

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, 2020
ISSUED JUNE 30, 2021

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LOUISIANA LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

June 22, 2021

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, 2020, 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, 2020, 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 June 22, 2021, 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,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

AM:ETM:RR:EFS:aa

LAF 2020

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, 2020. 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 \$44,976,991, which represents a 1.56% decrease from the end of the last fiscal year. The net position decreased from the prior fiscal year-end by \$711,197.
- The Authority's operating revenue decreased by \$1,357,648, or 34.3%, and operating expenses decreased by \$1,050,025, or 18.4%. This decrease in operations, both on the revenue and expense sides, is attributable to changes in the execution of lease terms on certain agreements with the Louisiana Department of Agriculture and Forestry.
- The Authority had net non-operating revenues totaling \$69,869, which is an increase of \$310,631. This increase is a result of large losses on asset dispositions in the prior year that were not experienced in fiscal year 2020. Grant activity is also reported within this category of activity and although there was no net impact to change in net position, additional grant funds were received and disbursed for the Farm Recovery Grant Program.
- The Authority also received transfers-in from other state agencies during the year totaling \$1,280,671, a decrease from the level of transfers-in received in the prior year totaling \$1,285,258.

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, 2020, and June 30, 2019 (in thousands)

	<u>2020</u>	<u>2019</u>	<u>Variance</u>	<u>Percent Variance</u>
Current assets	\$14,242	\$13,777	\$465	3.4%
Capital assets	29,101	30,635	(1,534)	(5.0%)
Other assets	2,460	2,410	50	2.1%
Total assets	<u>45,803</u>	<u>46,822</u>	<u>(1,019)</u>	<u>(2.2%)</u>
Current liabilities	826	1,064	(238)	(22.4%)
Long-term debt outstanding	<u> </u>	<u>70</u>	<u>(70)</u>	<u>(100.0%)</u>
Total liabilities	<u>826</u>	<u>1,134</u>	<u>(308)</u>	<u>(27.2%)</u>
Deferred inflows of resources	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>NONE</u>
Net position:				
Net investment in capital assets	29,101	30,635	(1,534)	(5.0%)
Restricted	1,837	1,438	399	27.7%
Unrestricted	<u>14,039</u>	<u>13,615</u>	<u>424</u>	<u>3.1%</u>
Total net position	<u>\$44,977</u>	<u>\$45,688</u>	<u>(\$711)</u>	<u>(1.6%)</u>

The net investment in capital assets represents the carrying value of the Authority's buildings, equipment, and other capital 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 2019 to 2020 of certain components of net position is as follows:

- Current assets increased by approximately \$465,000, predominantly due to an increase in cash due to positive cash flows from operations, receipts of loan and lease payments from borrowers, and amounts received from other state agencies.
- Capital assets (reported net of accumulated depreciation), which account for 64% of the total assets of the Authority, decreased by approximately \$1,534,000, predominantly due to the disposition of several assets in the current year and depreciation.
- Liabilities decreased by approximately \$308,000, predominantly due to a decrease in vendor payables at year-end.
- The decrease in overall net position of \$711,197 is due to the 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, 2020, and June 30, 2019
(in thousands)

	<u>2020</u>	<u>2019</u>	<u>Variance</u>	<u>Percent Variance</u>
Operating revenues:				
Rental income	\$2,494	\$3,845	(\$1,351)	(35.1%)
Other	107	114	(7)	(6.1%)
Total operating revenues	<u>2,601</u>	<u>3,959</u>	<u>(1,358)</u>	<u>(34.3%)</u>
Nonoperating revenues:				
Federal revenues	9,809	32	9,777	30,553.1%
Other nonoperating revenue	50	100	(50)	(50.0%)
Gain on disposal of fixed assets	17		17	100.0%
Total revenues	<u>12,477</u>	<u>4,091</u>	<u>8,386</u>	<u>205.0%</u>
Operating expenses:				
Operating and other services	4,663	5,713	(1,050)	(18.4%)
Nonoperating expenses:				
Federal expenses	9,806	10	9,796	97,960.0%
Loss on disposal of fixed assets		363	(363)	(100.0%)
Total nonoperating expenses	<u>9,806</u>	<u>373</u>	<u>9,433</u>	<u>2,529.0%</u>
Total expenses	<u>14,469</u>	<u>6,086</u>	<u>8,383</u>	<u>137.7%</u>
Loss before transfers	<u>(1,992)</u>	<u>(1,995)</u>	<u>3</u>	<u>(0.2%)</u>
Transfers-In	1,281	1,285	(4)	(0.3%)
Change in net position	(711)	(710)	(1)	0.1%
Net position, beginning of the year	<u>45,688</u>	<u>46,398</u>	<u>(710)</u>	<u>(1.5%)</u>
Total net position	<u><u>\$44,977</u></u>	<u><u>\$45,688</u></u>	<u><u>(\$711)</u></u>	<u><u>(1.6%)</u></u>

- The decrease in operating revenues of approximately \$1,358,000 was predominantly attributable to a decrease in the amount of rental income from the Department of Agriculture and Forestry.
- The decrease in operating expenses of approximately \$1,050,000 is predominantly due to the Department of Agriculture and Forestry's absorption of

certain costs that were paid by the Authority in the prior year associated with property under lease by the Department of Agriculture and Forestry.

- Net non-operating revenues increased by approximately \$311,000 as a result of net gains on disposition of assets during the year as contrasted with sizable losses on dispositions in the prior year. Also, an additional \$10 million in grant funds was received and distributed during the year for the Farm Recovery Grant Program to provide federal relief to Louisiana Farmers.

CAPITAL ASSETS

At the end of fiscal year 2020, the Authority had \$29,101,111 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 \$1,533,554 (5%) over the last year.

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

	2020	2019	Variance	Percent Variance
Land	\$6,505	\$6,505		
Buildings and improvements	19,545	21,051	(\$1,506)	(7.2%)
Equipment	2,606	2,959	(353)	(11.9%)
Construction-in-progress	445	120	325	270.8%
Total	<u>\$29,101</u>	<u>\$30,635</u>	<u>(\$1,534)</u>	<u>(5.0%)</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 year 2021. Net non-operating revenues should essentially break-even, as the Authority has no plans to dispose of material assets and no additional grant programs are expected for fiscal year 2021.

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, Post Office Box 3334, Baton Rouge, Louisiana 70821-3334.

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

Statement of Net Position, June 30, 2020

ASSETS

Current assets:

Cash (note 2)	\$12,501,617
Accounts receivable, net (note 3)	653,539
Due from primary government (note 9)	672,031
Notes receivable (note 4)	367,251
Other current assets	47,781
Total current assets	<u>14,242,219</u>

Noncurrent assets:

Restricted assets:

Cash (note 2)	1,836,656
Lease receivable (note 7)	200,000
Notes receivable - LDAF (note 4)	401,365
Property, plant, and equipment (net of depreciation) (note 5)	29,101,111
Other noncurrent assets	21,506
Total noncurrent assets	<u>31,560,638</u>

TOTAL ASSETS

45,802,857

LIABILITIES

Current liabilities:

Accounts payable (note 6)	234,984
Due to primary government (note 9)	180,986
Due to Office of Community Development (OCD) (note 4)	392,314
Unearned revenues	14,578
Other current liabilities	3,004
Total current liabilities	<u>825,866</u>

TOTAL LIABILITIES

825,866

(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, 2020**

NET POSITION

Net investment in capital assets	\$29,101,111
Restricted for other specific purposes (note 10)	1,836,656
Unrestricted	<u>14,039,224</u>
TOTAL NET POSITION	<u><u>\$44,976,991</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 Revenues, Expenses,
and Changes in Net Position
For the Year Ended June 30, 2020**

OPERATING REVENUES:

Rental income	\$2,494,468
Use of money and property	89,539
Other	17,479
Total operating revenues	<u>2,601,486</u>

OPERATING EXPENSES:

Administrative services	738,135
Contractual services	107,458
Operating services	384,605
Supplies	120,280
Professional services	108,084
Promotional and marketing	762,926
Miscellaneous	3,284
Depreciation expense (note 5)	2,438,451
Total operating expenses	<u>4,663,223</u>

OPERATING LOSS (2,061,737)

(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, 2020**

NONOPERATING REVENUES (Expenses)	
Nonoperating revenues - federal revenues	\$9,809,005
Nonoperating expenses - federal (expenses)	(9,805,705)
Net gain on disposal of capital assets	16,504
Proceeds from insurance recoveries	50,065
Total nonoperating revenues (expenses)	<u>69,869</u>
LOSS BEFORE TRANSFERS	<u>(1,991,868)</u>
Transfers-in (note 9)	<u>1,280,671</u>
CHANGE IN NET POSITION	(711,197)
NET POSITION - BEGINNING OF YEAR	<u>45,688,188</u>
TOTAL NET POSITION AT END OF YEAR	<u><u>\$44,976,991</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, 2020**

Cash flows from operating activities:

Cash received from customers	\$2,879,888
Cash payments to primary government for services	(775,356)
Cash payments to suppliers for goods and services	(1,795,290)
Other receipts	107,018
Net cash provided by operating activities	<u>416,260</u>

Cash flows from noncapital financing activities:

Operating grants received:	
Federal receipts	9,533,765
Federal disbursements	(9,554,389)
Loan receipts	835,892
Cash received from primary government	486,679
Payments to Office of Community Development	(528,641)
Net cash provided by noncapital financing activities	<u>773,306</u>

Cash flows from capital and related financing activities:

Proceeds from sale of capital assets	116,649
Proceeds from insurance recoveries	50,065
Cash received from primary government	785,218
Acquisition/construction of capital assets	(916,758)
Net cash provided by capital and related financing activities	<u>35,174</u>

Net increase in cash	1,224,740
Cash at beginning of year	<u>13,113,533</u>
Cash at end of year	<u><u>\$14,338,273</u></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 Cash Flows, 2020**

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities:

Operating loss	(\$2,061,737)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	2,438,451
Changes in assets and liabilities:	
(Increase) in receivables	(21,862)
Decrease in due from primary government	444,631
Decrease in other assets	46,875
(Decrease) in accounts payable	(355,528)
(Decrease) in due to primary government	(37,221)
(Decrease) in unearned revenues	(37,349)
Total adjustments	<u>2,477,997</u>
Net cash provided by operating activities	<u><u>\$416,260</u></u>

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

Cash classified as current assets	\$12,501,617
Cash classified as noncurrent assets	<u>1,836,656</u>
Total Cash	<u><u>\$14,338,273</u></u>

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

Disposal of capital assets	\$11,862
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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, 2020.

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 acquisition 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, 2020, the Authority has cash deposits (book balances) of \$14,338,273 and bank balances of \$14,790,492.

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, 2020, 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, 2020:

<u>Account Title</u>	<u>Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Receivables, Net</u>
Leases receivable	\$626,042		\$626,042
Interest on Louisiana Farm and Agribusiness Recovery Loan and Grant Program Loans	100,251	\$75,188	25,063
Other	2,434		2,434
Total	<u>\$728,727</u>	<u>\$75,188</u>	<u>\$653,539</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 \$768,616 reported on the Statement of Net Position at June 30, 2020, is composed of the following:

Type	Balance at June 30, 2020	Noncurrent Portion
Louisiana Farm and Agribusiness		
Recovery Loan and Grant Program	\$367,251	
Farm Youth Loan Program	7,356	\$7,356
Louisiana Department of Agriculture and Forestry - Agro Consumer Services	394,009	394,009
Total	\$768,616	\$401,365

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, 2020, agribusiness and farm loans outstanding totaled \$1,469,001. These loans are reported, net of an allowance for doubtful accounts totaling \$1,101,750, as notes receivable on the Statement of Net Position.

Amounts due to OCD totaling \$392,314 reported on the Statement of Net Position represent the outstanding balance of notes receivable plus accrued interest totaling \$1,569,252, net of an allowance for doubtful accounts totaling \$1,176,938, including amounts paid by borrowers to the Authority but not remitted to OCD at June 30, 2020. 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, 2020, borrowers made payments totaling \$568,200 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. During the year ended June 30, 2020, the LDAF made payments totaling \$267,692, which includes \$133,988 to cover fiscal year 2021.

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2020, follows:

	Balance <u>June 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2020</u>
Capital assets not being depreciated:				
Land	\$6,505,090			\$6,505,090
Construction-in-progress	119,850	\$325,504		445,354
Total assets not being depreciated	<u>6,624,940</u>	<u>325,504</u>		<u>6,950,444</u>
Capital assets being depreciated:				
Land improvements	7,119,923			7,119,923
Buildings	37,117,551			37,117,551
Equipment	28,759,402	591,255	(\$230,458)	29,120,199
Total capital assets being depreciated	<u>72,996,876</u>	<u>591,255</u>	<u>(230,458)</u>	<u>73,357,673</u>
Less accumulated depreciation:				
Land improvements	(5,501,850)	(357,028)		(5,858,878)
Buildings	(17,685,064)	(1,148,250)		(18,833,314)
Equipment	(25,800,237)	(933,173)	218,596	(26,514,814)
Total accumulated depreciation	<u>(48,987,151)</u>	<u>(2,438,451)</u>	<u>218,596</u>	<u>(51,207,006)</u>
Total capital assets, net	<u>\$30,634,665</u>	<u>(\$1,521,692)</u>	<u>(\$11,862)</u>	<u>\$29,101,111</u>

6. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2020:

<u>Account Name</u>	<u>Amount</u>
Vendor payables	\$232,400
Other	2,584
Total payables	<u>\$234,984</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 2020 amounted to \$103,037. 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>
2021	\$51,022	\$52,015	\$103,037
2022	51,022	25,685	76,707
2023	51,022	3,601	54,623
2024	51,022	3,601	54,623
2025	51,022	3,601	54,623
2026-2029	174,325	5	174,330
Total	<u>\$429,435</u>	<u>\$88,508</u>	<u>\$517,943</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, 2020:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Carrying Amount</u>
Buildings	\$34,770,073	(\$17,784,254)	\$16,985,819
Equipment	5,624,102	(4,058,555)	1,565,547
Land	745,343		745,343
Total carrying amount of property	<u>\$41,139,518</u>	<u>(\$21,842,809)</u>	<u>\$19,296,709</u>

Lease revenues received in fiscal year 2020 totaled \$1,949,643. The following is a schedule, by year, of minimum future rentals on non-cancelable operating leases as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Space</u>	<u>Land</u>	<u>Total</u>
2021	\$1,772,254	\$71,601	\$1,843,855
2022	1,698,256	43,820	1,742,076
2023	1,667,760	43,820	1,711,580
2024	1,648,235	43,820	1,692,055
2025	1,087,684	31,620	1,119,304
2026-2029	2,872,083	86,395	2,958,478
Total	<u>\$10,746,272</u>	<u>\$321,076</u>	<u>\$11,067,348</u>

The future rent payments have been reduced for the lease with LDAF in relation to the current year lease payment received of \$199,891, net of associated costs such as utilities, maintenance, security, personnel, and alarm monitoring. These associated costs were credited toward the rental payments made to the Authority and will be comparable in future years. Therefore, the future rent payments have been estimated at \$200,000 per year through year ending June 30, 2024, the end of the lease term.

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2020.

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, \$100,000 was received in May 2020 to cover fiscal year 2021, 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, 2020 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$100,000
2022	100,000
2023	<u>100,000</u>
Total	300,000
Less: 2021 payment received in advance	<u>(100,000)</u>
Lease receivable	200,000
Less: interest (unearned)	<u>(14,578)</u>
Net investment in lease	<u><u>\$185,422</u></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:

<u>Issued for</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Dates</u>	<u>Authorized and Issued</u>	<u>Retired To Date</u>	<u>Outstanding June 30, 2020</u>
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><u>\$300,000,000</u></u>	<u><u>\$214,933,866</u></u>	<u><u>\$85,066,134</u></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, 2020, under the modified plan, including interest, total \$156,935,818 for the LAFA I bonds and \$156,612,546 for the LAFA II bonds. These distributions include court-ordered trust administration costs of \$4,971,033 for the LAFA I bonds and \$4,947,946 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, 2020, 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:	
Vehicle Lease	\$193,998
Mobile Monitoring	152,228
LPAA Income	12,006
USDA - NASS	9,100
Department of Environmental Quality	254
Department of Transportation and Development	29,205
Office of Community Development	
HUD Farm and Agricultural Business Loan Program	21,376
HUD 2016 Farm Recovery Grant Program	253,864
	<u>253,864</u>
 Total due from primary government	 <u><u>\$672,031</u></u>
 <u>Due to Primary Government:</u>	
Department of Agriculture and Forestry:	
Salaries: Security	\$55,157
Indian Creek administrative costs	35,112
HUD Farm and Agricultural Business Loan Program	11,546
HUD 2016 Farm Recovery Grant Program	69,466
Other	6,415
Department of Revenue	3,290
	<u>3,290</u>
 Total due to primary government	 <u><u>\$180,986</u></u>

During the fiscal year ended June 30, 2020, the Authority received transfers totaling \$1,280,671 from the Department of Agriculture and Forestry.

10. RESTRICTED NET POSITION

The Authority's restricted net position of \$1,836,656 as of June 30, 2020, is comprised of the following:

<u>Account Title</u>	<u>Amount</u>
Boll Weevil Eradication Fund	\$1,792,898
Forestry Protection Program	43,758
Louisiana Farm and Agribusiness Recovery Loan and Grant Program - due from OCD for grants	181,850
Less: Liabilities	<u>(181,850)</u>
Total	<u><u>\$1,836,656</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, 2020, 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 \$653,501 in 2020.

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)(1)(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, 2020, is \$25,962.

On July 1, 2019, the Authority entered into a lease agreement with the LDAF for the lease of the main office building, Boll Weevil warehouse, Baton Rouge (LAFA) warehouse, St. Martinville warehouse, Baton Rouge food distribution warehouse, building/office space in Hammond, Houghton, Monroe, Natchitoches, Oberlin, Opelousas, Woodworth, Jonesville, Oak Grove, Chatham, and Homer totaling \$2,302,802 annually with a lease term of 5 years. The lease agreement states the lessee shall pay all utilities and maintenance costs necessary to conduct its business and shall provide security personnel or alarm monitoring for the property. These costs shall be credited toward the rental payments made to the Authority. In relation to this lease

agreement, the Authority received lease payments of \$199,801 from the LDAF for the year ended June 30, 2020 net of associated costs totaling \$2,076,163.

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 \$310,495 was disbursed for the program in 2020.

During fiscal year 2018, the Authority began administering the Louisiana Farm Recovery Grant Program (LFRG), a U.S. Department of Housing and Urban Development grant received through the Division of Administration's Office of Community Development (OCD) Disaster Recovery Unit. In September 2019, the Commissioner of Agriculture announced funding of an additional grant to those producers who were impacted by flood events that occurred in 2016, and participated in LFRG. The Authority awarded supplemental grants in the amount of \$9,672,766. The Authority provided grants totaling \$337,067 to 32 individuals 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.

13. SUBSEQUENT EVENTS

On August 1, 2020, House Bill 496 of the 2020 Regular legislative session was effective regarding the Grain and Cotton Indemnity Fund, which states all unexpended and unencumbered monies in this fund at the end of each fiscal year shall be transferred to LAFA to provide solely for the administration and operation of the fund. The Grain and Cotton Indemnity Fund is an existing fund that is funded by an assessment charged to producers on the value of all agricultural commodities sold and was created to help alleviate any potential liability for insolvency of a grain dealer or cotton merchant.

Several Lacassine properties owned by the Authority were damaged during the Hurricane events occurring in August through October 2020. The cost of the damage is estimated to be \$439,316 for which all is covered by insurance. The Authority will be responsible only for the deductible of \$1,000.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread throughout the United States. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. The extent of the impact of the COVID-19 pandemic on the State of Louisiana and LAFA's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on LAFA's vendors and employees, all of which are uncertain and cannot be predicted. The ultimate extent to which the COVID-19 pandemic may directly or indirectly impact LAFA's financial condition or results of operations cannot be reasonably estimated at this time.

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
MICHAEL J. "MIKE" WAGUESPACK, CPA

June 22, 2021

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, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 22, 2021.

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) as a basis for designing 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 financial statements. 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,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

AM:ETM:RR:EFS:aa

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