

# **Rapides Finance Authority**

Annual Financial Report

For the Year Ended July 31, 2003

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# ROZIER, HARRINGTON & MCKAY

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August 14, 2003

### Independent Auditors' Report

To the Rapides Finance Authority  
Alexandria, Louisiana

We have audited the accompanying basic financial statements of the Rapides Finance Authority, a component unit of the Rapides Parish Police Jury, as of July 31, 2003 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Rapides Finance Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rapides Finance Authority, as of July 31, 2003, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 14, 2003, on our consideration of the Rapides Finance Authority'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 management's discussion and analysis listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which

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*Rapides Finance Authority*

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consisted principally of inquires 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that comprise the Rapides Finance Authority's basic financial statements. The accompanying schedule of per diem paid to Board Members is presented for purposes of additional analysis and is not a required part of the basic financial statements of Rapides Finance Authority. The schedule of per diem paid to Board Members has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



ROZIER, HARRINGTON & McKAY  
Certified Public Accountants

# **Rapides Finance Authority**

## **Management's Discussion And Analysis** **July 31, 2003**

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This section of the Rapides Finance Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended July 31, 2003. This section should be read in conjunction with the financial statements that appear in the following section:

### **OVERVIEW OF FINANCIAL STATEMENTS**

The basic financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. These report all revenues and expenses regardless of when cash is received or paid. Furthermore, the basic financial statements include all of the Authority's assets and all of the Authority's liabilities (including long-term debt). Expenses incurred in connection with the operation of the Authority's loan programs are reported as business-type activities.

### **FINANCIAL ANALYSIS OF THE AUTHORITY**

This portion of the management's discussion and analysis provides a comparative financial analysis.

#### **Balance Sheet**

A condensed version of the Authority's Balance Sheet is presented as follows:

	<u>July 31, 2003</u>	<u>July 31, 2002</u>
<b><u>Assets:</u></b>		
Current and Other Assets	\$ 18,766,548	\$ 20,723,624
Capital Assets	----	----
<b>Total Assets</b>	<b>18,766,548</b>	<b>20,723,624</b>
<b><u>Liabilities:</u></b>		
Current and Other Liabilities	115,345	116,023
Long-term Liabilities	12,697,757	14,496,767
<b>Total Liabilities</b>	<b>12,813,102</b>	<b>14,612,790</b>
<b><u>Net Assets:</u></b>		
Restricted	820,350	869,819
Unrestricted	5,133,096	5,241,015
<b>Total Net Assets</b>	<b>\$ 5,953,446</b>	<b>\$ 6,110,834</b>

At July 31, 2003, the Authority's assets exceed liabilities by \$5,953,446. The authority does not own any property or equipment, accordingly it has reported no capital assets. A portion of the Authority's net assets (13.8%) are restricted for debt service. The remaining unrestricted net assets (86.2%) may be used to meet the Authority's ongoing obligations and conduct program activities.

# **Rapides Finance Authority**

## **Management's Discussion And Analysis** **July 31, 2003**

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### **Revenues, Expenses and Changes in Net Assets**

A condensed version of the statement of revenues, expenses and changes in net assets is presented as follows:

	<b>For the Year Ended</b>	
	<b>July 31, 2003</b>	<b>July 31, 2002</b>
Operating Revenues	\$ 696,443	\$ 615,670
Operating Expenses	928,011	1,082,969
<b>Operating Income (Loss)</b>	<b>(231,568)</b>	<b>(467,299)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest on deposits and investments	238,613	506,069
Loss on disposal of mortgage loans	----	(77,216)
Loss on retirement of debt	----	(415,682)
Other	----	2,000
Net increase (decrease) in fair value of investment securities	(164,433)	(63,662)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>74,180</b>	<b>(48,491)</b>
<b>Net Income (Loss)</b>	<b>\$ (157,388)</b>	<b>\$ (515,790)</b>

The operating loss is offset by interest on temporary investments. In accordance with the bond indenture, the Authority intends to avoid future operating losses by using proceeds from temporary investments in the following manner:

- Proceeds from temporary investments will be used to produce additional loans to first time home buyers. Interest resulting from these loans will provide additional operating income.
- Proceeds from temporary investments not needed to produce additional loans will be used to reduce debt that was issued to finance the first time home buyer program. Interest savings resulting from a reduction in debt will result in a corresponding reduction in operating expenses.

The Authority provides funds for producing loans to first time home buyers by acquiring securities that are backed by a portfolio of loans to first time home buyers. Accordingly, the Authority has a portfolio of mortgage backed securities and the fair market value of the mortgage backed security portfolio tends to fluctuate in response to market conditions. Due to recent decreases in the market value of its mortgage backed securities, the Authority has experienced a net loss for the year ended July 31, 2003. However, changes in market value do not effect the financial stability of the first time home buyer program or the Authority's ability to meet its obligations.

# **Rapides Finance Authority**

## **Management's Discussion And Analysis** **July 31, 2003**

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### **CAPITAL ASSET ADMINISTRATION**

The Authority's activities are limited to providing financing for worthwhile activities in Rapides Parish, including conducting programs for first time homebuyers. The Authority has not acquired any capital assets in connection with these activities.

### **DEBT ADMINISTRATION**

For the year ended July 31, 2003, the Authority did not incur any new debt. Payments were made on the Authority's existing debt as required by various bond indentures. Changes in the Authority's outstanding debt are presented as follows:

	<b><u>Beginning Balance</u></b>		<b><u>New Borrowing</u></b>		<b><u>Debt Reduction</u></b>		<b><u>Ending Balance</u></b>
Series 2001 Bonds	\$ 7,671,968	\$	----	\$	(380,337)	\$	7,291,631
Series 1998 Bonds	6,824,799		----		(1,418,673)		5,406,126
<b>Total</b>	<b>\$ 14,496,767</b>	<b>\$</b>	<b>----</b>	<b>\$</b>	<b>(1,799,010)</b>	<b>\$</b>	<b>12,697,757</b>

### **FACTORS EXPECTED TO EFFECT FUTURE OPERATIONS**

Factors that are expected to have a significant effect on the Authority's future operations are described as follows:

- The Authority has issued Series 2001 Single Family Mortgage Revenue Bonds for the purpose of financing the origination of mortgage loans for first time home buyers. However, due to a decline in interest rates, demand for loans available under the Series 2001 program has been limited. Accordingly, a portion of the bond proceeds designated for mortgage acquisition remains unexpended. At July 31, 2003, the unexpended balance was \$2,581,544. Any portion of these funds that remain unexpended will be used to redeem portions of the Series 2001 debt by December 1, 2004.
- During the month of August, 2003, the Authority issued Series 2003 Mortgage Revenue Bonds. Proceeds from these bonds will provide funds to originate mortgage loans for first time home buyers at prevailing market rates.
- In order to enhance economic development, the Authority has committed to provide approximately \$100,000 for each of the next two years. These funds will be used for worker training conducted by the LSU-A Technology Center.

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# **RAPIDES FINANCE AUTHORITY**

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## **Balance Sheet July 31, 2003**

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	<u>Business-type Activities</u> <u>Enterprise Fund</u>
<b><u>ASSETS:</u></b>	
Current Assets:	
Cash and cash equivalents	\$ 2,844,513
Assets restricted by bond indenture:	
Cash and cash equivalents	137,835
Investments	<u>13,495,617</u>
Total Current Assets	<u>16,477,965</u>
Non Current Assets:	
Loans, net of allowance for loan losses of \$212,108	1,683,334
Other assets	<u>605,249</u>
<b>Total assets</b>	<b><u><u>\$ 18,766,548</u></u></b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>	
Current Liabilities Payable from Restricted Assets:	
Accrued interest expense	\$ 115,345
Bonds payable, net of deferred financing cost of \$274,341	<u>12,697,757</u>
<b>Total liabilities</b>	<b><u>12,813,102</u></b>
 <b><u>Net Assets</u></b>	
Restricted for debt service	820,350
Unrestricted	<u>5,133,096</u>
<b>Total net assets</b>	<b><u>5,953,446</u></b>
<b>Total liabilities and net assets</b>	<b><u><u>\$ 18,766,548</u></u></b>

**The accompanying notes are an integral part of the financial statements.**

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# **RAPIDES FINANCE AUTHORITY**

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## **Statement of Revenue, Expenses and Changes in Net Assets**

**For the Year Ended July 31, 2003**

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	<u>Business-type Activities</u> <u>Enterprise Fund</u>
<b><u>Operating revenues:</u></b>	
Interest on loans	\$ 98,372
Interest from mortgage backed securities - single family home mortgage programs	<u>598,071</u>
<b>Total operating revenues</b>	<u>696,443</u>
<b><u>Operating expenses:</u></b>	
Interest on bonds issued in connection with first time home buyer programs	844,487
Bond trustee fees	9,136
Legal and professional	31,120
Provision for loan losses	14,706
Other	<u>28,562</u>
<b>Total operating expenses</b>	<u>928,011</u>
<b>Operating income (loss)</b>	<u>(231,568)</u>
<b><u>Nonoperating revenues (expenses):</u></b>	
Interest on deposits and investments	238,613
Net increase (decrease) in fair value of investment securities	<u>(164,433)</u>
<b>Total nonoperating revenue expenses</b>	<u>74,180</u>
<b>Net Income (loss)</b>	(157,388)
<b>Net assets - beginning of year</b>	<u>6,110,834</u>
<b>Net assets - end of year</b>	<u>\$ 5,953,446</u>

**The accompanying notes are an integral part of the financial statements**

# **RAPIDES FINANCE AUTHORITY**

## **Statement of Cash Flows**

**For the Year Ended July 31, 2002**

	<u>Business-type Activities</u> <u>Enterprise Fund</u>
<b><u>Cash flow from operating activities:</u></b>	
Receipts from borrowers	\$ 609,166
Operation of first time home buyer programs:	
Receipts from paydown of mortgage backed securities	2,091,104
Receipts from interest on mortgage backed securities	610,772
Payments to acquire mortgage backed securities	(2,141,957)
Payments of interest on program debt	(789,175)
Payments to suppliers	(68,818)
<b>Net cash provided (used) by operating activities</b>	<u>311,092</u>
<b><u>Cash flows from noncapital financing activities:</u></b>	
Payment to redeem revenue bonds	(1,855,000)
<b>Net cash provided (used) by non-capital financing activities</b>	<u>(1,855,000)</u>
<b><u>Cash flows from investing activities:</u></b>	
Receipts of interest on deposits and investments	251,865
Net change in investment contracts	1,986,124
<b>Net cash provided (used) by investing activities</b>	<u>2,237,989</u>
<b>Net increase (decrease) in cash</b>	694,081
<b>Beginning cash balance</b>	<u>2,288,267</u>
<b>Ending cash balance</b>	2,982,348
<b>Restricted cash balance</b>	137,835
<b>Unrestricted cash balance</b>	<u>\$ 2,844,513</u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>(used) by operating activities:</u></b>	
Operating income (loss)	\$ (231,568)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Mortgage backed securities - first time home buyer programs	
Receipts from paydown of mortgage backed securities	2,091,104
Payments to acquire mortgage backed securities	(2,141,957)
(Increase) Decrease in loans receivable	518,025
(Increase) Decrease in accrued interest receivable	7,633
Increase (Decrease) in accrued interest payable	(678)
Amortization	68,533
<b>Net cash provided (used) by operating activities</b>	<u>\$ 311,092</u>

### **Supplemental Disclosure:**

For the year ended July 31, 2003, there were no investing, capital, and financing activities that did not result in cash receipts or payments.

**The accompanying notes are an integral part of the financial statements.**

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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### **NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Rapides Finance Authority, formerly known as Rapides Parish Housing and Mortgage Finance Authority, was created through a trust indenture dated December 14, 1978. The Authority is organized as a Public Trust as defined by state law. Rapides Parish is the designated beneficiary of the trust. The Authority's primary activity is conducting loan programs for first time home buyers.

#### **Reporting Entity:**

The Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of a financial reporting entity. The basic criterion for including a potential component unit within a reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
  - a. The ability of the reporting entity to impose its will on that organization and/or
  - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the reporting entity.
2. Organizations for which the reporting entity does not appoint a voting majority but are fiscally dependent on the reporting entity.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Based on the previous criteria, the Authority is a component unit of the Rapides Parish Police Jury. The accompanying component unit financial statements present information only on the funds maintained by the Authority and do not present information on the police jury, the general government service provided by that governmental unit, or other governmental units that comprise the financial reporting entity.

#### **Basis of Presentation:**

The Authority uses an enterprise fund for financial reporting purposes. Enterprise funds are proprietary funds used to account for business-like activities. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Due to these similarities, proprietary funds are allowed to follow certain pronouncements that are developed by the Financial Accounting Standards Board (FASB) for business enterprises. However, the Authority only applies those FASB pronouncements that were issued on or before November 30, 1989.

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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### **Measurement Focus and Basic of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Authority's enterprise fund utilizes an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Proprietary fund equity is classified as net assets.

In addition, the Authority's enterprise fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Since the Authority's principal operations involve specialized lending activities, interest earned from loans and mortgaged backed securities are reported as operating revenues. In addition, interest incurred in connection with debt issued to finance first time home buyer mortgage loan programs is reported as an operating expense.

### **Use of Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Cash and Cash Equivalents:**

Amounts reported as cash and cash equivalents (restricted and unrestricted) include all cash on hand, cash in bank accounts, certificates of deposit and highly liquid investments.

### **Statement of Cash Flows:**

For the purpose of reporting cash flows, cash and cash equivalents includes all cash on hand, cash in banks and certificates of deposit. Since the Authority's principal operations involve specialized lending activities, the following receipts and disbursements are reported as cash flows from operating activities:

- Payments to originate loans.
- Receipt of principal and interest collected from borrowers.
- Payments to acquire mortgage backed securities
- Receipts from paydowns and interest associated with mortgage backed securities.
- Payment of interest incurred in connection with bonds issued to finance loan origination and mortgage backed security acquisition.

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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### **Deferred Financing Cost:**

The Authority has incurred various financing costs including underwriting fees, trustee fees, various professional fees, and gains or losses on the refunding of certain debts in connection with issuing bonds. In accordance with generally accepted accounting standards, recognition of these costs has been deferred and amortized over the expected life of the applicable bond issue. The annual amortization reported as a component of the Authority's interest expense. Amortization is computed using methods that are intended to approximate recognition of a constant rate of interest expense.

### **Restricted Resources:**

A substantial portion of the Authority's resources are restricted by the terms of various bond indentures. For expenditures that satisfy restrictions, restricted resources are exhausted before utilizing any unrestricted resources.

### **Investments:**

The Authority is authorized by state law and its trust indenture to acquire certain investment securities including obligations of the United States or its agencies. Investments are reported at fair value based on quotes provided by the Authority's bond trustee.

Certain investment contracts held by the Authority are not negotiable and the value of these contracts is not effected by financial markets. Accordingly, these investment contracts are reported at cost.

### **NOTE 2 – CASH AND EQUIVALENTS:**

Cash on deposits and cash equivalents at July 31, 2003 consisted of the following amounts:

	<u>Cash on Deposit</u>	<u>Cash Equivalents</u>	<u>Total</u>
Deposits held by the Authority's local fiscal agent	\$ 2,173,719	\$ ----	\$ 2,173,719
Deposits held by Rapides Parish Police Jury's fiscal agent in the Police Jury's bank account	670,794	----	670,794
Highly liquid short-term investments administered by the bond trustees	----	137,835	137,835
Total Cash and Cash Equivalents	2,844,513	137,835	2,982,348
Restricted Cash and Cash Equivalents	----	137,835	137,835
Unrestricted Cash and Cash Equivalents	<u>\$ 2,844,513</u>	<u>\$ ----</u>	<u>\$ 2,844,513</u>

Cash on deposit is secured by \$100,000 in FDIC coverage and the remainder of the deposits are uncollateralized. The cash equivalents are considered uninsured and unregistered securities held in the Authority's name.

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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### **NOTE 3 – INVESTMENT SECURITIES:**

All of the Rapides Finance Authority's investment securities are subject to restrictions imposed by various bond indentures. Furthermore, these investment securities are held in trust accounts established pursuant to the bond indentures. Totals for each bond indenture are presented as follows:

Series 2001 Bond Indenture	\$ 7,670,910
Series 1998 Bond Indenture	<u>5,824,707</u>
Total Investments	<u>\$ 13,495,617</u>

A description of each investment security portfolio is presented as follows:

### **Series 2001 Bond Indenture:**

Proceeds from the Series 2001 bond issue are used to create a market for single family home mortgages attributable to first time home buyers residing within Rapides Parish. This is accomplished by using the proceeds to purchase securities that are backed by pools of qualifying mortgages. The Mortgage Backed Securities (MBS) acquired as a result of this program are guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA). Furthermore, the MBS are considered uninsured and unregistered securities held in the Authority's name.

In addition to the acquisition of MBS, the terms of the Series 2001 bond indenture also authorize the trustee to temporarily invest funds with FGIC Capital Market Services Inc. (FGIC). Under the terms of the agreement with FGIC the investment contract is guaranteed by General Electric Capital Corporation, a New York Corporation. Since these investments are not evidenced by securities that exist in physical or book entry form, the investments are not subject to classification by credit risk categories as defined by the Governmental Accounting Standards Board.

Investments held in the Series 2001 portfolio are summarized as follows:

**MORTGAGE BACKED SECURITIES** - guaranteed by GNMA or FMNA. The bonds are scheduled to mature in 2032; however, actual repayment will be based on the payment history associated with underlying pools of single family home mortgages. These bonds pay interest monthly at the following rates:

Annual rate of 6.375%.....	\$ 2,340,911
Annual rate of 6.250%.....	467,491
Annual rate of 6.000%.....	943,835
Annual rate of 5.875%.....	38,241
Annual rate of 5.800%.....	<u>1,139,780</u>

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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ACQUISITION INVESTMENT CONTRACT – The trustee is allowed to invest at guaranteed rate of 4.4% The trustee may withdraw funds as needed on or after December 1, 2001; however, the contract will terminate September 1, 2003. ....	2,530,503
FLOAT INVESTMENT CONTRACT – The trustee is allowed to at a guaranteed rate of rate of 5.25%. The contract terminates December 1, 2033; however, the trustee may withdraw funds on demand prior to termination. ....	<u>210,149</u>
Total investments, Series 2001 trust indenture	<u>\$ 7,670,910</u>

### **Series 1998 Bond Indenture:**

Proceeds from the Series 1998 bond issue are used to create a market for single family home mortgages attributable to first time home buyers residing within Rapides Parish. This is accomplished by using the proceeds to purchase securities that are backed by pools of qualifying mortgages. The Mortgage Backed Securities (MBS) acquired as a result of this program are guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA). Furthermore, the MBS are considered uninsured and unregistered securities held in the Authority's name.

In addition to the acquisition of MBS, the terms of the series 1998 bond indenture also authorize the trustee to temporarily invest funds with FGIC Capital Market Services Inc. (FGIC). Under the terms of the investment contract with FGIC amounts invested must be secured by collateral consisting of cash, securities guaranteed by the United States Government, securities issued by certain United States Government Agencies or debt obligations have a rating in the highest category from Moody's and S&P. The collateral is held by an agent mutually agreed upon by FGIC and the trustee. Furthermore, the investments contracts are guaranteed by General Electric Capital Corporation, a New York Corporation. Since these investments are not evidenced by securities that exist in physical or book entry form, the investments are not subject to classification by credit risk categories as defined by the Governmental Accounting Standards Board.

Investments held in the Series 1998 portfolio are summarized as follows:

MORTGAGE BACKED SECURITIES - guaranteed by GNMA or FMNA. The bonds are scheduled to mature in 2029; however, actual repayment will be based on the payment history associated with underlying pools of single family home mortgages. These bonds pay interest monthly at the following rates:

Annual rate of 6.10%.....	\$ 3,913,358
Annual rate of 5.45%.....	1,255,775

# **RAPIDES FINANCE AUTHORITY**

## **Notes To Financial Statements**

FLOAT INVESTMENT CONTRACT – The trustee is allowed to invest up to \$9,000,000 earning interest at a rate of 5.36%. Interest is payable in semi-annual installments due on June 1 <sup>st</sup> and December 1 <sup>st</sup> of each year. The contract terminates December 1, 2030; however, the trustee may withdraw funds on demand prior to termination.....	655,574
Total investments, Series 1998 trust indenture	<u>\$ 5,824,707</u>

### **NOTE 4 – LOANS RECEIVABLE:**

The Authority engages in a variety of lending activities which are intended to benefit Rapides Parish. Loans receivable at July 31, 2003 are summarized as follows:

Loans to various local governmental units earning interest at rates ranging from 4.5% to 6.5%.	\$ 1,683,334
Loans currently in default and placed on non-accrual status. Collateral associated with these loans is believed to have limited value; therefore, a reserve for losses has been established in connection with these loans.	<u>212,108</u>
Total loans	1,895,442
Reserve for loan losses	<u>(212,108)</u>
Loans net of reserve for loan losses	<u>\$ 1,683,334</u>

As described above, a portion of the Authority's loan portfolio is in default. Accordingly, it was necessary to establish a reserve for potential losses. Changes in the allowance for loan losses are presented as follows:

Balance at beginning of year	\$ 197,402
Provision charged to operating expense	14,706
Loans charged off	----
Recoveries on previously charged off loans	----
Balance at end of year	<u>\$ 212,108</u>

### **NOTE 5 – LONG-TERM DEBT:**

Long-term debt at July 31, 2003 is summarized as follows:

# RAPIDES FINANCE AUTHORITY

## Notes To Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance
Series 2001 Bonds	\$ 7,671,968	\$ ----	\$ 380,337	\$ 7,291,631
Series 1998 Bonds	6,824,799	----	1,418,673	5,406,126
Total Long-term Debt	<u>\$ 14,496,767</u>	<u>\$ ----</u>	<u>\$ 1,799,010</u>	<u>\$ 12,697,757</u>

### Series 2001 Bonds:

Single Family Mortgage Revenue Bonds Series 2001 bonds outstanding at July 31, 2003, are presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Series 2001 Bonds:</u>				
Class A – Maturing 2014	\$ 1,600,000	\$ ----	\$ 395,000	\$ 1,205,000
Class A – Maturing 2033	3,900,000	----	----	3,900,000
Class B	2,355,000	----	----	2,355,000
Unamortized Discount	(8,367)	----	(465)	(7,902)
Deferred Issue Cost	(174,665)	----	(14,198)	(160,467)
Total	<u>\$ 7,671,968</u>	<u>\$ ----</u>	<u>\$ 380,337</u>	<u>\$ 7,291,631</u>

To a large extent, maturity of the amounts presented above is influenced by the collection of various mortgage loans originated with the proceeds of this issue. Since maturity is not based on a fixed schedule, presenting a summary of contractual maturities is not considered appropriate. A description of each security included in the Series 2001 issue is presented as follow:

Class A (Maturing 2014) - Revenue Bonds with a par value of \$1,600,000. Interest is based on a rate of 4.6%, interest is payable in semi-annual installments due on June 1<sup>st</sup> and December 1<sup>st</sup> of each year. The bonds are scheduled to mature serially beginning June 1, 2004 with the final installment due December 1, 2014; however, actual maturity will be influenced by mandatory and optional redemption provisions.

Class A (Maturing 2033) - Revenue Bonds with a par value of \$3,900,000. Prior to June 1, 2002 interest is based on a rate of 4.25%; however, on June 1, 2002 the bonds begin earning 5.9% per annum. Interest is payable in semi-annual installments due on June 1<sup>st</sup> and December 1<sup>st</sup> of each year. The bonds are scheduled to mature serially beginning December 1, 2024 with the final installment due December 1, 2033;

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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however, actual maturity will be influenced by mandatory and optional redemption provisions.

Class B (Refunding Bonds) - Revenue Bonds with a par value of \$2,355,000. Prior to June 1, 2002 interest is based on a rate of 4.375%; however, on June 1, 2002 the bonds begin earning 5.625% per annum. Interest is payable in semi-annual installments due on June 1<sup>st</sup> and December 1<sup>st</sup> of each year. The bonds are scheduled to mature serially beginning June 1, 2015 with the final installment due December 1, 2024; however, actual maturity will be influenced by mandatory and optional redemption provisions.

Security for the Series 2001 bonds consist of bond proceeds held by a trustee for the purpose of acquiring mortgage backed securities pursuant to the Rapides Finance Authority's Home Mortgage Loan Program. Mortgage backed securities acquired pursuant to the Program and revenue produced by these securities will also serve as security for the Series 2001 bonds. The mortgage backed securities will be guaranteed as to timely payment of principal and interest by the Government National Mortgage Association or the Federal National Mortgage Association.

The Series 2001 bonds are limited and special obligations of the Rapides Finance Authority. These obligations are payable solely from receipts generated by the Authority's Home Mortgage Loan Program (the Program); however, certain exceptions to this restriction are provided by redemption provisions that are described as follows:

### **Mandatory Redemption:**

**From Pledged Revenues** - Partial mandatory redemption is required on any interest payment date, when the collection of pledged revenue has exceeded amounts required to meet scheduled principle payments. Furthermore, complete redemption is required whenever excess pledged revenue is sufficient to repay all outstanding bonds and any accrued interest. Collection of excess pledged revenue is expected as a result of prepayment from mortgage backed securities acquired in connection with the Program.

**From Unexpended Proceeds** - The bonds are subject to redemption from any proceeds that are not used to fund the Program or related cost by June 1, 2003. This redemption date may be extended under certain circumstances; however, it may not be extended beyond December 1, 2004.

### **Optional Redemption:**

At the Authority's option, the bonds may be redeemed on or after June 1, 2011 from any available source of funds. An optional redemption may be in whole or in part. Redemption prices expressed as a percentage of par value are presented as follows:

# **RAPIDES FINANCE AUTHORITY**

## **Notes To Financial Statements**

<u>Dates:</u>	<u>Redemption Price</u>
June 1, 2011 through November 30, 2011	102%
December 1, 2011 through May 31, 2012	101%
June 1, 2012 and thereafter	100%

### **Series 1998 Bonds:**

Series 1998 consist of the following bonds dated July 15, 1998. At July 31, 2003, series 1998 debt consisted of the following balances:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Series 1998 Bonds:</u>				
Class A, Maturing 2018	\$ 1,480,000	\$ ----	\$ 1,460,000	\$ 20,000
Class A, Maturing 2030	4,700,000	----	----	4,700,000
Class B	800,000	----	----	800,000
Deferred Issue Cost	(155,201)	----	(41,327)	(113,874)
Total	\$ 6,824,799	\$ ----	\$ 1,418,673	\$ 5,406,126

To a large extent, maturity of the amounts presented above is influenced by the collection of various mortgage loans and mortgage backed securities. Since maturity is not based on a fixed schedule, presenting a summary of contractual maturities is not considered appropriate. A description of each security included in the Series 1998 issue is presented as follow:

Class A (Maturing 2018) - Revenue Bonds with a par value of \$2,300,000. Interest is based on a rate of 4.9%, interest is payable in semi-annual installments due of June 1<sup>st</sup> and December 1<sup>st</sup> of each year. The bonds are scheduled to mature serially beginning June 1, 2001 with the final installment due December 1, 2018; however, actual maturity will be influenced by mandatory and optional redemption provisions.

Class A (Maturing 2030) - Revenue Bonds with a par value of \$4,700,000. Interest is based on a rate of 5.45%, interest is payable in semi-annual installments due of June 1<sup>st</sup> and December 1<sup>st</sup> of each year. The bonds are scheduled to mature serially beginning June 1, 2019 with the final installment due December 1, 2030; however, actual maturity will be influenced by mandatory and optional redemption provisions.

Class B - Revenue Bonds with a par value of \$800,000. Interest is based on a rate of 5.35%, interest is payable in semi-annual installments due of June 1<sup>st</sup> and December 1<sup>st</sup> of each year. The bonds are scheduled to mature serially beginning December 1,

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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2024 with the final installment due June 1, 2026; however, actual maturity will be influenced by mandatory and optional redemption provisions.

Security for the Series 1998 bonds consist of bond proceeds held by a trustee for the purpose of acquiring mortgage backed securities pursuant to the Rapides Finance Authority's Home Mortgage Loan Program. Mortgage backed securities acquired pursuant to the Program will also serve as security for the Series 1998 bonds. The mortgage backed securities will be guaranteed as to timely payment of principal and interest by the Government National Mortgage Association or the Federal National Mortgage Association.

The Series 1998 bonds are limited and special obligations of the Rapides Finance Authority. These obligations are payable solely from receipts generated by the Authority's Home Mortgage Loan Program (the Program); however, certain exceptions to this restriction are provided by redemption provisions that are described as follows:

### **Mandatory Redemption:**

**From Pledged Revenues** - Partial mandatory redemption is required on any interest payment date, when the collection of pledged revenue has exceeded amounts required to meet scheduled principle payments. Furthermore, complete redemption is required whenever excess pledged revenue is sufficient to repay all outstanding bonds and any accrued interest. Collection of excess pledged revenue is expected as a result of prepayment from mortgage backed securities acquired in connection with the Program.

**From Unexpended Proceeds** – The bonds are subject to redemption from any proceeds that are not used to fund the Program or related cost by August 1, 2000. This redemption date may be extended under certain circumstances; however, it may not be extended beyond December 1, 2001.

### **Optional Redemption:**

At the Authority's option, the bonds may be redeemed on or after June 1, 2008 from any available source of funds. An optional redemption may be in whole or in part. Redemption prices expressed as a percentage of par value are presented as follows:

<b><u>Dates:</u></b>	<b><u>Redemption Price</u></b>
June 1, 2008 through November 30, 2008	102%
December 1, 2008 through May 31, 2009	101%
June 1, 2009 and thereafter	100%

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# **RAPIDES FINANCE AUTHORITY**

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## **Notes To Financial Statements**

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### **NOTE 6 – RISK MANAGEMENT:**

The Authority is exposed to various risk of loss related to torts, theft, errors and omissions. The Authority insures against these risk described above by purchasing commercial insurance coverage. Legal counsel has advised management that no claims have resulted from these insured risk during any of the past three fiscal years.

### **NOTE 7– CONDUIT DEBT OBLIGATIONS:**

The Authority has issued certain bonds for the sole purpose of funding loans to various educational institutions and manufacturing enterprises. These bonds are limited and special revenue obligations of the Authority payable solely from funds collected as a result of the loans funded by the bond proceeds. Furthermore, the bonds are not an obligation of the State, Parish or any political subdivision. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Scheduled maturities associated with these bonds are presented as follows:

<u>Year Ended July 31<sup>st</sup>:</u>	<u>Principal Amount</u>
2004	\$ 325,000
2005	355,000
2006	380,000
2007	410,000
2008	440,000
2009 - 2013	2,615,000
2014 - 2018	3,440,000
2019 - 2023	2,695,000
2024 - 2028	3,000,000
Total	<u>\$ 13,660,000</u>

# ROZIER, HARRINGTON & MCKAY

## CERTIFIED PUBLIC ACCOUNTANTS

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August 14, 2003

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

Rapides Finance Authority  
Alexandria, Louisiana

We have audited the financial statements of the Rapides Finance Authority, as of and for the year ended July 31, 2003, and have issued our report thereon dated August 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

#### **COMPLIANCE**

As part of obtaining reasonable assurance about whether the Rapides Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

-Members-  
American Institute of Certified Public Accountants ♦ Society of Louisiana, CPAs

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.



ROZIER, HARRINGTON & MCKAY  
Certified Public Accountants

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# **RAPIDES FINANCE AUTHORITY**

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## ***Summary of Findings and Questioned Cost***

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### **PART I - SUMMARY OF AUDITOR'S RESULTS:**

- The Independent Auditors' Report on the financial statements for the Rapides Finance Authority as of July 31, 2003 and for the year then ended expressed an unqualified opinion.
- The results of the audit disclosed no instances of noncompliance that are considered to be material to the financial statements of the Rapides Finance Authority.
- The Rapides Finance Authority did not receive any Federal Awards; therefore, no reporting under OMB Circular A-133 was necessary.

### **PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS:**

- None

### **PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS WHICH SHALL INCLUDE AUDIT FINDINGS AS DEFINED BY OMB CIRCULAR A-133:**

- N/A.

# **RAPIDES FINANCE AUTHORITY**

## **Management's Corrective Action Plan**

<b>SECTION I</b> <b>INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.</b>	
No findings were reported in the schedule of findings and questions cost.	Response – N/A
<b>SECTION II</b> <b>INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS</b>	
N/A – The Authority did not receive federal financial assistance	Response – N/A
<b>SECTION III</b> <b>MANAGEMENT LETTER</b>	
No findings were reported in the schedule of findings and questions cost.	Response – N/A

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# **RAPIDES FINANCE AUTHORITY**

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## **Schedule of Prior Findings and Questioned Cost**

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<b><u>SECTION I</u></b> <b>INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>	
No findings of the nature were reported as a result of the previous audit.	Response – N/A
<b><u>SECTION II</u></b> <b>INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS</b>	
No findings of the nature were reported as a result of the previous audit.	Response – N/A
<b><u>SECTION III</u></b> <b>MANAGEMENT LETTER</b>	
No findings of the nature were reported as a result of the previous audit.	Response – N/A

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# **RAPIDES FINANCE AUTHORITY**

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## **Schedule of Per Diem Paid to Board Members**

**For the Year Ended July 31, 2003**

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Amos Wesley	\$ 1,000
Barry Hines	700
Bobbie Clifton	1,100
Candy Christophe	1,200
Charles Johnson	100
David Bates	800
David Butler	3,600
Granvel Metoyer	1,000
Jack Dewitt	1,000
James Morgan	1,200
Joe Page	1,100
Morton Henderson	900
Tom Nash	<u>1,000</u>
Total	<u>\$ 14,700</u>