Statement Audit - None

C. Findings and Questioned Costs – Major Federal Award Programs

14.195 Section 8 – Housing Assistance Payments

2004 -1) Special Tests and Provisions

Criteria: Per the Management and Occupancy Reviews(MOR) Task Matrix in the LHFA Performance Based Contract Administration Owner/Agent Guide, the owner must respond within 30 days of the management review completion.

Condition: P&N noted that 1 out of the 40 visits tested, there was no documentation of an owner response on file to the completed MOR.

Questioned Costs: None

Effect: The responses to the findings are not being maintained in an organized filing system.

Recommendation: Implement a filing system to maintain adequate documentation of responses. Additionally, track the timing of when responses are due more closely in order to ensure timely submission to HUD. Have a set plan as to when to follow up with the owner's concerning their responses to the findings.

14.182 Section 8 – New Construction and Substantial Rehabilitation

2004 -2) Cash Management

Criteria: OMB Circular A-102 sets forth cash management requirements for grant recipients. The circular states that grantees must establish a system to minimize the time between receipt and disbursement of funds and thus minimize the amounts of cash on hand. The HAP contracts administered by the Agency require the Agency to maintain deposit accounts to hold pass through funds. The system in place is designed to provide for receipt and disbursement in the same month, so that balances can be minimized.

Condition: The Agency's eight HAP bank accounts contained cash balances in excess of amounts currently necessary to satisfy owners' requisitions.

Project	Cash Balance 6/30/2004	One month's HAP Payments	Excess
Bayou Galion	28,152	12,772	15,380
Burton Place	97,049	12,909	84,140
Livingston Manor	81,804	18,937	62,867
Oakwood	58,728	10,067	48,661
Park Place Manor	97,829	14,437	83,392
Stonehinge	63,152	19,198	43,954
Tangi Village	95,090	32,912	62,178
Willow Village	275,646	18,025	257,621
	797,450	139,257	658,193

Questioned Costs: None

Effect: The Agency is out of compliance with OMB Circular A-102.

Recommendation: For the immediate time period, contact HUD to determine an appropriate remedy for reducing the cash build-up in the accounts. On an ongoing basis, the Agency should monitor the cash levels within the accounts to identify any excess cash amounts accumulations. The accumulations should be investigated and the source identified. If the amounts are owed to the Agency's General Fund, or to the project owners, then the Agency should promptly make payment of resettlement. If amounts are unencumbered, then the Agency should seek remedies with HUD. Such a remedy could be to reduce next year's requisitioned amount on form 52663 by any excess cash

D. Findings and Questioned Costs – Non -Major Federal Award Programs

81.042 Weatherization Assistance Program (WAP)

2004 -3) Reporting

Criteria:	*Financial Status Report (FSR) (SF-269)* WAP – 269's are submitted quarterly to the Federal awarding agency and should include all activity of the reporting period. These reports should be supported by underlying accounting and performance records. The 269's are compiled by Agency personnel from data accumulated and maintained on a computerized spreadsheet. The data entered into the spreadsheet is obtained from the cost reports submitted to the Agency by the subrecipients.
Condition:	P&N noted that nine of the ten line items from the computerized spreadsheets traced to the submitted cost reports contained household statistical information that differed from the spreadsheet. Additionally, no evidence of LHFA review or approval was noted on two of the cost reports tested.
Questioned Costs:	None
Effect:	LHFA is not providing accurate statistical information to the Federal awarding agency and may not be approving all cost reports.
Recommendation:	LHFA should implement controls to ensure that performance information is accurately tracked and reported to the Federal awarding agency and that all cost reports are properly approved.

EXHIBIT E

LOUISIANA HOUSING FINANCE AGENCY
SUMMARY SCHEDULE OF PRIOR (06/30/2003) AUDIT FINDINGS

93.568 Low Income Housing Energy Assistance Program (LIHEAP)

2003 -1) Reporting

Criteria:	*Annual Report on Households Assisted by* LIHEAP (ARHA) – As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each energy component (heating, cooling, crisis, and weatherization), (2) the number of households served that contained children, elderly, or persons with disabilities, and (3) the number and income levels of households applying for assistance
Condition:	The Report covering period of October 1, 2001 to September 30, 2002 omits the January 2002 statistical data from the submitted report for one of the energy components.
Status:	See Attached Management's Response
Auditor Follow-up:	We obtained the ARHA for the year ended September 30, 2003 for testing. In testing the report, we compared costs and statistical data to the underlying data per the computerized spreadsheets used to accumulate the information. In performing these tests we noted continued problems with the reports not agreeing to the underlying data. Additionally, there was some information that was not provided, therefore, we were unable to test the accuracy of that data.

EXHIBIT F

Louisiana Housing Finance Agency

KATHLEEN BABINEAUX BLANCO
GOVERNOR

HELENA R. CUNNINGHAM
PRESIDENT

2415 QUAIL DRIVE
BATON ROUGE, LOUISIANA 70808
(225) 763-8700
FAX (225) 763-8710
TYY/TDD (225) 763-8762

August 30, 2004

Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Sir:

Louisiana Housing Finance Agency respectfully submits the following corrective action plan for the year ended June 30, 2004.

Name and address of independent public accounting firm:

Postlethwaite and Netterville
8550 United Plaza Blvd., Suite 1001
Baton Rouge, LA 70809

Audit Period: July 1, 2003 - June 30, 2004

The finding from the August 25, 2004 Schedule of Findings and Questioned Costs is listed below.

LOUISIANA HOUSING FINANCE AGENCY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

CORRECTIVE ACTION PLAN

14.195 Section 8 – Housing Assistance Payments

2004 -1) Special Tests and Provisions

Criteria: Per the Management and Occupancy Reviews(MOR) Task Matrix in the LHFA Performance Based Contract Administration

Owner/Agent Guide, the owner must respond within 30 days of the management review completion.

Condition: P&N noted that 1 out of the 40 visits tested, there was no owner response on file to the completed MOR.

Questioned Costs: None

Effect: The responses to the findings are not being maintained in an organized filing system.

Recommendation: Implement a filing system to maintain adequate documentation of responses. Additionally, track the timing of when responses are due more closely in order to ensure timely submission to HUD. Have a set plan as to when to follow up with the owner's concerning their responses to the findings.

Agency response: Management concurs. Additional procedures and safeguards are in place to avoid this occurrence in the future.

14.182 Section 8 – New Construction and Substantial Rehabilitation

2004 -2) Cash Management

Criteria: OMB Circular A-102 sets forth cash management requirements for grant recipients. The circular states that grantees must establish a system to minimize the time between receipt and disbursement of funds and thus minimize the amounts of cash on hand.

The HAP contracts administered by the Agency require the Agency to maintain deposit accounts to hold pass through funds. The system in place is designed to provide for receipt and disbursement in the same month, so that balances can be minimized.

Condition: The Agency's eight HAP bank accounts contained cash balances in excess of amounts currently necessary to satisfy owners' requisitions.

		Cash	One month's	
		Balance	HAP	
Project		6/30/2004	Payments	Excess
Bayou Galion		28,152	12,772	15,380
Burton Place		97,049	12,909	84,140
Livingston Manor		81,804	18,937	62,867
Oakwood		58,728	10,067	48,661
Park Place Manor		97,829	14,437	83,392
Stonehinge		63,152	19,198	43,954
Tangi Village		95,090	32,912	62,178
Willow Village		275,646	18,025	257,621
		797,450	139,257	658,193

Questioned Costs: None

Effect: The Agency is out of compliance with OMB Circular A-102.

Recommendation: For the immediate time period, contact HUD to determine an appropriate remedy for reducing the cash build-up in the accounts. On an ongoing basis, the Agency should monitor the cash levels within the accounts to identify any excess cash amounts accumulations. The accumulations should be investigated and the source identified. If the amounts are owed to the Agency's General Fund, or to the project owners, then the Agency should promptly make payment of resettlement. If amounts are unencumbered, then the Agency should seek remedies with HUD. Such a remedy could be to reduce next year's requisitioned amount on form 52663 by any excess cash.

Agency response: The Agency has contacted HUD and has submitted the revised forms 52663 for all of the above properties which when processed by HUD will reduce subsequent HAP payments by the excess cash on hand until all of the excess cash has been applied.

D. Findings and Questioned Costs – Non -Major Federal Award Programs

81.042 Weatherization Assistance Program (WAP)

2004 -3) Reporting

Criteria: *Financial Status Report (FSR) (SF-269)* WAP – 269's are submitted quarterly to the Federal awarding agency and should include all activity of the reporting period. These reports should be supported by underlying accounting and performance records. The 269's are compiled by Agency personnel from data accumulated and maintained on a computerized spreadsheet. The data entered into the spreadsheet is obtained from the cost reports submitted to the Agency by the sub-recipients.

Condition: P&N noted that nine of the ten line items from the computerized spreadsheets traced to the submitted cost reports contained household statistical information that differed from the spreadsheet. Additionally, no evidence of LHFA review or approval was noted on two of the cost reports tested.

Questioned Costs: None

Effect: LHFA is not providing accurate statistical information to the Federal awarding agency and may not be approving all cost reports.

Recommendation: LHFA should implement controls to ensure that performance information is accurately tracked and reported to the Federal awarding agency and that all cost reports are properly approved.

Agency response: Management has implemented new procedures and safeguards including, but not limited to the Housing Development Software (HDS) Tracking System, and a Quality Control staff person, to monitor the input and verification of the data.

LOUISIANA HOUSING FINANCE AGENCY
SUMMARY SCHEDULE OF PRIOR (06/30/2003) AUDIT FINDINGS

93.568 Low Income Housing Energy Assistance Program (LIHEAP)

2003 -1) Reporting

Criteria: *Annual Report on Households Assisted by* LIHEAP (ARHA) – As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each energy component (heating, cooling, crisis, and weatherization), (2) the number of households served that contained children, elderly, or persons with disabilities, and (3) the number and income levels of households applying for assistance

Condition: The Report covering period of October 1, 2001 to September 30, 2002 omits the January 2002 statistical data from the submitted report for one of the energy components.

Status: A revised Annual Report on Households Assisted by LIHEAP (ARHA) was prepared and submitted to DHHS.

Auditor Follow-up: We obtained the ARHA for the year ended September 30, 2003 for testing. In testing the report, we compared costs and statistical data to the underlying data per the computerized spreadsheets used to accumulate the information. We then selected 10 line items per the underlying data spreadsheets and compared that information to cost reports submitted to the Agency from the subrecipients. In the performance of our testing we noted the following:

- The computerized spreadsheet containing supporting data for the Weatherization portion of the program was not provided to us. Therefore we were unable to test the accuracy of this data.
- The submitted report does not include all household poverty information in relation to the Weatherization activities due to the fact that the Agency did not gather this information prior to April 2003.
- All line items in the spreadsheet that were selected for testing had at least one instance where the household statistical information per the cost reports did not agree. The amounts were not significantly different, but all ten contained errors. We noted one of the ten cost reports tested appears to have been

voided, and we saw no evidence of the statistical information being voided from the spreadsheet.

Agency response: Management concurs. Management has taken the appropriate steps to ensure the accurate collection and inputting of the data. Such activities will be monitored monthly by a Quality Control person.

If you have any additional questions or comments, please feel free to contact me at the Agency.

Sincerely,

Helena R. Cunningham

Helena R. Cunningham

P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

August 25, 2004

Board of Commissioners
Louisiana Housing Finance Agency
Baton Rouge, Louisiana

We have audited the financial statements of the Louisiana Housing Finance Agency, for the year ended June 30, 2004 and have issued our report thereon. As part of our examination, we made a study and evaluation of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his audit of the financial statements.

The objective of internal control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

No matter how good a system, there are inherent limitations that should be recognized in considering the potential effectiveness of internal accounting. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the degree of compliance with the procedures may deteriorate. We say this simply to suggest that any system needs to be constantly reviewed and improved where necessary.

During the course of our audit, we made several observations which we feel should be brought to your attention. Concerning these matters, we offer the following comments and recommendations:

Internal Audit Function

The Agency currently has one internal auditor in its internal audit department. Given the size and complexity of the Agency and the recent growth, we believe that development of an internal audit plan along with additional staff to fulfill the plan should be a priority in the strategic plan of the Agency. The head individual should report directly to the audit committee or the board of directors. In anticipation of filling these positions, we suggest the Agency prepare a written plan for the implementation of the

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internal audit function and written job descriptions, including objectives and responsibilities of the positions. The establishment of an effective internal audit function will allow the Agency to build a strong foundation for the future.

IT Controls

In the process of performing a general review of LHFA's information systems control environment, it has come to our attention that there are several areas to which LHFA should give further consideration:

- The Agency does not have a formal Disaster Recovery Plan (DRP). For an Agency of this size and scope, a DRP is a critical component of ensuring that the Agency could be operational in a minimal amount of time following a disaster.
- Currently, there is no formal notification from the Human Resources department to the IT department regarding the termination of employees. This would provide prompt removal of user rights to the system, minimizing possible file corruption or inappropriate file access.

HOME Loans

Our testing included confirmation of the balances of the loans receivable. In the confirming the balances of the Single Family Loans, several respondents indicated that they were unaware of their loan with the Agency. While this condition is most likely due to the deferred nature of the loan repayment, it does indicate potential problems in the ultimate collection of the loan. The Agency should consider sending statements to the borrowers notifying them of the balance of their loan on an annual or semi annual basis.

Section 8 Administration Program

In the process of performing our audit of federal programs we tested the execution of certain tasks as required by the program Annual Contribution Contract and noted the following:

- In the course of processing the Management Occupancy Reviews(MOR's) LHFA did not submit the required reports and data to HUD on time (within 30 calendar days) of the scheduled completion of the MOR review.
- Also, LHFA did not obtain owner responses when required by the program for outstanding issues related to the MOR within 30 days of the management review completion.
- Lastly, we noted LHFA did not submit two of the four quarterly reports tested within 10 days of the end of the quarter as required by the Annual Contributions Contract.

General Observation

During our audit process we observed how important communication and training of personnel in both the Program and Accounting Departments are to the success of implementing the various programs of the Agency. We encourage the Agency to continue the education process of the various aspects of each program administered by the Agency for all personnel that play a role in the programs. We believe this education will result in more effective communication between the Program and Accounting Departments. Additionally, we believe this will lead to employees who are more efficient and effective in performing their duties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various Agency personnel, and will be pleased to further discuss these comments at your convenience.

We would like to express our appreciation for the cooperation and courtesies extended to us during our audit procedures.

Sincerely,

Postlethwaite & Netterville

P&N

Louisiana Housing Finance Agency

KATHLEEN BABINEAUX BLANCO
GOVERNOR

HELENA R. CUNNINGHAM
PRESIDENT

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August 30, 2004

Board of Commissioners
Louisiana Housing Finance Agency
Baton Rouge, LA. 70808

This letter is written in response to the management letter dated August 25, 2004, *issued by* Postlethwaite & Netterville in connection with the annual audit of Louisiana Housing Finance Agency for the year ended June 30, 2004. We have outlined a response to each item described in the management letter as follows:

<u>Internal Audit Function</u>

The Agency currently has one internal auditor in its internal audit department. Given the size and complexity of the Agency and the recent growth, we believe that development of an internal audit plan along with additional staff to fulfill the plan should be a priority in the strategic plan of the Agency. The head individual should report directly to the audit committee or the board of directors. In anticipation of filling these positions, we suggest the Agency prepare a written plan for the implementation of the internal audit function and written job descriptions, including objectives and responsibilities of the positions. The establishment of an effective internal audit function will allow the Agency to build a strong foundation for the future.

<u>Management's response:</u>
The Agency concurs with the concern noted and will move expeditiously to develop an internal audit plan. Also, management will take the appropriate steps to have a full complement of staff to carryout the plan and related functions.

<u>IT Controls</u>

In the process of performing a general review of LHFA's *information* systems control environment, it has come to our attention that there are several areas to which LHFA should give further consideration:

- No formal Disaster Recovery Plan (DRP). For an Agency of this size and scope, a DRP is a critical component of ensuring that the Agency could be operational in a minimal amount of time following a disaster.
- Currently, there is no formal notification from the Human Resources department to the IT *department regarding the termination of* employees. *This would* provide prompt removal of user rights to the system, minimizing possible file corruption or inappropriate file access.

<u>Management's response:</u>

- A formal Disaster Recovery Plan is in the process of development by the IT Department. It must be noted that in the event of disaster viable recovery alternatives have been in place but not committed to writing. An evaluation of the IT department operations has recently been summarily reviewed by a competent IT / Accounting professional. Results of that review are currently awaited.

- Formal notification to the IT Department for those employees hired or terminated has been recognized as a need to facilitate. Effective with the initiation of this process last month, formal notification by HR Department to the IT Department is a required procedure. HR must provide to the IT director advanced notice of new hires, allowing proper establishment of necessary computer equipment, data access and email account. For terminations, HR Department notification shall be provided the IT director immediately upon employee formal separation from the Agency to capture pertinent Agency information and control access.

HOME Loans

Our testing included confirmation of the balances of the loans receivable. In the confirming the balances of the Single Family Loans, several respondents indicated that they were unaware of their loan with the Agency. While this condition is most likely due to the deferred nature of the loan repayment, it does indicate potential problems in the ultimate collection of the loan. The Agency should consider sending statements to the borrowers notifying them of the balance of their loan on an annual or semi annual basis.

Management's response:
Beginning November, 2004, the Agency will notify owners annually as a reminder of their second mortgage obligation. Letters will be prepared each November and mailed to the respective mortgagor for receipt by December 1st.

Section 8 Administration Program

In the process of performing our audit of federal programs we tested the execution of certain tasks as required by the program Annual Contribution Contract and noted the following:

- In the course of processing the Management Occupancy Reviews(MOR's) LHFA did not submit the required reports and data to HUD on time (within 30 calendar days) of the scheduled completion of the MOR review.
- Also, LHFA did not obtain owner responses when required by the program for outstanding issues related to the MOR within 30 days of the management review completion.
- Lastly, we noted LHFA did not submit two of the four quarterly reports tested within 10 days of the end of the quarter as required by the Annual Contributions Contract.

Management's response:

- The Agency acknowledges that during the first year (Transition Period) processing of MOR's was not timely. However, the additional guidance from HUD, staffing and organizational changes, and the HUD Compliance Audit aided in putting the program in compliance. New systems were implemented which resulted in the Agency receiving incentive fees relative to this function.

- Due to some confusion about holidays observed by the federal government (i.e. regional v. local), staff miscalculated the due date. The staff utilizes a schedule of all nationally recognized holidays.

General Observation

During our audit process we observed how important communication and training of personnel in both the Program and Accounting Departments are to the success of implementing the various programs of the Agency. We encourage the Agency to continue the education process of the various aspects of each program administered by the Agency for all personnel that play a role in the programs. We believe this education will result in more effective communication between the Program and Accounting Departments. Additionally, we believe this will lead to employees who are more efficient and effective in performing their duties.

Management's response:
The Agency recognizes the merits of training and communication between and among the respective departments. Management will continue to expose staff to the most current and comprehensive information available to assist in the development of staff's skills; thus, resulting in better efficiency and more effective job performance.

If you have any additional questions or comments, please feel free to contact me at the Agency.

Sincerely,

Helena R. Cunningham

Helena R. Cunningham

Louisiana Housing Finance Agency

KATHLEEN BABINEAUX BLANCO
GOVERNOR

HELENA R. CUNNINGHAM
PRESIDENT

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August 29, 2004

Board of Commissioners
Louisiana Housing Finance Agency
Baton Rouge, Louisiana

This letter is written to provide an update to the matters in the management letter dated August 25, 2003, issued by Postlethwaite & Netterville in connection with the annual audit of Louisiana Housing Finance Agency for the year ended June 30, 2003. We have outlined the status to each item described in the management letter as follows:

HUD Accounts Receivable and Payable for Section 8 Projects

In the process of determining amounts owed to or from HUD under the section 8 contracts (this process is performed through preparation of year-end settlements), differences often arise between the Agency's calculation and HUD staff calculations. The Agency appears to be calculating the amounts owed correctly. However, when the year-end settlements are approved by HUD, the funds that are either paid or withheld by HUD are not the amounts that the Agency calculated. Instead, HUD uses its calculations of the year-end settlement reports, which appear to be incorrect.

Status:
The Federal Programs Accounting Manager and accountant review and communicate with HUD on the adjustments made by HUD on the year-end settlement reports so that our records are reconciled with HUD's records.

TANF Public Housing Assistance Monitoring

Currently all PHA visits are conducted by the program staff. After the site visit has been completed, the monitoring checklist is submitted to the program manager for review.

Currently the checklist does not have a place to document that the checklist has been reviewed.

Management's response:
A line was added for the reviewing manager to sign stating that the monitoring checklist has been reviewed. This program ended in September 2003.

Multifamily Interest Accrual

Under the HOME program, the Agency has loaned money to multifamily projects and received a second mortgage as collateral on those loans. The second mortgages are typically not due until the first mortgage has been repaid. The Agency has implemented a process through which it evaluates its loan portfolio for impairment. This process involves review of borrower financial statements, discussions with borrower, tracking of payout delinquencies and consideration of collateral values. The Agency does not; however, have a procedure in place to analyze interest accruals on loans that it may have identified as uncollectible. Loans where the collection of the principal balance is questionable are impaired loans and should no longer accrue interest.

Management's response:
The Agency analyzes the HOME multifamily loan portfolio for potentially troubled loans and we generates a non-accrual list in order to track the loans that are deemed potentially troubled and no longer books any accrued interest on these loans.

If you have any additional questions or comments, please feel free to contact me at the Agency.

Sincerely,

Helena Cunningham

Helena Cunningham, President
Louisiana Housing Finance Agency