
THE FINANCE AUTHORITY OF NEW ORLEANS

FINANCIAL STATEMENTS AND SCHEDULES

DECEMBER 31, 2018

WITH INDEPENDENT AUDITORS' REPORT THEREON



Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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Independent Auditors' Report

The Board of Trustees of
The Finance Authority of New Orleans

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund and fiduciary fund of the Finance Authority of New Orleans (the Authority) as of and for the year ended December 31, 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 misstatements.

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund and fiduciary fund of the Authority as of December 31, 2018, and the respective changes in its 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.

Correction of an Error

As described in Note 2 to the financial statements, the Authority identified an error in the elimination of inter-entity balances. Accordingly, amounts reported for due to other funds and beginning net position have been restated in the 2018 financial statements now presented, and an adjustment has been made to net position as of December 31, 2017, to correct the error. Our opinions are not modified with respect to this matter.

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 3 through 6 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Authority's basic financial statements. The Schedules of Individual Statements of Net Position, Individual Statements of Revenues, Expenses and Changes in Net Position, and Compensation, Benefits, and Other Payments to Agency Head on pages 20-22 are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion these supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 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, 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.

Postlethwaite & Netterville

Metairie, Louisiana
June 27, 2019

THE FINANCE AUTHORITY OF NEW ORLEANS

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

The Management's Discussion and Analysis of The Finance Authority of New Orleans (the Authority) presents a narrative overview and analysis of the Authority's financial activities for the year ended December 31, 2018. This document focuses on the current period's activities, resulting changes, and currently known facts in comparison with the prior period's information. Please read this document in conjunction with the Authority's financial statements, which begin on page 7.

The financial statements include the totals of the similar accounts of each of the Authority's bond programs and the Operating Fund, NOHMA Development Corporation, Unrestricted Fund Pathways to Homeownership New Orleans, Inc., and the Market Rate Program.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and supplementary information.

Government-wide Financial Statements – Enterprise Fund

The Authority's principal activities of promoting the development of residential housing (single or multi-family dwellings) in the City of New Orleans, Louisiana, primarily for persons of low and moderate incomes are accounted for in a single proprietary fund – the enterprise fund. Enterprise funds are used to report business activities. Since the enterprise fund is the Authority's single activity, its financial statements are presented as the Authority's government-wide financial statements.

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

The Authority's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred in the Statements of Revenues, Expenses, and Changes in Net Position. All assets and liabilities associated with the operation of the Authority are included in the Statement of Net Position.

The Statement of Net Position presents financial information on all of the Authority's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Fund Financial Statements – Fiduciary Fund

The fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statements because the resources

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MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

of that fund is not available to support the Authority's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

FINANCIAL HIGHLIGHTS

The Authority's assets exceeded its liabilities as of December 31, 2018 by \$15,297,000. This represents a 9% decrease from the prior year.

The Authority's mortgage-backed and other securities had net realized and unrealized losses of \$492,000 in the year ended December 31, 2018 compared to net realized and unrealized losses of \$233,000 in the prior year.

Excluding the unrealized gains/losses on securities, the Authority's expenses exceeded revenues by \$645,000 for the year ended December 31, 2018 compared to an excess of revenues over expenses of \$659,000 in the prior year. The major reason for this change is an increase in program expenses and decline in rental income during the period. Additionally, the Authority wrote off several uncollectible accounts receivable.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position

The statements of net position as of December 31, 2018 and 2017 are as follows (in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents	\$ 9,110	\$ 10,844
U.S. Government and agency securities	1,395	1,417
Mortgage-backed securities	2,372	11,869
Notes and other receivables - net	349	1,507
Other assets	<u>1,600</u>	<u>1,606</u>
 Total assets	 <u>14,826</u>	 <u>27,243</u>
 Other liabilities	 \$ 322	 \$ 531
Bonds and notes outstanding	<u>7,021</u>	<u>8,497</u>
 Total liabilities	 <u>7,343</u>	 <u>9,028</u>
 Net position:		
Net investment in capital assets	1,160	1,485
Restricted	701	804
Unrestricted	<u>13,437</u>	<u>14,509</u>
 Total net position	 <u>15,298</u>	 <u>16,798</u>
 Total liabilities and net position	 <u>\$ 22,641</u>	 <u>\$ 25,826</u>

THE FINANCE AUTHORITY OF NEW ORLEANS

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

The Authority's total net position at December 31, 2018 decreased to \$15.3 million, a decrease of 7.0%, from December 31, 2017. Total assets decreased by \$2.9 million, or 11.4%, due primarily to the sale of investments to pay principal and interest on the long-term debt and to fund the Authority's operations in addition to the write-off of uncollectible receivables of \$218,000. Total liabilities decreased by \$1.7 million, or 19.3%, primarily due to principal payments on long-term debt.

Net investment in capital assets represents property and equipment, principally real estate held by the Pathways to Homeownership Program. Restricted net position represents those assets that are not available for general use due to the terms of the various bond trust indentures under which assets are held and pledged as security for the bonds of the Authority's Mortgage Revenue Bond Programs less the related liabilities. Conversely, unrestricted net position represents those assets for which there are no such limitations.

Changes in Net Position

The summary of changes in net position are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	(in thousands)	
Operating revenues, net of investment losses	\$ 636	\$ 811
Operating expenses	<u>1,773</u>	<u>1,703</u>
Deficiency in revenues over expenses	<u>\$ (1,137)</u>	<u>\$ (892)</u>

Operating revenues decreased by \$175,000, or 21.6%, in 2018 compared to 2017, primarily due to the decrease in rental income and lender participation fees offset by a new \$250,000 grant from the City of New Orleans. Operating expenses increased by \$70,000, or 4%, in 2018 compared to 2017, due primarily to increases in program expenses and bad debt expense of \$173,000 and \$218,000, respectively.

Capital Assets

Capital assets decreased by \$325,000 during the year ended December 31, 2018. This decrease is related to current year depreciation on the Authority's capital assets as well as the sale of properties during the year. Note 6 to the financial statements summarizes activity in capital assets during the year.

Debt Administration

The Finance Authority of New Orleans had \$7,021,000 in bonds and notes outstanding as of December 31, 2018, compared to \$8,497,000 at the end the prior fiscal period, a decrease of 17.4%.

The decreased debt level as of December 31, 2018 resulted primarily from the retirement of \$1,476,000 of bonds in the Authority's Single Family Program Funds. The notes to the financial statements disclose the details of debt activity for the year ended December 31, 2018.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

Substantially all of the Authority's single family bond issues had an AAA rating at December 31, 2018 due to the GNMA and FNMA securities pledged as collateral for the Authority's bond issues.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority considered the following factors and next year's budget, rates and fees. These factors and indicators include:

- ◆ Housing affordability has been a challenge in New Orleans since 2005. The city has seen increased buying activity from outside investors despite minimal improvement in local job growth. Since the Great Recession of 2008, FANO's ability to serve local homebuyers has been limited because of increased home prices and more restrictive Federal Housing Administration mortgage underwriting criteria. In response, Management has developed a strategy to offer rental housing financing solutions in addition to traditional homeownership offerings in an effort to better serve the community's needs and diversify our asset base.
- ◆ Market interest rates continue to remain at historically low levels as a direct result of the Federal Reserve Bank's policy of maintaining modest interest rate levels in response to the Great Recession of 2008. As a result of historically low interest rates since 2008, FANO's ability to offer below market financing to homeowners has been limited due to the ineffectiveness of issuing tax-exempt bonds in a low interest rate environment. In 2015, FANO began offering a market rate mortgage product comparable to the offerings of traditional commercial banks to take advantage of the low rate environment. FANO's market rate mortgage also comes with down-payment assistance to assist homeowners with the transaction costs of purchasing a new home.
- ◆ Despite the challenges presented by increased home prices and low interest rates, FANO continues to maintain a modest operating budget and develop long-term capital investment plans that utilize alternative sources of funding for housing, economic development and climate resilience projects that meet FANO's mission and strategic objectives.

CONTACTING THE FINANCE AUTHORITY OF NEW ORLEANS' MANAGEMENT

This financial report is designed to provide New Orleans citizens and taxpayers, as well as the Authority's customers and creditors with a general overview of The Finance Authority of New Orleans finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

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FINANCE AUTHORITY OF NEW ORLEANS

Statement of Net Position

December 31, 2018

(in thousands)

Assets

Current assets:		
Cash and cash equivalents	\$	9,110
Investments:		
U.S. Government and agency securities		1,395
Mortgage-backed securities		2,372
Receivables, net:		
Mortgage loans		68
Accrued interest		33
Due from other governments		250
Other loans and assets		54
Allowance for doubtful accounts		(56)
Total receivables, net		<u>349</u>
Prepaid expenses and other assets		<u>440</u>
Total current assets		<u>13,666</u>
Noncurrent assets:		
Cash and cash equivalents, restricted		674
Mortgage-backed securities, restricted		7,141
Capital assets, net		<u>1,160</u>
Total noncurrent assets		<u>8,975</u>
Total assets	\$	<u><u>22,641</u></u>

Liabilities and Net Position

Current liabilities:		
Accrued interest and other		216
Due to other governments		103
Security deposit liability		<u>2</u>
Total current liabilities		<u>322</u>
Long-term liabilities:		
Bonds and notes payable		<u>7,021</u>
Total liabilities		<u>7,343</u>
Net position:		
Net investment in capital assets		1,160
Restricted		701
Unrestricted		<u>13,437</u>
Total net position		<u>15,298</u>
Total liabilities and net position	\$	<u><u>22,641</u></u>

See accompanying notes to financial statements.

FINANCE AUTHORITY OF NEW ORLEANS

Statement of Revenues, Expenses and Changes in Net Position

For the year ended December 31, 2018
(in thousands)

Revenues:		
Interest on mortgage loans and mortgage-backed securities	\$	429
Interest on other investments		219
Realized and unrealized gain (loss) on mortgage-backed securities		(492)
Rental income		3
Grant revenue		250
Other		227
Total revenues		<u>636</u>
Expenses:		
Interest expense on revenue bonds and notes		185
Program expenses		1,239
Depreciation expense		131
Bad debt expense		218
Total expenses		<u>1,773</u>
Deficiency in revenues over expenses		(1,137)
Net Position - Beginning of year, as restated (Note 2)		<u>16,435</u>
Net Position - End of year	\$	<u><u>15,298</u></u>

See accompanying notes to financial statements.

FINANCE AUTHORITY OF NEW ORLEANS

Statement of Cash Flows

For the year ended December 31, 2018

(in thousands)

Cash flows from operating activities:	
Collection of interest income	\$ 152
Collection of mortgage and other loans	51
Collection of rental income	3
Payments of interest and program expense	(482)
Payments to employees and other suppliers of services	(829)
Other operating receipts	227
Net cash used in operating activities	<u>(878)</u>
Cash flows from noncapital and related financing activities:	
Principal payments on bonds	(1,476)
Purchases of capital assets	(26)
Proceeds from sales of property	359
Net cash used in noncapital financing activities	<u>(1,143)</u>
Cash flows from investing activities:	
Maturities of investments	<u>2,378</u>
Net cash provided by investing activities	<u>2,378</u>
Net increase in cash and cash equivalents	357
Cash and cash equivalents at beginning of the year	<u>9,427</u>
Cash and cash equivalents at end of the year	<u>\$ 9,784</u>
Reconciliation of cash and equivalents to the Statement of Net Position:	
Current assets - cash and cash equivalents	\$ 9,110
Noncurrent assets - cash and cash equivalents, restricted	674
Total cash and cash equivalents	<u>\$ 9,784</u>
Reconciliation of net operating loss to net cash used in operating activities are as follows:	
(Deficiency in) excess of revenue over expenses before operating transfers	\$ (1,137)
Unrealized loss on securities	66
Bad debt expense	218
Depreciation and amortization expense	131
Adjustments to reconcile deficiency in revenues over expense to net cash used in operating activities:	
(Increase) decrease in receivables	278
(Increase) decrease in prepaid expenses and other assets	(318)
Increase (decrease) in accrued liabilities	<u>(116)</u>
Net cash used in operating activities	<u>\$ (878)</u>

See accompanying notes to financial statements.

FINANCE AUTHORITY OF NEW ORLEANS

Statement of Fiduciary Net Position
Fiduciary Fund

December 31, 2018
(in thousands)

Assets

Current assets:	
Cash and cash equivalents	<u>\$ 55</u>
Total assets	<u><u>\$ 55</u></u>

Liabilities

Current liabilities:	
Deposits due to others	<u>\$ 55</u>
Total liabilities	<u><u>\$ 55</u></u>

See accompanying notes to financial statements.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(1) Organization and Summary of Significant Accounting Policies

Organization

The Finance Authority of New Orleans (the Authority) is a public trust originally created by a trust indenture dated October 11, 1978, pursuant to Chapter 2A of Title 9 of the Louisiana Revised Statutes of 1950, as amended. The Authority was created to provide funds, through the issuance of bonds, to promote the development of residential housing (single or multi-family dwellings) in the City of New Orleans, Louisiana, primarily for persons of low and moderate incomes. In 1995, the powers of the Authority were expanded to include all those provided to a public trust under Revised Statutes 9:2341 et seq. In accordance with the respective indentures, the proceeds from the Authority's bond issues are used to acquire mortgage-backed securities.

The Authority is managed by a Board of Trustees appointed by the Council of the City of New Orleans. The Bank of New York Trust Company, N.A. serves as the trustee of the single family program funds. The Authority's staff serves as the mortgage loan administrator of the various whole loan portfolios. Various local financial institutions originate and service the Authority's single family program mortgage loans.

The financial statements of the Authority include the following subsidiaries that are 100% owned by the Authority. These entities share the same governance and management from the Authority, and as a result, are considered part of the Authority and not component units.

- ***NOHMA Development Corporation***

NOHMA Development Corporation (the NOHMA Corporation) was formed in the fiscal year 1994. The NOHMA Corporation's mission is to provide increased home ownership among "primarily" low income families via a joint operating agreement with the Authority through a variety of services.

- ***Pathways to Homeownership New Orleans, Inc.***

Pathways to Homeownership New Orleans, Inc. (the Pathways Corporation) was formed on March 31, 2005, and was funded in the year ended March 31, 2007. The Pathways Corporation's mission is to provide increased homeownership among low and moderate income families through a variety of services. The Pathways Corporation's accounts are included under the column captioned "Pathways to Home Ownership Program," within the basic financial statements.

The financial statements of each of these entities is included in the proprietary fund of the Authority. All significant inter-entity accounts and transactions have been eliminated in the basic financial statements.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(1) Organization and Summary of Significant Accounting Policies (continued)

Market Rate Program

During 2015, the Authority introduced a market rate mortgage program that provides mortgages and down payment assistance grants to borrowers with incomes up to 140% of the New Orleans Area Median Income. This program serves as a complement to our traditional tax-exempt bond mortgage program. The first mortgages offered in this program are FIIA, VA or Freddie Mac sponsored with down payment assistance provided through a second mortgage funded with proceeds from premiums priced into the previously mentioned first mortgages. Down payment assistance ranges from 3-5% of the value of the first mortgage. The Authority collects an issuer fee for each origination and also has the option to purchase the mortgage backed securities created from the individual mortgages originated through the program.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority's basic financial statements consist of the government-wide statements which include the proprietary fund (the enterprise fund) and the fund financial statements which includes the fiduciary fund (City of New Orleans Fiduciary Fund).

The operations of the Authority are accounted for in the following fund types:

Proprietary Fund Type

The proprietary fund is used to account for the Authority's ongoing operations and activities, which are similar to those found in the private sector. The proprietary fund is accounted for using a flow of economic resources measurement focus under which all assets and deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included in the statements of net position.

The Authority uses fund accounting to report its financial position and results of operations. The accounts of the Authority are organized on the basis of individual programs. The programs provide for a separate set of self-balancing accounts which account for bonds issued, debt service and bond redemption requirements, investments, and related revenues and operating expenses. These individual programs are aggregated in the financial statements to comprise the proprietary fund of the Authority.

The operating statements present increases (revenues) and decreases (expenses) in total net position. The Authority maintains various proprietary funds as detailed in the accompanying financial statements. Operating revenues include all charges for services, investment income or loss, and other miscellaneous charges. The Authority's principal operating revenues are interest and appreciation (depreciation) related to investment and mortgages/mortgage-backed securities. Operating expenses include the costs associated with providing services to promote the development of residential housing. The Authority did not have non-operating revenues or expenses in 2018.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(1) Organization and Summary of Significant Accounting Policies (continued)

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position should be displayed in three components - net investment in capital assets, reduced by the outstanding balance of any debt proceeds used for the acquisition, construction, or improvements of those assets; restricted distinguishing between major categories of restrictions and consisting of restricted assets reduced by liabilities and deferred inflows of resources related to those assets; and unrestricted consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The Authority first applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net position are available.

Fiduciary Fund Type

The Fiduciary Fund is an agency fund used to account for assets held by the Authority in a trustee or agency capacity. The Authority's only agency fund is the City of New Orleans Fiduciary Fund, which is used to account for assets held by the Authority as an agent for the City of New Orleans. This fund is recorded on the accrual basis of accounting. Agency Funds are custodial in nature and do not involve the measurement of results of operations.

Investments

Investments are recorded at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties and has generally been based upon quoted values. This method of accounting causes fluctuations in reported investment values based on fluctuations in the investment market. Fluctuations in the fair value of investments are recorded as income or expense in the statements of revenues, expenses and changes in net position.

The Authority applies the provisions of GASB Codification section 150, Investments, to U.S. Government and agency and mortgage-backed securities. Following is a summary of the cumulative realized and unrealized gains (losses) as reflected in the accompanying financial statements (in thousands):

	<u>Realized and Unrealized Gain (Loss)</u>		
	Balance	Change	Balance
	January 1,	During the	December 31,
	2018	Year-ended	December 31,
		December 31,	2018
		2018	
Unrestricted	\$ (26)	\$ (70)	\$ (96)
GSE Series of 2009	2,090	(422)	1,668
	<u>\$ 2,064</u>	<u>\$ (492)</u>	<u>\$ 1,572</u>

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(1) Organization and Summary of Significant Accounting Policies (continued)

The sale of these investments by the Authority is subject to certain restrictions as described in the individual bond indentures.

Capital Assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated lives (buildings - 40 years; equipment - 5 to 10 years; building improvements - 15 years) of the related assets.

Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates

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

(2) Restatement

Subsequent to the issuance of the financial statements as of and for the year ended December 31, 2017, the Authority determined that the all inter-entity balances were not properly eliminated. The prior period adjustment is presented as a reduction to the beginning net position.

Net Position - December 31, 2017	
As issued	\$ 16,798
Restatement adjustment	<u>(363)</u>
Net Position - December 31, 2017, as restated	<u>\$ 16,435</u>

(3) Cash and Cash Equivalents

In compliance with state laws, those deposits not covered by depository insurance are required to be secured by bank owned securities specifically pledged to the Authority and held in joint custody by an independent custodian bank. Custodial credit risk is the risk that in the event of a bank failure the Authority's deposits may not be returned to it. As of December 31, 2018, the Authority had \$2,523,905 in demand deposits that were covered by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The remaining amount of the Authority's cash balances were comprised of cash equivalents that were invested in money market funds, of which the underlying assets are guaranteed investments in securities issued by the U.S. Government.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(4) Investments

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Authority's U.S. government & agency and mortgage backed securities are valued using quoted prices for similar securities in active markets (Level 2 inputs).

The Authority's measurements of fair value are made on a recurring basis and their valuation techniques for assets and liabilities recorded at fair value on December 31, 2018 are as follows:

	Fair Value Measurements – December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mortgage backed securities	\$ -	\$ 9,513,000	\$ -	\$ 9,513,000
U.S. government and agency securities	-	1,395,000	-	1,395,000
Total	\$ -	\$ 10,908,000	\$ -	\$ 10,908,000

Credit Risk

Louisiana State statutes authorize the Authority to invest in the following types of investment securities:

- 1) Fully-collateralized certificates of deposit issued by qualified commercial banks, federal credit unions, and savings and loan associations located within the State of Louisiana.
- 2) Direct obligations of the U.S. government, including such instruments as treasury bills, treasury notes, treasury bonds and obligations of U.S. government agencies that are deliverable on the Federal Reserve System.
- 3) Repurchase agreements in U.S. government securities made with the primary dealers that report to and are regulated by the Federal Reserve Bank of New York.
- 4) Guaranteed investment contracts with companies having good credit ratings.

The Authority has no investment policy that would further limit its investment choices beyond the restrictions imposed by the State of Louisiana. At December 31, 2018, substantially all of the Authority's investments in Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) securities are at least rated AAA by Standard and Poor's or AAA by Moody's Investors Services. The Authority has no limit on the amount it may invest in any one issuer so long as the State of Louisiana's restrictions are followed.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(4) Investments (continued)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's policies generally restrict investments to terms that are no longer than the terms of the related bonds.

The Authority's bond programs have investments in guaranteed investment contracts, mortgage backed securities and other investments which have maturities which approximate the terms of the related debt. Therefore, the Authority balances its interest rate risk against the related debt. By using this method, the Authority believes that it will mitigate its interest rate risk.

The Authority's unrestricted fund has investments in U.S. agency securities with a weighted average maturity of approximately five years and in mortgage-backed securities with a weighted average maturity of approximately fifteen years.

Custodial Credit Risk

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

At December 31, 2018, the Authority's total investments of approximately \$10,908,000 included approximately \$1,395,000 of FFILB and US Treasury securities yielding interest at rates ranging from 0.25% to 0.625% due within 3 years, approximately \$2,372,000 of GNMA and FNMA securities bearing interest from 0.25% to 8.45% maturing through the year 2032, and approximately \$7,141,000 of mortgage-backed securities, described below.

Several of the single-family bond issues were structured to provide funds to purchase 30 year fixed rate mortgages which would then be immediately sold and assigned to a master servicer and exchanged for mortgage-backed securities. The securities are backed by the mortgage loans and guaranteed as to timely payment of principal and interest by GNMA or FNMA. Interest on the GNMA and FNMA securities is stated at 1/2% and 5/8%, respectively, which is less than the interest rate on the respective mortgage loans with final maturity dates ranging from 2023 through 2041. During 2017, several of the single-family bond issues were paid off with investments.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(4) Investments (continued)

Custodial Credit Risk (continued)

The individual single family issues structured in this manner and the values of the mortgage-backed securities held as of December 31, 2018, are as follows (in thousands):

<u>Single Family Program Fund</u>	<u>Interest Rate</u>	<u>Carrying Amount of Securities</u>
GSE Series of 2009	3.9-7.1%	<u>\$ 7,141</u>
Total		<u>\$ 7,141</u>

(5) Loans and Other Receivables

The Authority has mortgage loans of approximately \$68,000 which have scheduled maturities of 30 years and are collateralized by first mortgages on the related property. The Authority has certain loans which provide the borrower with funds to pay their closing costs and are subordinate to the first mortgages. The loans generally do not accrue interest if paid within ten years.

Revenues from federal and state grants are recorded when the Authority has a right to reimbursement under the related grant, generally corresponding to the incurring of grant related costs by the Authority, or when otherwise earned under the terms of the grants.

The Authority has established an allowance for doubtful receivables for the NOHMA Development Corporation and the Unrestricted Fund's loans aggregating \$56,000 as of December 31, 2018. The determination of the allowance was based on, among other things, an analysis of the unpaid balance of loans in default as compared to the estimated value of the related real estate and anticipated costs of disposal.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(6) Capital Assets

Capital asset activity for the period ended December 31, 2018 is as follows (in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 152	\$ -	\$ -	\$ 152
Building	1,758	-	(309)	1,449
Equipment	253	26	-	279
Total acquisition cost	<u>2,163</u>	<u>26</u>	<u>(309)</u>	<u>1,880</u>
Less: accumulated depreciation				
Building	378	119	(89)	408
Building improvements	32	7	-	39
Equipment	268	5	-	273
Total accumulated depreciation	<u>678</u>	<u>131</u>	<u>(89)</u>	<u>720</u>
Capital assets, net	<u>\$ 1,485</u>	<u>\$ (105)</u>	<u>\$ (220)</u>	<u>\$ 1,160</u>

Depreciation expense for the period ended December 31, 2018 was \$131,000.

(7) Bonds Payable – Single Family

The outstanding bonds payable and transactions of the Authority as of and for the period ended December 31, 2018, are as follows (in thousands):

	Issued	Interest Rate	Final Maturity Date	Outstanding December 31, 2017	Bonds Issued	Payments on Principal	Outstanding December 31, 2018
Single Family							
2009 GSE							
Revenue Bonds	25,000	2.32	12/1/2041	\$ 8,497	\$ -	\$ 1,476	\$ 7,021
Total				<u>\$ 8,497</u>	<u>\$ -</u>	<u>\$ 1,476</u>	<u>\$ 7,021</u>

The single family bonds issued are secured by and payable solely from bond proceeds, revenues and other amounts derived by the Authority from the mortgage loans and other assets acquired with the bond proceeds and from certain reserve funds.

During 2009, the Authority issued \$25,000,000 of GSE Revenue Bonds. These obligations are secured by and payable solely from bond proceeds, revenues, GNMA and FNMA certificates and other amounts derived by the Authority from this issue and from certain reserve funds. These bonds are not guaranteed by or, in any way, an obligation of GNMA or FNMA. The initial proceeds were invested in an investment agreement with US Bank. The initial interest rate was equal to the rate of interest earned on the fund's investments. Effective, February 22, 2012 the rate converted to a permanent rate of 2.32% through December 1, 2041. The bonds are subject to redemption on or prior to December 1, 2041.

THE FINANCE AUTHORITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS

(8) Debt Payment Requirements

Following is a schedule of the future principal and interest payments of the Authority's debt based on the stated maturity dates of the debt. Actual repayment dates will likely occur earlier since substantially all of the debt is subject to early redemption provisions. These early redemption provisions relate to payments received on the mortgage-backed securities and mortgage loans receivable and certain other factors. These early redemptions will also reduce future interest payments.

Scheduled principal and interest payments for the years ending December 31, are as follows, assuming that all bonds are held to maturity (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 197	\$ 197
2020	-	197	197
2021	-	197	197
2022	-	197	197
2023	-	197	197
2024-2029	-	985	985
2030-2035	-	985	985
2036-2041	7,021	985	8,006
	<u>\$ 7,021</u>	<u>\$ 3,940</u>	<u>\$ 10,961</u>

(9) Inter-Entity Operating Transfers

The Authority makes transfers between its various programs included in the proprietary on a periodic basis. These transfers include the following:

- 1) Transfers from the Unrestricted Fund and other funds to finance the initial operations of new funds.
- 2) Transfers of the net position of funds that are liquidating to the Unrestricted Fund.
- 3) Transfers from ongoing funds to the Unrestricted and Operating Funds to finance the Authority's ongoing operations.

Transfers are recorded at the original cost of the transferring fund.

(10) Board Member Per Diem

For the period ended December 31, 2018, the Authority's Board members did not receive any per diem for all committee and board meetings attended.

SUPPLEMENTAL
INFORMATION

FINANCE AUTHORITY OF NEW ORLEANS

Combining Statement of Net Position

December 31, 2018

(in thousands)

	Operating Fund	NOHMA Development Corporation	Unrestricted Fund	Pathways to Homeownership Program	Market Rate Program	Single Family Program Fund	Eliminations	Combined
Assets								
Current assets:								
Cash and cash equivalents	727	\$ 63	\$ 6,839	\$ 781	\$ 700	\$ -	\$ -	\$ 9,110
U.S. Government and agency securities	-	-	1,395	-	-	-	-	1,395
Mortgage backed securities	-	-	2,372	-	-	-	-	2,372
Receivables, net:								
Mortgage loans	-	-	68	-	-	-	-	68
Accrued interest	4	-	9	-	-	20	-	33
Due from other funds	1,290	60	19	5	-	22	(1,396)	-
Due from other governments	250	-	-	-	-	-	-	250
Other loans and assets	-	-	-	6	48	-	-	54
Allowance for doubtful accounts	-	-	(56)	-	-	-	-	(56)
Total receivables, net	1,544	60	40	11	48	42	(1,396)	349
Prepaid expenses and other assets	18	-	-	422	-	-	-	440
Total current assets	2,289	123	10,646	1,214	748	42	(1,396)	13,666
Noncurrent assets:								
Cash and cash equivalents, restricted	-	-	-	-	-	674	-	674
Mortgage-backed securities, restricted	-	-	-	-	-	7,141	-	7,141
Capital assets, net	111	-	158	891	-	-	-	1,160
Total Assets	\$ 2,400	\$ 123	\$ 10,804	\$ 2,105	\$ 748	\$ 7,857	\$ (1,396)	\$ 22,641
Liabilities and Net Position								
Current liabilities:								
Accrued interest and other	175	-	10	10	3	18	-	216
Due to other funds	108	-	1,105	38	28	117	(1,396)	-
Due from other governments	75	-	28	-	-	-	-	103
Security deposit liability	-	-	-	2	-	-	-	2
Total current liabilities	359	-	1,143	50	31	135	(1,396)	322
Long-term liabilities:								
Bonds and notes payable	-	-	-	-	-	7,021	-	7,021
Total Liabilities	359	-	1,143	50	31	7,156	(1,396)	7,343
Net position:								
Net investment in capital assets	111	-	158	891	-	-	-	1,160
Restricted	-	-	-	-	-	701	-	701
Unrestricted	1,929	123	9,503	1,164	717	-	-	13,437
Total net position	2,040	123	9,661	2,055	717	701	-	15,298
Total liabilities and net position	\$ 2,399	\$ 123	\$ 10,804	\$ 2,105	\$ 748	\$ 7,857	\$ (1,396)	\$ 22,640

See accompanying independent auditors' report.

FINANCE AUTHORITY OF NEW ORLEANS

Combining Statement of Revenues, Expenses and Changes in Net Position

December 31, 2018

(in thousands)

	<u>Operating Fund</u>	<u>NOHMA Development Corporation</u>	<u>Unrestricted Fund</u>	<u>Pathways to Homeownership Program</u>	<u>Market Rate Program</u>	<u>Single Family Program Fund</u>	<u>Combined</u>
Revenues:							
Interest on mortgage loans and mortgage-backed securities	\$ -	\$ -	\$ 18	\$ -	\$ -	\$ 411	\$ 429
Interest on other investments	17	-	33	2	10	157	219
Lender participation fees	-	-	-	-	-	-	-
Realized and unrealized gain (loss) on mortgage-backed securities	-	-	(70)	-	-	(423)	(493)
Rental income	-	-	-	3	-	-	3
Grant Revenue	250	-	-	-	-	-	250
Other	-	-	211	9	7	-	227
Total revenues	267	-	192	14	17	145	636
Expenses:							
Interest expense on revenue bonds and notes	-	-	-	-	-	185	185
Program expenses	1,123	-	3	109	1	3	1,239
Depreciation expense	12	-	5	114	-	-	131
Bad debt expense	-	-	173	45	-	-	218
Total expenses	1,135	-	181	268	1	188	1,773
Deficiency in revenues over expenses before operating transfers	(868)	-	11	(254)	16	(43)	(1,137)
Operating transfers in (out)	814	-	(754)	-	-	(60)	-
Deficiency in revenues over expenses	(54)	-	(743)	(254)	16	(103)	(1,137)
Net Position - Beginning of year, as restated (Note 2)	2,094	123	10,404	2,309	701	804	16,435
Net Position - End of year	\$ 2,040	\$ 123	\$ 9,661	\$ 2,055	\$ 717	\$ 701	\$ 15,298

See accompanying independent auditors' report.

FINANCE AUTHORITY OF NEW ORLEANS**Schedule of Compensation, Benefits, and Other Payments to Agency Head****For the year ended December 31, 2018****Agency Head Name: Damon Burns, Chief Executive Officer**

<u>Purpose</u>	<u>Amount (\$)</u>
Salary	\$ 130,000
Benefits-health insurance	5,798
Benefits-retirement	6,500
Benefits-life insurance	19
Benefits-FICA & Medicare	995
Cell phone	1,796
Dues	3,159
Vehicle rental	64
Per diem	558
Reimbursements	303
Travel	5,598
Registration fees	150
Conference travel	917
Meetings & conventions	2,057
	<u>\$ 157,914</u>

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' 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**

The Board of Trustees of
The Finance Authority of New Orleans

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 accompanying financial statements of the proprietary fund and fiduciary fund of the Finance Authority of New Orleans (the Authority), as of and for the year ended December 31, 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, and have issued our report thereon dated June 27, 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 opinions 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 a 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 and therefore, material weakness or significant deficiencies may exist that were not identified.



Postlethwaite & Netterville
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 Authority'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 communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
June 27, 2019

THE FINANCE AUTHORITY OF NEW ORLEANS

SCHEDULE OF FINDINGS AND RESPONSES

DECEMBER 31, 2018

Summary of Auditor's Results:

1. Opinion

The opinion issued on the financial statements of the Finance Authority of New Orleans for the year ended December 31, 2018 was unmodified.

2. Current Year Findings and Responses:

None noted.

THE FINANCE AUTHORITY OF NEW ORLEANS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

DECEMBER 31, 2018

3. Status of Prior Year Findings:

2017-001 - Significant Deficiency - Ineffective Capital Asset Process (Pathways to Homeownership Program and Operating Fund)

Criteria:

Government Accounting Standards Board (GASB) Codification Section 1400.103 states that capital assets include "land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets." As well, GASB Codification Section 1400.104 states that "capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives or are infrastructure assets reported using the modified approach."

Condition:

During the year ended December 31, 2017, there was \$973,416 in capital assets that were deemed non-capitalizable, but not written off related to the Pathways to Homeownership Program. The Authority also had \$199,400 of real estate assets that were not properly recorded on the financial statements related to the Pathways to Homeownership Program. The Authority also determined that capital assets related to the Operating Fund should have been incurring depreciation expense.

Recommendation:

We recommend that the Authority design and implement sufficient change management internal controls to ensure proper transference of data in the event of a significant change in key financial personnel.

Status:

Resolved.

2017-002 - Timely Submission of Audit Report to Legislative Auditor

Criteria:

Louisiana Revised Statute R.S. 24:513 requires the Authority to file the audit report within six months of year-end.

Condition:

The December 31, 2017 audited financial statements were not filed within six months of year-end.

THE FINANCE AUTHORITY OF NEW ORLEANS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

DECEMBER 31, 2018

Recommendation:

Management should ensure all supporting detail and reconciliations are completed timely to ensure the audit is completed by the required deadline.

Status:

Resolved.

THE FINANCE AUTHORITY OF NEW ORLEANS

NEW ORLEANS, LOUISIANA

STATEWIDE AGREED-UPON PROCEDURES

FOR THE YEAR ENDED DECEMBER 31, 2018



Postlethwaite & Netterville

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THE FINANCE AUTHORITY OF NEW ORLEANS

NEW ORLEANS, LOUISIANA

STATEWIDE AGREED-UPON PROCEDURES

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To Board of Directors of the Finance Authority of New Orleans
and the Louisiana Legislative Auditor

We have performed the procedures enumerated in Schedule A, which were agreed to by the Finance Authority of New Orleans (the Authority) and the Louisiana Legislative Auditor (LLA) (specified users) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the period January 1, 2018 through December 31, 2018. The Authority's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached Schedule A either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the associated findings are summarized in the attached Schedule A, which is an integral part of this report.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Postlethwaite & Netterville

Metairie, Louisiana
June 27, 2019

FINANCE AUTHORITY OF NEW ORLEANS
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
DECEMBER 31, 2018

Schedule A

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read “*no exception noted*”. If not, then a description of the exception ensues. Additionally, certain procedures listed below may not have been performed in accordance with guidance provided by the Louisiana Legislative Auditor, the specified user of the report. For those procedures, “procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity” is indicated.

Written Policies and Procedures

1. Obtain and inspect the entity’s written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity’s operations):

- a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

No exception noted.

- b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

No exception noted.

- c) ***Disbursements***, including processing, reviewing, and approving

No exception noted.

- d) ***Receipts***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management’s actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

No exception noted.

- e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

No exception noted.

- f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

No exception noted.

FINANCE AUTHORITY OF NEW ORLEANS
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
DECEMBER 31, 2018

Schedule A

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)

No exception noted.

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

No exception noted.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

No exception noted.

- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

The Authority has written policies for Debt Service; however, the policy does not specifically address: (1) debt issuance approval, (3) debt reserve requirements, or (4) debt service requirements.

Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

- a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

The Board of Directors of the Authority did not meet monthly in accordance with their bylaws.

- b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds.

Not applicable. FANO has enterprise and fiduciary funds only.

- c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal

FINANCE AUTHORITY OF NEW ORLEANS
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
DECEMBER 31, 2018

Schedule A

period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

No exception noted.

Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

A listing of bank accounts was provided and included a total of 14 bank accounts. Management identified the Authority's main operating account. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected 5 bank accounts (1 main operating and 4 other) and obtained the bank reconciliations for the month ending December 31, 2018, resulting in 5 bank reconciliations obtained and subjected to the below procedures.

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

No exceptions noted.

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

No exceptions noted.

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

No exceptions noted.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

A listing of deposit sites was provided and included one deposit site. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected the deposit site and performed the procedures below.

FINANCE AUTHORITY OF NEW ORLEANS
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
DECEMBER 31, 2018

Schedule A

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

A listing of collection locations for each deposit site selected in procedure #4 was provided and included one collection location. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected the collection location for the deposit site. Review of the Authority's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

No exceptions noted.

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

The Authority's employee responsible for collecting cash prepares/makes the bank deposit and reconciles collection documentation to the deposit.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

No exceptions noted.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

There is no formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source, by a person who is not responsible for cash collections in the collection locations selected.

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

Management stated that all employees who have access to cash are bonded and/or covered under the Authority's insurance policy.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the

FINANCE AUTHORITY OF NEW ORLEANS
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
DECEMBER 31, 2018

Schedule A

same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

We selected two deposit dates for each of the 5 bank accounts selected in procedure #3. We obtained supporting documentation for each of the 10 deposits and performed the procedures below.

- a) Observe that receipts are sequentially pre-numbered.

The Authority does not maintain sequentially pre-numbered receipts.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

The Authority does not maintain sequentially pre-numbered receipts, system reports, or other related collection documentation. As such, we were unable to perform the procedure.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

No exceptions noted.

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

No exceptions noted.

- e) Trace the actual deposit per the bank statement to the general ledger.

No exceptions noted.

Non-payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

All payments are processed at one location. No exceptions were noted as a result of performing this procedure.

We selected the sole location and performed the procedures below.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

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The listing of employees involved with non-payroll purchasing and payment functions for the payment processing location selected in procedure #8 was provided. No exceptions were noted as a result of performing this procedure.

Review of the Authority's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

No exceptions noted.

- b) At least two employees are involved in processing and approving payments to vendors.

No exceptions noted.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

No exceptions noted.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

No exceptions noted.

- 10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

A listing of non-payroll disbursements for each payment processing location selected in procedure #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.

From each of the listings provided, we randomly selected 5 disbursements and performed the procedures below.

- a) Observe that the disbursement matched the related original invoice/billing statement.

No exceptions noted.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

No exceptions noted.

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Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

A listing of cards was provided. No exceptions were noted as a result of performing this procedure.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

The Authority used one card in the fiscal period. We selected one monthly statement and performed the procedures noted below.

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.)]

No exceptions noted.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

No exceptions noted.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

No exceptions noted.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

The listing of travel and travel-related expense reimbursements was provided for the fiscal period. No exceptions were noted as a result of performing this procedure.

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From the listing provided, we randomly selected 5 reimbursements and performed the procedures below.

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

Of the 5 reimbursements selected for our procedures, 2 used a per diem. No exceptions noted.

- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

No exceptions noted.

- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

No exceptions noted.

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No exceptions noted.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

An active vendor list for the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected 5 contracts and performed the procedures below.

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

Of the 5 contracts selected for our procedures, none were subject to Louisiana Public Bid Law.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

No exceptions noted.

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- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

No exceptions noted.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

We selected 1 payment for the 5 contracts selected in procedure #15 and performed the specified procedures. No exceptions noted.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.).

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

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18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above obtain ethics documentation from management, and:
- a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- b) Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

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Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

A listing of misappropriations of public funds and assets during the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

No exceptions noted.

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Corrective Action

25. Obtain management's response and corrective action plan for any exceptions noted in the above agreed-upon procedures.

Management will update the debt policy to address the current debt service requirements. However, the Authority currently follows Louisiana Revised Statutes 39:1410.60 to 39:1410.65 for all debt service requirements.

The Board of Trustees is working to revise the current bylaws, to address meeting frequency and attendance. The Board of Trustees are provided the monthly financial statements and reporting via email in an event a quorum is not present, and the scheduled monthly Board Meeting is cancelled.

Management is currently working to correct this problem by revising procedures around cash collections. Management will ensure that staff uses pre-numbered receipts in the future; however, management does reconcile collection documentation to the deposit slip when performing monthly reconciliations.