

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, 2018
ISSUED MAY 8, 2019

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TABLE OF CONTENTS

	Page
Independent Auditor's Report.....	2
Management's Discussion and Analysis	5
	Statement
Basic Financial Statements:	
Statement of Net Position.....	A10
Statement of Revenues, Expenses, and Changes in Net Position	B12
Statement of Cash Flows	C14
Notes to the Financial Statements	16
	Exhibit
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 17, 2019

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, 2018, 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, 2018, 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 17, 2019, 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, 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

APB:ETM:RR:EFS:aa

Lafa 2018

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, 2018. 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 \$46,397,806, which represents a 15.4% increase from the end of the last fiscal year. The net position increased by \$6,207,172, a positive financial indicator for the Authority.
- The Authority's operating revenue increased by \$18,805, or 0.3%, and operating expenses increased by \$964,730, or 16.1%. The Authority had net non-operating revenues totaling \$671,438, which is an increase of \$295,359 driven primarily by the administration of a flood recovery program in 2018. The Authority also received transfers-in from other state agencies during the year totaling \$6,796,225. Through these positive operating indicators, the Authority was able to increase its net position.

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, 2018, and June 30, 2017 (in thousands)

	2018	2017	Variance	Percent Variance
Current and other assets	\$14,849	\$18,213	(\$3,364)	(18.5%)
Capital assets	33,501	33,109	392	1.2%
Total assets	<u>48,350</u>	<u>51,322</u>	<u>(2,972)</u>	<u>(5.8%)</u>
Current liabilities	1,246	9,509	(8,263)	(86.9%)
Long-term debt outstanding	706	1,623	(917)	(56.5%)
Total liabilities	<u>1,952</u>	<u>11,132</u>	<u>(9,180)</u>	<u>(82.5%)</u>
Deferred inflows of resources	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
Net position:				
Net investment in capital assets	33,501	27,474	6,027	21.9%
Restricted	1,776	841	935	111.2%
Unrestricted	<u>11,121</u>	<u>11,875</u>	<u>(754)</u>	<u>(6.3%)</u>
Total net position	<u><u>\$46,398</u></u>	<u><u>\$40,190</u></u>	<u><u>\$6,208</u></u>	<u><u>15.4%</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 2017 to 2018 of certain components of net position is as follows:

- Current and other assets decreased by \$3.4 million, as cash on hand was used to repay debt.
- Capital assets (reported net of accumulated depreciation), which account for 69.3% of the total assets of the Authority, increased by approximately \$392,000, predominantly due to purchase of several new vehicles and a mobile pet shelter.
- Liabilities decreased by \$9.2 million, predominantly due to the final payment of debt principal for its series 2007 bonds in accordance with scheduled bond payments without any new debt issuance.
- The increase in overall net position of \$6,207,172 is attributable to total revenues, including transfers-in, exceeding total expenses during the fiscal year ended June 30, 2018.

**Comparative Statement of Revenues, Expenses,
and Changes in Net Position**
For the Years Ended June 30, 2018, and June 30, 2017
(in thousands)

	<u>2018</u>	<u>2017</u>	<u>Variance</u>	<u>Percent Variance</u>
Operating revenues:				
Rental income	\$5,584	\$5,453	\$131	2.4%
Other	122	235	(113)	(48.1%)
Total operating revenues	<u>5,706</u>	<u>5,688</u>	<u>18</u>	<u>0.3%</u>
Nonoperating revenues:				
Federal revenues	10,106	14	10,092	72,085.7%
Other nonoperating revenue	2	30	(28)	(93.3%)
Gain on disposal of fixed assets	103	332	(229)	(69.0%)
Total revenues	<u>15,917</u>	<u>6,064</u>	<u>9,853</u>	<u>162.5%</u>
Operating expenses:				
Operating and other services	6,967	6,002	965	16.1%
Nonoperating expenses:				
Federal expenses	9,539		9,539	100.0%
Total nonoperating expenses	<u>9,539</u>		<u>9,539</u>	<u>100.0%</u>
Total expenses	<u>16,506</u>	<u>6,002</u>	<u>10,504</u>	<u>175.0%</u>
Income (Loss) before transfers	<u>(589)</u>	<u>62</u>	<u>(651)</u>	<u>(1,050.0%)</u>
Transfers-In	6,796	9,957	(3,161)	(31.7%)
Change in net position	6,207	10,019	(3,812)	(38.0%)
Net position, beginning of the year	<u>40,191</u>	<u>30,172</u>	<u>10,019</u>	<u>33.2%</u>
Total net position	<u><u>\$46,398</u></u>	<u><u>\$40,191</u></u>	<u><u>\$6,207</u></u>	<u><u>15.4%</u></u>

- The increase in operating expenses of \$964,730, or 16.1%, is predominantly due to an increase in marketing expenses and administrative cost for a federally-funded flood recovery grant program for the benefit of Louisiana farmers in cooperation with the Office of Community Development (OCD) and the Department of Housing and Urban Development (HUD).

- Net nonoperating revenues increased as by \$295,359 as a result of the grant revenue received from OCD for the new HUD Louisiana Farm Recovery Grant Program, net of distributions to program beneficiaries.
- Transfers-in from other state agencies decreased by \$3,160,942 as a result of a lesser amount needed to service outstanding debt payments.

CAPITAL ASSETS

At the end of fiscal year 2018, the Authority had \$33,500,626 invested in a broad range of capital assets including land, buildings, equipment, and construction-in-progress. This amount represents a net increase (including additions and deductions) of \$391,184 (1.2%) over the last year, the majority of which is due to the purchase of several new vehicles and a mobile pet shelter.

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

	2018	2017	Variance	Percent Variance
Land	\$6,792	\$6,835	(\$43)	-0.6%
Buildings and improvements	23,343	24,336	(993)	-4.1%
Equipment	3,328	1,870	1,458	78.0%
Construction-in-progress	38	68	(30)	-44.1%
Total	<u>\$33,501</u>	<u>\$33,109</u>	<u>\$392</u>	<u>1.2%</u>

DEBT ADMINISTRATION

The Authority paid down the 2007 revenue bonds in the amount of \$8,735,000, which was the amount outstanding at June 30, 2017. No new debt was issued by the Authority and principal reduction has occurred in accordance with repayment terms of the bond agreements.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATIONS

Lafa'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 decrease as a result of there being no outstanding debt. Expenses are projected to remain constant since no significant changes in the operations are planned for fiscal year 2019.

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, 2018

ASSETS

Current assets:

Cash (note 2)	\$11,227,767
Accounts receivable, net (note 3)	684,090
Due from primary government (note 10)	23,383
Notes receivable (note 4)	310,117
Other current assets	47,780
Total current assets	<u>12,293,137</u>

Noncurrent assets:

Restricted assets:

Cash (note 2)	1,775,813
Notes receivable (note 4)	641,507
Property, plant, and equipment (net of depreciation) (note 5)	33,500,626
Other noncurrent assets	139,188
Total noncurrent assets	<u>36,057,134</u>

TOTAL ASSETS

48,350,271

LIABILITIES

Current liabilities:

Accounts payable (note 6)	898,283
Due to Office of Community Development (OCD) (note 4)	345,221
Other current liabilities	3,004
Total current liabilities	<u>1,246,508</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, 2018**

LIABILITIES (CONT.)

Noncurrent liabilities:

Due to OCD (note 4)	\$705,957
Total noncurrent liabilities	<u>705,957</u>

TOTAL LIABILITIES	<u>1,952,465</u>
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NET POSITION

Net investment in capital assets	33,500,626
Restricted for other specific purposes (note 11)	1,775,813
Unrestricted	<u>11,121,367</u>

TOTAL NET POSITION	<u><u>\$46,397,806</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, 2018**

OPERATING REVENUES:

Rental income	\$5,584,079
Use of money and property	77,308
Other	45,003
Total operating revenues	<u>5,706,390</u>

OPERATING EXPENSES:

Administrative services	1,962,549
Contractual services	175,808
Operating services	1,162,530
Supplies	651,709
Professional services	91,500
Promotional and marketing	196,819
Amortization of prepaid lease	46,875
Interest expense	89,718
Miscellaneous	8,240
Depreciation expense (note 5)	2,581,133
Total operating expenses	<u>6,966,881</u>

OPERATING LOSS (1,260,491)

(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, 2018**

NONOPERATING REVENUES (Expenses)	
Nonoperating revenue - federal revenues	\$10,106,134
Nonoperating expenses - federal (expenses)	(9,539,492)
Gain on disposal of capital assets	103,296
Other nonoperating revenue	1,500
Total nonoperating revenues (expenses)	<u>671,438</u>
LOSS BEFORE TRANSFERS	<u>(589,053)</u>
Transfers-in (note 13)	<u>6,796,225</u>
CHANGE IN NET POSITION	6,207,172
NET POSITION - BEGINNING OF YEAR	<u>40,190,634</u>
TOTAL NET POSITION AT END OF YEAR	<u><u>\$46,397,806</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, 2018**

Cash flows from operating activities:

Cash received from customers	\$5,745,839
Cash payments to primary government for services	(1,962,549)
Cash payments to suppliers for goods and services	(2,226,373)
Cash payments for interest	(229,294)
Other receipts	122,311
Net cash provided by operating activities	<u>1,449,934</u>

Cash flows from noncapital financing activities:

Operating grants received:	
Federal receipts	9,840,547
Federal disbursements	(8,778,780)
Loan receipts	181,928
Cash received from primary government	584,177
Payments to Office of Community Development	(106,837)
Other noncapital financing receipts	1,500
Net cash provided by noncapital financing activities	<u>1,722,535</u>

Cash flows from capital and related financing activities:

Principal paid on bonds	(8,735,000)
Proceeds from sale of capital assets	71,983
Proceeds from insurance recoveries	63,651
Acquisition/construction of capital assets	(3,022,175)
Cash received from primary government	6,924,986
Net cash used by capital and related financing activities	<u>(4,696,555)</u>

Net decrease in cash (1,524,086)

Cash at beginning of year 14,527,666

Cash at end of year \$13,003,580

(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, 2018**

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities:

Operating loss	(\$1,260,491)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	2,628,008
Changes in assets and liabilities:	
Decrease in receivables	161,760
Increase in accounts payable	60,233
(Decrease) in other liabilities	(139,576)
Total adjustments	<u>2,710,425</u>
Net cash provided by operating activities	<u><u>\$1,449,934</u></u>

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

Cash classified as current assets	\$11,227,767
Cash classified as noncurrent assets	<u>1,775,813</u>
Total Cash	<u><u>\$13,003,580</u></u>

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

Disposal of capital assets	(\$49,858)
Intergovernmental transfer of property	\$40,643

(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 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.

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. 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.

J. ADOPTION OF NEW ACCOUNTING PRINCIPLES

The following statements issued by GASB and effective for the fiscal year ended June 30, 2018, did not significantly impact the Authority:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*

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, 2018, the Authority has cash deposits (book balances) of \$13,003,580 as follows:

Interest-bearing demand deposits	\$13,003,047
Cash with fiscal agent	<u>533</u>
Total	<u><u>\$13,003,580</u></u>

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.

The following is a breakdown by banking institution and amount of the collected bank balances:

<u>Banking Instituion</u>	<u>Program or Type</u>	<u>Amount</u>
Capital One - Demand Account	Operating Account	\$16,353,207
Whitney Bank - Fiscal Agent	Investment Account	<u>533</u>
Total		<u><u>\$16,353,740</u></u>

3. ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2018:

<u>Account Title</u>	<u>Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Receivables, Net</u>
Leases receivable	\$623,472		\$623,472
Interest on Louisiana Farm and Agribusiness Recovery Loan and Grant Program Loans	111,755	\$83,816	27,939
Insurance recoveries receivable	17,520		17,520
Other	15,159		15,159
Total	<u>\$767,906</u>	<u>\$83,816</u>	<u>\$684,090</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 \$951,624 reported on the Statement of Net Position at June 30, 2018, is composed of the following:

<u>Type</u>	<u>Balance at June 30, 2018</u>	<u>Noncurrent Portion</u>
Louisiana Farm and Agribusiness Recovery Loan and Grant Program	\$944,268	\$634,151
Farm Youth Loan Program	7,356	7,356
Total	<u>\$951,624</u>	<u>\$641,507</u>

On November 30, 2009, under a cooperative endeavor agreement 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, 2018, agribusiness and farm loans outstanding totaled \$3,799,179. These loans are reported, net of an allowance for doubtful accounts totaling \$2,854,911, as notes receivable on the Statement of Net Position.

Amounts due to OCD totaling \$1,051,178 reported on the Statement of Net Position represent the outstanding balance of notes receivable totaling \$4,061,713, net of an allowance for doubtful accounts totaling \$3,010,535, including amounts paid by borrowers to the Authority but not remitted to OCD at June 30, 2018. 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, 2018, borrowers made payments totaling \$180,592 to the Authority.

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2018, follows:

	Balance July 1, 2017	Additions	Transfers	Retirements	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$6,834,667		(\$42,500)		\$6,792,167
Construction-in-progress	68,010	\$571,732	(601,432)		38,310
Total assets not being depreciated	<u>6,902,677</u>	<u>571,732</u>	<u>(643,932)</u>		<u>6,830,477</u>
Capital assets being depreciated:					
Land improvements	7,460,939				7,460,939
Buildings	37,893,773		601,432		38,495,205
Equipment	26,698,331	2,409,800	40,643	(\$799,341)	28,349,433
Total capital assets being depreciated	<u>72,053,043</u>	<u>2,409,800</u>	<u>642,075</u>	<u>(799,341)</u>	<u>74,305,577</u>
Less accumulated depreciation:					
Land improvements	(5,066,807)	(388,030)			(5,454,837)
Buildings	(15,951,197)	(1,207,588)			(17,158,785)
Equipment	(24,828,274)	(985,515)		791,983	(25,021,806)
Total accumulated depreciation	<u>(45,846,278)</u>	<u>(2,581,133)</u>		<u>791,983</u>	<u>(47,635,428)</u>
Total capital assets, net	<u>\$33,109,442</u>	<u>\$400,399</u>	<u>(\$1,857)</u>	<u>(\$7,358)</u>	<u>\$33,500,626</u>

Included in transfers are two nonmonetary transfers of capital assets. Land with an original acquisition cost of \$42,500 was transferred to the Division of Administration and a vehicle valued at \$40,643 was donated from the Department of Agriculture and Forestry.

6. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2018:

Grant awards payable	\$760,712
Vendor payables	111,787
Other	<u>25,784</u>
Total payables	<u>\$898,283</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 2018 amounted to \$99,436. 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>
2019	\$21,259	\$49,615	\$70,874
2020		48,415	48,415
2021		48,415	48,415
2022		22,088	22,088
Total	<u>\$21,259</u>	<u>\$168,533</u>	<u>\$189,792</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, 2018:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Buildings	\$33,769,106	(\$15,278,418)	\$18,490,688
Equipment	3,481,181	(2,997,964)	483,217
Land	532,689		532,689
Total carrying amount of property	<u>\$37,782,976</u>	<u>(\$18,276,382)</u>	<u>\$19,506,594</u>

Lease revenues received in fiscal year 2018 totaled \$5,584,079. The following is a schedule, by year, of minimum future rentals on non-cancelable operating leases as of June 30, 2018:

<u>Year Ending June 30,</u>	<u>Space</u>	<u>Land</u>	<u>Total</u>
2019	\$4,326,193	\$80,841	\$4,407,034
2020	3,033,477	69,440	3,102,917
2021	3,031,254	64,202	3,095,456
2022	3,193,929		3,193,929
2023	3,163,433		3,163,433
2024-2028	9,078,736		9,078,736
Total	<u>\$25,827,022</u>	<u>\$214,483</u>	<u>\$26,041,505</u>

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2018.

8. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the Authority for the year ended June 30, 2018:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>
Bonds payable	\$8,735,000	NONE	(\$8,735,000)	NONE

Details of all bonds outstanding at June 30, 2018, follow:

<u>Issued for</u>	<u>Issued</u>	<u>Issue</u>	<u>Outstanding June 30, 2017</u>	<u>(Redeemed)</u>	<u>Outstanding June 30, 2018</u>
Series 2007:					
Multi-buildings and equipment purchases	10/1/2007	\$31,000,000	\$8,735,000	(\$8,735,000)	NONE

9. 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, 2018
Agricultural Loan Program:						
	8.25%	1986A I	various	\$150,000,000	\$108,587,767	\$41,412,233
	8.80%	1986A II	various	150,000,000	106,346,099	43,653,901
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, 2018, under the modified plan, including interest, total \$156,888,880 for the LAFA I bonds and \$156,582,546 for the LAFA II bonds. These distributions include court-ordered trust administration costs of \$4,924,095 for the LAFA I bonds and \$4,917,946 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.

10. DUE FROM PRIMARY GOVERNMENT

At June 30, 2018, the Authority has amounts due from/to the primary government for the following:

Department of Agriculture and Forestry:	
Rental Income	\$87,605
Salaries:	
Indian Creek	(36,918)
HUD Programs	(258,993)
Other	(34,609)
Division of Administration-	
Office of Community Development	268,966
Department of Revenue	(2,668)
Total due from/(to) primary government	<u><u>\$23,383</u></u>

11. RESTRICTED NET POSITION

The Authority's restricted net position of \$1,775,813 as of June 30, 2018, is comprised of the following:

<u>Account Title</u>	<u>Amount</u>
Boll Weevil Eradication Fund	\$921,145
Louisiana Farm and Agribusiness Recovery	
Loan and Grant Program	830,747
Act 17 of 2006 - Planting of trees & native plants (Katrina/Rita)	23,921
Total	<u><u>\$1,775,813</u></u>

12. 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, 2018, there were no claims against the Authority that exceeded insurance coverage and there were no expenses for legal services.

13. INTERGOVERNMENTAL FUNDS RECEIVED

During the fiscal year ended June 30, 2018, the Authority received transfers totaling \$6,796,225 from the Department of Agriculture, including a donated vehicle with a value of \$40,643.

14. RELATED PARTY TRANSACTIONS

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, 2018, is \$93,112.

During fiscal year 2018, the Authority began administering the Louisiana Farm Recovery Grant Program, a U.S. Department of Housing and Urban Development (HUD) grant received through the Division of Administration's Office of Community Development (OCD) Disaster Recovery Unit (DRU). The purpose of the program is to assist the agriculture sector recovery by awarding grants totaling \$9,519,333. The Authority has provided grants totaling \$332,650 to 33 individuals currently employed by LDAF or who serve in a capacity within LDAF who, for reporting purposes are considered related parties. These individuals, whose grants are allowable under the cooperative endeavor agreement between the Authority and OCD, qualified for the grants based on pre-established criteria applied to all grant applicants.

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 17, 2019

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, 2018, 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 17, 2019.

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

APB:ETM:RR:EFS:aa

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