

LOUISIANA AGRICULTURAL FINANCE AUTHORITY

DEPARTMENT OF AGRICULTURE AND FORESTRY
A COMPONENT UNIT OF THE
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2019
ISSUED MAY 6, 2020

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 24, 2020

Independent Auditor's Report

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Louisiana Agricultural Finance Authority (Authority), a component unit of the state of Louisiana, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the Louisiana Agricultural Finance Authority's (Authority) financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended June 30, 2019. 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 information in conjunction with the Authority's basic financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The Authority's net position or the amount by which assets exceeded its liabilities at close of the fiscal year was \$45,688,188, which represents a 1.53% decrease from the end of the last fiscal year. The net position decreased from the prior fiscal year-end by \$709,618.
- The Authority's operating revenue decreased by \$1,747,256, or 30.6%, and operating expenses decreased by \$1,253,633, or 18%. The Authority had net non-operating expenses totaling \$240,762, which is a decrease of \$912,200 driven primarily by the loss of disposition of assets and the completion of the flood recovery program of 2018. The Authority also received transfers-in from other state agencies during the year totaling \$1,285,258, a decrease from the level of transfers-in received in the prior year totaling \$6,796,225.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of three sections: Management's Discussion and Analysis (this section), the basic financial statements, and the notes to the financial statements.

Basic Financial Statements

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

The Statement of Net Position (pages 10-11) presents the current and long-term portions of assets, deferred outflows, liabilities, and deferred inflows separately. The difference between total assets plus deferred outflows and total liabilities plus deferred inflows is net position, which is a key indicator of financial health.

The Statement of Revenues, Expenses, and Changes in Net Position (pages 12-13) presents information showing how net position changed as a result of current-year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying

transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (pages 14-15) presents information showing how cash changed as a result of current-year operations. The cash flows 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 Governmental Accounting Standards Board Statement No. 34.

FINANCIAL ANALYSIS OF THE AUTHORITY

Comparative Statement of Net Position As of June 30, 2019, and June 30, 2018 (in thousands)

	2019	2018	Variance	Percent Variance
Current and other assets	\$16,187	\$14,849	\$1,338	9.0%
Capital assets	30,635	33,501	(2,866)	(8.6%)
Total assets	<u>46,822</u>	<u>48,350</u>	<u>(1,528)</u>	<u>(3.2%)</u>
Current liabilities	1,064	1,246	(182)	(14.6%)
Long-term debt outstanding	70	706	(636)	(90.1%)
Total liabilities	<u>1,134</u>	<u>1,952</u>	<u>(818)</u>	<u>(41.9%)</u>
Deferred inflows of resources	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
Net position:				
Net investment in capital assets	30,635	33,501	(2,866)	(8.6%)
Restricted	1,438	1,776	(338)	(19.0%)
Unrestricted	<u>13,615</u>	<u>11,121</u>	<u>2,494</u>	<u>22.4%</u>
Total net position	<u><u>\$45,688</u></u>	<u><u>\$46,398</u></u>	<u><u>(\$710)</u></u>	<u><u>(1.5%)</u></u>

The net investment in capital assets represents the carrying value of the Authority's buildings, equipment, and other capital assets less the outstanding debt used to acquire these assets. Restricted net position represents those assets that are not available for spending as a result of legislative requirements, donor agreements, or grant requirements. Conversely, unrestricted net position represents assets less liabilities and deferred inflows that do not have any limitations on how these amounts may be spent.

An analysis of the more significant variations from 2018 to 2019 of certain components of net position is as follows:

- Current and other assets increased by \$1,338,000, predominantly due to the increase in amounts due from the Louisiana Department of Agriculture and Forestry and other state agencies, as well as an increase in cash due to positive cash flows. In addition due from other state agencies increased by \$300,000 as a result of a sales-type lease transaction that occurred in fiscal year 2019.
- Capital assets (reported net of accumulated depreciation), which account for 65% of the total assets of the Authority, decreased by approximately \$2,866,000, predominantly due to the disposition of several assets in the current year and depreciation.
- Liabilities decreased by approximately \$818,000, predominantly due to the end of the flood recovery grant program in the prior year.
- The decrease in overall net position of \$709,618 is attributable to losses on asset dispositions, and overall reduction in revenues and transfers-in from other agencies.

**Comparative Statement of Revenues, Expenses,
and Changes in Net Position
For the Years Ended June 30, 2019, and June 30, 2018
(in thousands)**

	2019	2018	Variance	Percent Variance
Operating revenues:				
Rental income	\$3,845	\$5,584	(\$1,739)	(31.1%)
Other	114	122	(8)	(6.6%)
Total operating revenues	<u>3,959</u>	<u>5,706</u>	<u>(1,747)</u>	<u>(30.6%)</u>
Nonoperating revenues:				
Federal revenues	32	10,106	(10,074)	(99.7%)
Other nonoperating revenue	100	2	98	4,900.0%
Gain on disposal of fixed assets		103	(103)	(100.0%)
Total revenues	<u>4,091</u>	<u>15,917</u>	<u>(11,826)</u>	<u>(74.3%)</u>
Operating expenses:				
Operating and other services	5,713	6,967	(1,254)	(18.0%)
Nonoperating expenses:				
Federal expenses	10	9,539	(9,529)	(99.9%)
Loss on disposal of fixed assets	363		363	100.0%
Total nonoperating expenses	<u>373</u>	<u>9,539</u>	<u>(9,166)</u>	<u>(96.1%)</u>
Total expenses	<u>6,086</u>	<u>16,506</u>	<u>(10,420)</u>	<u>(63.1%)</u>
Loss before transfers	<u>(1,995)</u>	<u>(589)</u>	<u>(1,406)</u>	<u>238.7%</u>
Transfers-In	1,285	6,796	(5,511)	(81.1%)
Change in net position	(710)	6,207	(6,917)	(111.4%)
Net position, beginning of the year	<u>46,398</u>	<u>40,191</u>	<u>6,207</u>	<u>15.4%</u>
Total net position	<u>\$45,688</u>	<u>\$46,398</u>	<u>(\$710)</u>	<u>(1.5%)</u>

- The decrease in operating revenues of \$1,747,000 was predominantly attributable to a decrease in the amount of rental income from the Department of Agriculture.
- The decrease in operating expenses of \$1,254,000 is predominantly due to the Department of Agriculture's absorption of certain costs that were borne by the Authority in the current year.

- Net non-operating revenues decreased by \$913,000 as a result of the end of the Farm Recovery Grant Program, in which more than \$10 million of federal relief was provided to Louisiana Farmers, and because of losses on disposal of assets recognized in 2019.
- Transfers-in from other state agencies decreased by \$5,511,000 as a result of the re-direction of dedicated funding once the Authority's debt was fully retired.

CAPITAL ASSETS

At the end of fiscal year 2019, the Authority had \$30,634,665 invested in a broad range of capital assets including land, buildings, equipment, and construction-in-progress. This amount represents a net decrease (including additions and deductions) of \$2,865,961 (8.6%) over the last year.

Capital Assets at Year-End (Net of Depreciation, in thousands)

	2019	2018	Variance	Percent Variance
Land	\$6,505	\$6,792	(\$287)	(4.2%)
Buildings and improvements	21,051	23,343	(2,292)	(9.8%)
Equipment	2,959	3,328	(369)	(11.1%)
Construction-in-progress	120	38	82	215.8%
Total	<u>\$30,635</u>	<u>\$33,501</u>	<u>(\$2,866)</u>	<u>(8.6%)</u>

ECONOMIC FACTORS AND NEXT YEAR'S OPERATIONS

The Authority's revenue is expected to remain constant as the number of properties and rental rates for those properties will not significantly increase or decrease. Transfers-in from state agencies should also remain constant as there are no expected increases or decreases in levels of support. Operating expenses are projected to remain constant, since no significant changes in the operations are planned for fiscal 2020. Net non-operating revenues should increase (and essentially break-even), as the Authority has no plans to dispose of material assets, as occurred in 2019. Although not affecting the net non-operating revenue, the gross revenue and expenses therein will increase due to the amended agreement with the Division of Administration, Office of Community Development, for an additional \$10,000,000 for the Restore Louisiana Farm Recovery Grant Program.

CONTACTING THE LOUISIANA AGRICULTURAL FINANCE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Catrina Phillips Irvin, Louisiana Department of Agriculture & Forestry, 5825 Florida Boulevard, Baton Rouge, Louisiana 70806.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**

Statement of Net Position, June 30, 2019

ASSETS

Current assets:

Cash (note 2)	\$11,675,560
Accounts receivable, net (note 3)	663,839
Due from primary government (note 9)	821,212
Notes receivable (note 4)	568,127
Other current assets	47,780
Total current assets	<u>13,776,518</u>

Noncurrent assets:

Restricted assets:

Cash (note 2)	1,437,973
Interest receivable	11,004
Notes receivable - OCD loans (note 4)	65,925
Lease receivable (note 7)	300,000
Notes receivable - LDAF (note 4)	527,715
Property, plant, and equipment (net of depreciation) (note 5)	30,634,665
Other noncurrent assets	68,381
Total noncurrent assets	<u>33,045,663</u>

TOTAL ASSETS

46,822,181

LIABILITIES

Current liabilities:

Accounts payable (note 6)	408,662
Due to primary government (note 9)	148,741
Due to Office of Community Development (OCD) (note 4)	452,086
Unearned revenues	51,927
Other current liabilities	3,004
Total current liabilities	<u>1,064,420</u>

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Net Position, June 30, 2019**

LIABILITIES (CONT.)

Noncurrent liabilities:

Due to OCD (note 4)	\$69,573
Total noncurrent liabilities	<u>69,573</u>

TOTAL LIABILITIES	<u>1,133,993</u>
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NET POSITION

Net investment in capital assets	30,634,665
Restricted for other specific purposes (note 10)	1,437,973
Unrestricted	<u>13,615,550</u>

TOTAL NET POSITION	<u><u>\$45,688,188</u></u>
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(Concluded)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**

**Statement of Revenues, Expenses,
and Changes in Net Position
For the Year Ended June 30, 2019**

OPERATING REVENUES:

Rental income	\$3,844,530
Use of money and property	90,970
Other	23,634
Total operating revenues	<u>3,959,134</u>

OPERATING EXPENSES:

Administrative services	807,415
Contractual services	210,259
Operating services	1,077,322
Supplies	247,041
Professional services	85,381
Promotional and marketing	672,755
Miscellaneous	6,260
Depreciation expense (note 5)	2,606,815
Total operating expenses	<u>5,713,248</u>

OPERATING LOSS (1,754,114)

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Revenues, Expenses, and
Changes in Net Position
For the Year Ended June 30, 2019**

NONOPERATING REVENUES (Expenses)	
Grants and contributions	\$31,505
Nonoperating expenses - federal (expenses)	(9,973)
Net loss on disposal of capital assets	(362,528)
Proceeds from insurance recoveries	100,234
Total nonoperating revenues (expenses)	<u>(240,762)</u>
LOSS BEFORE TRANSFERS	<u>(1,994,876)</u>
Transfers-in (note 9)	<u>1,285,258</u>
CHANGE IN NET POSITION	(709,618)
NET POSITION - BEGINNING OF YEAR	<u>46,397,806</u>
TOTAL NET POSITION AT END OF YEAR	<u><u>\$45,688,188</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**

**Statement of Cash Flows
For the Year Ended June 30, 2019**

Cash flows from operating activities:

Cash received from customers	\$3,270,784
Cash payments to primary government for services	(658,674)
Cash payments to suppliers for goods and services	(2,161,998)
Other receipts	114,604
Net cash provided by operating activities	<u>564,716</u>

Cash flows from noncapital financing activities:

Operating grants received:	
Federal receipts	31,505
Federal disbursements	(770,685)
Loan receipts	336,910
Cash received from primary government	480,349
Interfund loans to the Louisiana Department of Agriculture	(480,754)
Payments to Office of Community Development	(442,734)
Net cash used by noncapital financing activities	<u>(845,409)</u>

Cash flows from capital and related financing activities:

Proceeds from sale of capital assets	224,324
Proceeds from insurance recoveries	100,234
Proceeds from capital gains	6,800
Cash received from primary government	777,109
Acquisition/construction of capital assets	(717,821)
Net cash provided by capital and related financing activities	<u>390,646</u>

Net increase in cash 109,953

Cash at beginning of year 13,003,580

Cash at end of year \$13,113,533

(Continued)

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Statement of Cash Flows, 2019**

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities:

Operating loss	(\$1,754,114)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	2,606,815
Changes in assets and liabilities:	
Decrease in receivables	61,041
(Increase) in due from primary government	(686,714)
Decrease in other assets	46,876
Increase in accounts payable	90,144
Increase in due to primary government	148,741
Increase in unearned revenues	51,927
Total adjustments	<u>2,318,830</u>
Net cash provided by operating activities	<u><u>\$564,716</u></u>

**Reconciliation of Cash and Cash Equivalents
to the Statement of Net Position:**

Cash classified as current assets	\$11,675,560
Cash classified as noncurrent assets	<u>1,437,973</u>
Total Cash	<u><u>\$13,113,533</u></u>

**SCHEDULE OF NONCASH INVESTING, CAPITAL,
AND FINANCING ACTIVITIES:**

Disposal of capital assets	\$976,967
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(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The Louisiana Agricultural Finance Authority (Authority) is a component unit of the state of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 3:261-284 within the Department of Agriculture and Forestry, State of Louisiana (LDAF), and is domiciled in East Baton Rouge Parish. The Authority consists of nine members, one of whom is the commissioner of LDAF, and eight members appointed by the governor. The members may receive a per diem not to exceed \$40 per meeting plus mileage expenses. The Authority has no employees. Employees of LDAF perform the administrative and accounting functions of the Authority.

The Authority was established to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation of new loans and to supervise and use public employees, equipment, and material in carrying out public work. The bonds, when issued, are limited special obligations of the Authority and do not constitute a general, special, or moral obligation of the state of Louisiana. In addition, the Authority can issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building and connected related facilities for use by LDAF in connection with the promotion and assistance of agriculture and forestry within the state. The revenue bonds are limited obligations of the Authority and do not constitute a debt of the state of Louisiana. Upon termination of the Authority by law, R.S. 3:283 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund. The Authority had no bonds issued and outstanding as of June 30, 2019.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by GASB. The accompanying financial statements have been prepared in accordance with such principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the state of Louisiana. The Authority is considered a component unit of the state of Louisiana because the state exercises oversight responsibility in that the governor appoints eight of the nine Authority members and is able to impose his will on the Authority. The accompanying financial statements present only the activity of the

Authority. Annually, the state of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements.

C. BASIS OF ACCOUNTING

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. All activities of the Authority are accounted for within a single proprietary (enterprise) fund.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position.

Revenues are recognized in the accounting period when they are earned, and expenses are recognized when the related liability is incurred.

Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with the Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of the Authority is rental fees for office space and land. Operating expenses include administrative expenses, interest, and depreciation on capital assets.

D. BUDGET PRACTICES

Although not required to submit a budget for legislative approval, the Authority prepares and submits an operating budget to its board of directors for approval.

E. CASH

Cash represents amounts in demand deposits and amounts on deposit with the fiscal agent bank. Under state law, the Authority may deposit funds within a fiscal agent bank organized under the laws of the state of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the Authority may invest in time certificates of deposit of state banks organized under the laws of the state of Louisiana, national banks having their principal offices in 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.

F. CAPITAL ASSETS

Property and equipment are valued at historical cost except for donated capital assets, which are recorded at their estimated value at the time of donation. Equipment includes

all items valued at or above \$5,000. Depreciation of all exhaustible capital assets of the Authority is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	40
Equipment	5 or 10

G. COMPENSATED ABSENCES, PENSION BENEFITS, AND POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Authority has no employees. LDAF employees perform the administrative and accounting functions for the Authority. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the Authority.

H. LONG-TERM OBLIGATIONS

Long-term obligations consist of monies due to the Division of Administration, Office of Community Development (OCD) related to the Louisiana Farm and Agribusiness Recovery Loan and Grant Program (see note 4).

I. NET POSITION

Net position comprises the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components:

Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of resources subject to external constraints placed on the entity by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all other resources that are not included in the other categories previously mentioned.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Authority's policy is to first apply the expense toward restricted resources, then toward unrestricted resources.

2. CASH AND CASH EQUIVALENTS

For reporting purposes, cash represents amounts in interest-bearing demand deposits and amounts on deposit with the fiscal agent bank. At June 30, 2019, the Authority has cash deposits (book balances) of \$13,113,533 and bank balances of \$13,170,076.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. Under state law, the Authority's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair 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 securities are held in the name of the Authority or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. As of June 30, 2019, all of the Authority's bank balances were held in one financial institution in the name of the Authority. All of the Authority's bank balances were covered by federal deposit insurance and pledged securities, and therefore not exposed to custodial credit risk.

3. ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2019:

<u>Account Title</u>	<u>Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Receivables, Net</u>
Leases receivable	\$642,638		\$642,638
Interest on Louisiana Farm and Agribusiness Recovery Loan and Grant Program Loans	57,368	\$43,026	14,342
Other	6,859		6,859
Total	<u>\$706,865</u>	<u>\$43,026</u>	<u>\$663,839</u>

The Authority has estimated the uncollectible portion of interest receivable is 75% based on the Authority's historical collection data.

4. NOTES RECEIVABLE/DUE TO OFFICE OF COMMUNITY DEVELOPMENT

Notes receivable totaling \$1,161,767 reported on the Statement of Net Position at June 30, 2019, is composed of the following:

Type	Balance at June 30, 2019	Noncurrent Portion
Louisiana Farm and Agribusiness		
Recovery Loan and Grant Program	\$498,227	\$64,086
Farm Youth Loan Program	1,839	1,839
Louisiana Department of Agriculture and Forestry - Agro Consumer Services	<u>661,701</u>	<u>527,715</u>
Total	<u><u>\$1,161,767</u></u>	<u><u>\$593,640</u></u>

On November 30, 2009, under a cooperative endeavor agreement (CEA) effective March 23, 2009, between the Authority and OCD, the Authority began issuing loans and grants for the Louisiana Farm and Agribusiness Recovery Loan and Grant Program. The funds were awarded by the U.S. Department of Housing and Urban Development with Community Development Block Grant Program funds, which are administered through OCD. At June 30, 2019, agribusiness and farm loans outstanding totaled \$1,992,908. These loans are reported, net of an allowance for doubtful accounts totaling \$1,494,681, as notes receivable on the Statement of Net Position.

Amounts due to OCD totaling \$521,659 reported on the Statement of Net Position represent the outstanding balance of notes receivable plus accrued interest totaling \$2,097,893, net of an allowance for doubtful accounts totaling \$1,576,234, including amounts paid by borrowers to the Authority but not remitted to OCD at June 30, 2019. In accordance with the cooperative endeavor agreement between the Authority and OCD, the Authority is liable to OCD only for the payments received from the borrowers; the Authority is not responsible to OCD for any unpaid amounts. For the year ended June 30, 2019, borrowers made payments totaling \$336,910 to the Authority.

In January 2019, the Authority issued two loans to the Louisiana Department of Agriculture and Forestry-Agro Consumer Services to overhaul testing engines and provers. The loans are to be repaid without interest to the Authority over a term of 5 years in quarterly installments of \$33,497.

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2019, follows:

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2019</u>
Capital assets not being depreciated:				
Land	\$6,792,167		(\$287,077)	\$6,505,090
Construction-in-progress	38,310	\$81,540		119,850
Total assets not being depreciated	<u>6,830,477</u>	<u>81,540</u>	<u>(287,077)</u>	<u>6,624,940</u>
Capital assets being depreciated:				
Land improvements	7,460,939		(341,016)	7,119,923
Buildings	38,495,205		(1,377,654)	37,117,551
Equipment	28,349,433	636,281	(226,312)	28,759,402
Total capital assets being depreciated	<u>74,305,577</u>	<u>636,281</u>	<u>(1,944,982)</u>	<u>72,996,876</u>
Less accumulated depreciation:				
Land improvements	(5,454,837)	(388,029)	341,016	(5,501,850)
Buildings	(17,158,785)	(1,215,106)	688,827	(17,685,064)
Equipment	(25,021,806)	(1,003,680)	225,249	(25,800,237)
Total accumulated depreciation	<u>(47,635,428)</u>	<u>(2,606,815)</u>	<u>1,255,092</u>	<u>(48,987,151)</u>
Total capital assets, net	<u>\$33,500,626</u>	<u>(\$1,888,994)</u>	<u>(\$976,967)</u>	<u>\$30,634,665</u>

6. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2019:

<u>Account Name</u>	<u>Amount</u>
Vendor payables	\$382,631
Other	26,031
Total payables	<u>\$408,662</u>

7. LEASES

A. Capital Leases

The Authority, as lessee, has no capital leases.

B. Operating Leases

The total payments for operating leases, consisting of land and office space leases, during fiscal year 2019 amounted to \$101,837. The following is a schedule, by year, of future minimum annual rental payments required under operating leases:

<u>Year ending June 30,</u>	<u>Office Space</u>	<u>Land</u>	<u>Total Minimum Payments Required</u>
2020	\$51,022	\$52,014	\$103,036
2021	51,022	48,414	99,436
2022	51,022	22,084	73,106
2023	51,022		51,022
2024	51,022		51,022
2025-2029	<u>225,348</u>		<u>225,348</u>
Total	<u><u>\$480,458</u></u>	<u><u>\$122,512</u></u>	<u><u>\$602,970</u></u>

C. Lessor - Operating Leases

When a lease agreement does not satisfy at least one of the four capitalization criteria (common to both lessee and lessor accounting) and both of the criteria for a lessor (collectability 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 due. The following property is on lease or held for leasing as of June 30, 2019:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Buildings	\$33,769,106	(\$16,346,018)	\$17,423,088
Equipment	5,067,776	(3,316,212)	1,751,564
Land	<u>745,343</u>		<u>745,343</u>
Total carrying amount of property	<u><u>\$39,582,225</u></u>	<u><u>(\$19,662,230)</u></u>	<u><u>\$19,919,995</u></u>

Lease revenues received in fiscal year 2019 totaled \$3,844,530. The following is a schedule, by year, of minimum future rentals on non-cancelable operating leases as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Space</u>	<u>Land</u>	<u>Total</u>
2020	\$3,866,779	\$140,539	\$4,007,318
2021	3,846,115	110,222	3,956,337
2022	3,786,262	43,020	3,829,282
2023	3,755,766	43,020	3,798,786
2024	3,736,241	43,020	3,779,261
2025-2029	3,921,686	199,079	4,120,765
2030		9,000	9,000
Total	<u>\$22,912,849</u>	<u>\$587,900</u>	<u>\$23,500,749</u>

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2019.

D. Lessor – Sales-Type Lease

On April 10, 2019, the Authority entered into a lease agreement with the Louisiana Military Department for land and buildings owned by the Authority to be paid annually. The term of the lease agreement is five years ending December 31, 2023. Amounts to be paid to the Authority over the term equal \$540,000; \$240,000 was received in May 2019 to cover fiscal years 2019 and 2020, and \$100,000 is to be received annually thereafter. The lease agreement meets the criteria for a sales-type lease since the agreement stipulates the purchase is automatically exercised upon payment of the entire amount unless the Louisiana Military Department provides written notice to the contrary. The Authority records the portion of capital lease receivables attributable to interest income as unearned revenue. The future minimum lease payments receivable under this agreement as of June 30, 2019 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	NONE
2021	\$100,000
2022	100,000
2023	100,000
Total	300,000
Less: interest (unearned)	<u>(24,091)</u>
Net investment in lease	<u>\$275,909</u>

8. CONDUIT DEBT OBLIGATIONS

In August 1995, GASB issued Interpretation No. 2 (Disclosure of Conduit Debt Obligations). Governmental entities may enter into arrangements whereby a nongovernmental entity is able to

finance the acquisition of facilities by issuing conduit debt obligations, which GASB describes as follows:

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity.

GASB concluded that conduit debt does not create a liability and, therefore, does not have to be presented on the governmental entity's financial statements.

The Authority is authorized by R.S. 3:266 to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation on new loans. During 1986, the Authority issued two bond issues (1986A I and 1986A II) totaling \$300,000,000 that are currently in default.

Debt issued by the Authority for which the Authority and the government have no responsibility for repayment is not recorded in the accompanying financial statements and is comprised of the following issues:

Issued for	Interest Rates	Date Issued	Maturity Dates	Authorized and Issued	Retired To Date	Outstanding June 30, 2019
Agricultural Loan Program:						
	8.25%	1986A I	various	\$150,000,000	\$108,587,767	\$41,412,233
	8.80%	1986A II	various	<u>150,000,000</u>	<u>106,346,099</u>	<u>43,653,901</u>
Total				<u>\$300,000,000</u>	<u>\$214,933,866</u>	<u>\$85,066,134</u>

Both of the 1986 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and from certain agricultural loans permitted under the financing program. The commissioner of insurance from the State of California placed Executive Life Insurance Company into conservatorship on April 11, 1991. Both of the 1986 series bonds subsequently defaulted.

Trustees of the two 1986 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions on behalf of bondholders under a modified plan of rehabilitation for Executive Life Insurance Company. Distributions through the fiscal year ended June 30, 2019, under the modified plan, including interest, total \$156,903,880 for the LAFA I bonds and \$156,597,546 for the LAFA II bonds. These distributions include court-ordered trust administration costs of \$4,939,095 for the LAFA I bonds and \$4,932,946 for the LAFA II bonds. Principal and interest of \$108,587,767 and \$43,377,019, respectively, have been paid for the LAFA I series bonds, and principal and interest of \$106,346,099 and \$45,318,501, respectively, have been paid for the LAFA II series bonds. Under the plan, distributions can continue until the conservator declares they are complete or the modified plan has expired.

9. DUE FROM/TO PRIMARY GOVERNMENT AND TRANSFERS

At June 30, 2019, the Authority has amounts due from/to the primary government for the following:

<u>Source</u>	<u>Total</u>
<u>Due from Primary Government:</u>	
Department of Agriculture and Forestry:	
Rental Income	\$698,341
LPAA Income	92,560
Department of Environmental Quality	233
Louisiana Military Department	9,078
Department of Transportation and Development	<u>21,000</u>
 Total due from primary government	 <u><u>\$821,212</u></u>
<u>Due to Primary Government:</u>	
Department of Agriculture and Forestry:	
Salaries: Security	\$77,459
Indian Creek administrative costs	35,993
Louisiana Military Department - Office of Risk Management Premium	9,078
Other	16,101
Department of Revenue	2,687
Louisiana State University	<u>7,423</u>
 Total due to primary government	 <u><u>\$148,741</u></u>

During the fiscal year ended June 30, 2019, the Authority received transfers totaling \$1,285,258 from the Department of Agriculture and Forestry.

10. RESTRICTED NET POSITION

The Authority's restricted net position of \$1,437,973 as of June 30, 2019, is comprised of the following:

<u>Account Title</u>	<u>Amount</u>
Boll Weevil Eradication Fund	\$1,410,642
Louisiana Farm and Agribusiness Recovery	
Loan and Grant Program - cash	3,410
Loan and Grant Program - loans and interest (net)	521,659
Act 17 of 2006 - Planting of trees & native plants (Katrina/Rita)	23,921
Less: Liabilities	<u>(521,659)</u>
Total	<u><u>\$1,437,973</u></u>

11. RISK MANAGEMENT AND CLAIMS AND LITIGATION

The Authority is exposed to various risks of losses related to general liability: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority is a party to various legal proceedings incidental to its business but is not involved in litigation seeking damages. In the opinion of management, all such matters are adequately covered by insurance purchased from the Office of Risk Management and are not expected to have a material effect on the financial statements.

During the year ended June 30, 2019, there were no claims against the Authority that exceeded insurance coverage and there were no expenses for legal services.

12. RELATED PARTY TRANSACTIONS

The Authority reimburses the LDAF for certain costs paid on its behalf, including personnel and other operating costs, which totaled \$695,888 in 2019.

As discussed in Note 4, during fiscal year 2010, the Authority administered the Louisiana Farm and Agribusiness Recovery Loan and Grant Program, administered through OCD. Under the program, the Authority has made loans and grants totaling \$1,304,382 to 34 individuals employed by LDAF or who serve in a capacity within LDAF who, for reporting purposes, are considered related parties. These individuals, whose loans are allowable under R.S. 42: 1113(D)(l)(c)(iii) and under the cooperative endeavor agreement between the Authority and OCD, qualified for the loans based on pre-established criteria applied to all loan applicants. The balance of these loans at June 30, 2019, is \$68,267.

On July 1, 2004, the Authority entered into a lease agreement with the LDAF for the lease of the main office building totaling \$798,000 annually with a lease term of 15 years. On July 1, 2016, the Authority entered into nine additional lease agreements with the LDAF for the lease of the Baton Rouge warehouse, St. Martinville warehouse, building/office space in Hammond, Haughton, Monroe, Natchitoches, Oberlin, Opelousas, and Woodworth, all totaling \$2,181,775 annually, with a lease term of five years. In addition, on July 1, 2018, the Authority entered into a lease agreement with the LDAF for the lease of the food distribution warehouse in the amount of \$265,500 annually with a lease term of one year. In relation to these lease agreements, the Authority received \$1,474,047 from the LDAF for the year ended June 30, 2019.

During fiscal year 2018, the board approved the authority to issue marketing grants for the Certified Louisiana program which had the goal of promoting Louisiana agricultural products. These grants were issued to each applicant in varied amounts ranging from \$7,400 to \$100,000. A total of \$367,124 was disbursed for the program in 2019.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Exhibit A

The following pages contain a report on internal control over financial reporting and on compliance with laws, regulations, and other matters required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 24, 2020

Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*

Independent Auditor's Report

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**
Baton Rouge, Louisiana

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Louisiana Agricultural Finance Authority (Authority), a component unit of the state of Louisiana, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

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