

**CAPITAL AREA FINANCE AUTHORITY**

**DECEMBER 31, 2017**

**BATON ROUGE, LOUISIANA**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Capital Area Finance Authority  
Baton Rouge, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities which include each of the individual programs, the unrestricted fund, and the 2017 combined financial statements of the Capital Area Finance Authority (the Authority) as of and for the year ended December 31, 2017, 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 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 of 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 Authority'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 financial position of the Capital Area Finance Authority as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the Capital Area Finance Authority's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other - Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 13 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 a report dated June 12, 2018 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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 Capital Area Finance Authority's internal control over financial reporting and compliance.

Respectfully submitted,

*Hannu J. Bourgeois, CPA*

Baton Rouge, Louisiana  
June 12, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis ("MD&A") of the Capital Area Finance Authority's (the "Authority") (formerly known as the East Baton Rouge Mortgage Finance Authority) financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended December 31, 2017 as well as commentary of general market trends, market conditions and the Authority's mortgage loan origination and mortgage loan payoff history. This document focuses on the year ended December 31, 2017 activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this MD&A in conjunction with the Authority's audited financial statements for the year ended December 31, 2017 presented beginning on page 14.

The Authority's basic financial statements include the totals of the similar accounts of each of the Authority's various bond programs as well as the Authority's Unrestricted Fund. Since the assets of each individual bond series are only pledged by the respective bond resolution and trust indenture to the respective individual bond series, the totaling of the accounts, including the assets therein, is for convenience purposes only and does not indicate that the combined assets are available in any manner other than is provided for in the respective resolutions and indentures relating to each separate bond series. However, for the purpose of this analysis, we will refer to the combined totals in order to assist the reader in understanding the overall financial condition of the Authority.

A commentary of general economic trends, interest rate market conditions, as well as an overview of financial statements, an analysis of the authority's activities for the year ended December 31, 2017, current economic factors, the Authority's 2018 budget and the Authority's mortgage lending programs are presented over the following pages.

- General economic conditions have seen significant improvement recently including a rise in the stock markets and lower unemployment numbers. Consumer confidence is also improving.
- Mortgage loan interest rates have begun to rise at a faster pace, prompted in part as a reaction to the rise in the Federal Reserve Interest Rates.
- Conditions in the tax-exempt mortgage revenue bond market have improved slightly but there may not be sufficient improvement for the Authority to consider issuing tax-exempt mortgage revenue bonds during 2018.
- The Authority did not issue bonds in 2012, 2013, 2014 or 2017.
- In 2014, the Authority completed its mortgage lending program (the "GSE Mortgage Lending Program") utilizing the GSE bond proceeds. The bonds were issued in early 2010 and converted to a permanent rate late in 2011.
- The mortgage loan rates on the GSE Mortgage Lending Program ranged from 3.75% to 4.75% available to first-time homebuyers and included down payment and closing cost assistance. This assistance was in the form of a soft second mortgage forgivable over a five (5) year period which second mortgage loan has no monthly principal or interest payments required.
- In 2015 and 2016 the Authority issued taxable bonds to refund several prior bond issues. The purpose of the refundings was to lower the bond interest expense and to release surplus assets to the Unrestricted Fund. In each refunding the majority of the Mortgage Backed Securities which had been

the collateral for the prior issues were transferred to the new taxable bond issues as collateral for the new issues. Excess Mortgage Backed Securities and cash from the prior issues were transferred to the Authority's Unrestricted Fund.

- During 2016, the Capital Region experienced two major flood events (March and August) both of which resulted in designations as Federal Disaster Areas. These two events had a significant impact on economic conditions in the Capital Region.

## FINANCIAL HIGHLIGHTS

### **2017 Mortgage Loan Principal Paydowns for Mortgage Loans Made with Mortgage Revenue Bond Proceeds**

Conventional market mortgage loan interest rates continue to rise which generally slows the pace of prepayments. The amount of early paydowns decreased during 2017 resulting in \$10.999 million in total mortgage loan paydowns as compared with \$12.076 million in 2016. No new mortgage loans were originated during 2017 using mortgage revenue bond proceeds. (See the chart below for the history of new mortgage loan originations from mortgage revenue bond proceeds for the last sixteen (16) year period.)

<u>Year Ended December 31</u>	<u>Total Mortgage Paydowns<sup>*2</sup> (million)</u>	<u>New Mortgage Loan Originations (million)</u>	<u>Net Mortgage Related Assets Increase or Decrease (million)</u>
2002	\$ 57.784	\$ 18.878	\$ (38.906)
2003	74.230	12.463	(61.767)
2004	53.985	22.636	(31.349)
2005	40.069	26.826	(13.243)
2006	25.679	38.946	13.267
2007	24.097	45.749	21.652
2008	21.565	15.192	(6.373)
2009	26.783	3.368	(23.415)
2010	28.716	11.140	(17.576)
2011	19.149	19.301	0.152
2012	20.340	23.270	2.930
2013	16.710	19.851	3.141
2014	10.404	3.305	(7.099)
2015	8.398	0.000	(8.398)
2016	12.076	0.000	(12.076)
2017	10.999	0.000	(10.999)
Totals	<u>\$ 450.984</u>	<u>\$ 260.925</u>	<u>\$ (190.059)</u>

<sup>\*2</sup> Principal payments of mortgage loans pooled into GNMA, FNMA or FHLMC mortgage backed securities (“MBS”) (which MBS serve as collateral for the Authority’s bonds) are required to be used to retire the same approximate amount of Authority’s bonds prior to their respective stated maturities. This number reflects loans paid in full prior to maturity and regular monthly principal paydowns.

## **2017 New Mortgage Loan Originations**

- **Capital Advantage Program - TBA Program**

In September of 2014, the Authority initiated the Capital Advantage Program (“CAP”) a TBA Turnkey Mortgage Loan Program with Raymond James as Hedging Agent and US Bank as the Master Servicer. Loans are originated and funded by approved banks and mortgage companies and the loans are then purchased by US Bank. Down payment assistance is provided as a grant by a marginal increase in the mortgage loan rate. The Authority earns a one-time fee at the time of the pooling of the loans into an MBS. The first pooling was conducted in February of 2015. US Bank, on behalf of the Authority, has pooled approximately \$6.068 million in loans and the Authority earned approximately \$70,436 in one-time fees in 2017 as compared to \$10.198 million in loans and \$148,190 in one-time fees in 2016.

- **Purchase Advantage Powered by CAFA (PAC) Program - TBA Program**

In August of 2015, the Authority initiated the LA CAFA TBA Mortgage Loan Program in cooperation with GMFS Lending. During 2017 the name was changed at the request of GMFS to PAC. This program utilizes licensed financial institutions comprised of community banks, credit unions and mortgage brokers who choose to broker conventional and government mortgage loans. GMFS Lending serves as underwriter, funder, hedging agent and Master Servicer for this program. Down payment assistance is provided as a grant by a marginal increase in the mortgage loan rate. The Authority earns a one-time fee at the time of the closing of the loans. During 2017, approximately \$23.536 million in loans were closed and the Authority earned \$98,602 in one-time fees as compared to 2016, when \$11.695 million in loans were closed and the Authority earned \$103,325 in one-time fees.

- **CAFA Gold Program - TBA Program**

In April, 2017 CAFA initiated the CAFA Gold Program as a pilot program in cooperation with Freddie Mac. This program is a market rate program with down payment and closing cost assistance in the form of a soft second mortgage (a second lien on the property that has no interest and no payments which is forgiven over a period of 7 years). Freddie Mac Seller/Servicers in this program are allowed to originate and service their own loans. CAFA earns a one-time fee for these loans at the closing of the first mortgage. During 2017 \$4.267 million in first mortgage loans were closed and CAFA earned \$26.977 in one-time fees.

- **Cooperative Endeavor Agreement Parishes (CEA Parishes)**

In addition, CAFA has CEAs with 20 Parishes outside the nine parish Capital Area which allows mortgage loan originations utilizing CAFA's TBA programs. In exchange for the approval of each parish to allow CAFA to originate loans therein, CAFA shares 50% of the one-time fee generated from loans made in each particular Parish. CAFA's share of the fees generated from the CEA Parishes for 2017 was \$31,984.

### **2015 Taxable Refunding Single Family Mortgage Revenue Refunding Bonds Series 2015**

In September 2015, the Authority conducted a Taxable Refunding of Single Family Mortgage Revenue Bonds in the amount of \$20.02 million in Bonds. The Authority collapsed multiple prior single-family issues. The proceeds of the 2015 Taxable Refunding Bonds were used to call the bonds of the prior single-family issues. The majority of the MBS collateral from the prior issues was transferred to the 2015 Taxable issue as collateral for the 2015 Bonds. The remaining MBS and residual cash from the refunded prior issues was transferred to the Unrestricted Fund. The 2015 Taxable Refunding released approximately \$1.6 million in residual cash and approximately \$2.816 million in MBS from the restricted refunded bond issues to the Unrestricted Fund. The average bond interest rate was reduced from approximately 5.90% on the refunded bonds to approximately 2.90% for the new bonds.

The \$36,000 of "Deferred Inflow of Resources" represents legacy bond premiums from certain refunded prior single-family bond issues which were funded using the 2015 taxable bond issues proceeds.

### **2016 Taxable Refunding Single Family Mortgage Revenue Refunding Bonds Series 2016**

In November 2016, the Authority conducted a Taxable Refunding of Single Family Mortgage Revenue Bonds in the amount of \$9.725 million in Bonds. The Authority collapsed two prior single family issues. The proceeds of the 2016 Taxable Refunding Bonds were used to call the bonds of the prior single family issues. The majority of the MBS collateral from the prior issues was transferred to the 2016 Taxable issue as collateral for the 2016 Bonds. The remaining MBS and residual cash from the refunded prior issues were transferred to the Unrestricted Fund. The 2016 Taxable Refunding released approximately \$301,125 in residual cash and approximately \$191,316 in MBS from the restricted refunded bond issues to the Unrestricted Fund. The average bond interest rate was reduced from approximately 4.674% on the refunded bonds to approximately 2.375% for the new bonds.

The \$60,000 of "Deferred Inflow of Resources" represents legacy bond premiums from certain refunded prior single family bond issues which were funded using the 2016 taxable bond issues proceeds.

### **2017 Adjusted Net Position**

- The Authority's assets exceeded its liabilities at the close of 2017 by \$34.670 million, which represents a \$1.121 million decrease from the 2016 amount of \$35.791 million.

- For the year ended December 31, 2017, the Authority had \$1.250 million in unrealized losses in the Net Increase (Decrease) in the Fair Market Value of Investments. The net unrealized loss of \$1.250 million for 2017 combined with the net unrealized loss in 2016 of \$1.540 million represents a \$290,000 net increase in the fair market value of investments from 2016 to 2017.
- Without giving effect to the adjustment for the cumulative unrealized gains in the Net Increase (Decrease) in the Fair Value of Investments, the Authority's assets exceeded its liabilities by \$35.920 million in 2017 which represents a decrease of \$1.411 million from the 2016 adjusted amount of \$37.331 million.

### **2017 Adjusted Operating Revenues**

- The Authority's adjusted revenues of \$4.091 million in 2017 (exclusive of the \$1.250 million Net Decrease in the Fair Value of Investments) decreased by \$327,000 as compared to adjusted revenues of \$4.418 million generated in 2016 (exclusive of the Net Decrease in the Fair Value of Investments of \$1.540 million.)
- The Authority generated income earned on mortgage loans receivable/mortgage backed securities of \$2.505 million in 2017 as compared with \$3.035 million in 2016 - a decrease of \$530,000.
- The Authority realized a \$53,000 increase in income earned on other investments from \$462,000 in 2016 to \$515,000 in 2017. This is primarily due to maturity of investments being reinvested at currently rising interest rates.
- The Authority's Fee Income in 2017 increased by \$176,000 from \$661,000 in 2016 to \$837,000 in 2017. This is primarily due to the addition of fees from the 2016 Taxable Bond Issue.
- The income for 2017 from fees earned on the three Market Rate Loan Programs which combined total \$228,000 as compared to \$245,000 for 2016, a decrease of \$17,000 due to 2016 flooding and the availability of disaster related Federal Flood Programs.
- The Authority had a decrease in Other Income of \$9,000 from \$15,000 in 2016 to \$6,000 in 2017.

### **2017 Operating Expenses**

- The Authority's 2017 Total Operating Expenses of \$3.957 million decreased by \$780,000 from 2016 operating expenses of \$4.737 million.
- There was a decrease in the amortization of DAP/MLAP of \$257,000 from \$711,000 in 2016 as compared to \$454,000 in 2017.
- There was a decrease of \$50,000 in Operating Expenses of \$1.235 million in 2017 as compared to \$1.285 million in 2016.

### **2017 Adjusted Net Operating Income**

- Excluding the realized and unrealized gains or losses in the Net Increase/Decrease in the Fair Value of Investments for 2017 and 2016 and adjusting for the non-cash expense item category of the amortization of down-payment assistance programs costs, the Authority experienced a net operating income of \$588,000 in 2017 compared with a \$392,000 net operating income in 2016, an increase of \$196,000.

### **2017 Unrestricted Fund Net Position**

- As of December 31, 2017, the Authority had an unrestricted net position of \$30.288 million (after adjusting for the unrealized loss of \$200,000) as compared with unrestricted net position of \$29.582 million as of December 31, 2016 (after adjusting of for an unrealized gain of \$145,000) representing an increase of \$706,000 due primarily to the transfer of residual cash and MBS assets from the refunded prior single-family issues as a result of the revenues from 2016 Economic Refunding.

### **Authority's Bond Credit Ratings**

- The Authority has a "Aaa" rating from Moody's Investor Service ("Moody's") on substantially all of its separately secured series of bonds. The Series 2007B, 2009A-1, A-2 and A-3 Bonds which were rated Aa1 on the Series 2007B Bonds (reaffirmed October 17, 2014) were upgraded to Aaa in May, 2017 and A2 on the 2009A-1, A-2 and A-3 Bonds (upgraded in July, 2014). These series of Bonds listed above were rated lower than Aaa due solely to the downgrade of the Moody's ratings of various financial institutions respective guaranteed investment agreement providers with which the Authority invests its monthly receipts of mortgage loan principal and interest payments from its mortgage backed securities which serve as collateral for the Authority's Bonds.
- The 2009 GSE Bonds are rated Aa+ by Standard and Poor's Corporation.
- In addition in May 2002, the Authority applied for an issuer rating from Moody's Investor Services ("Moody's"). Moody's awarded the Authority an 'A3' issuer general obligation rating which is the current rating. The Authority issued a series of subordinate bonds in the principal amount of \$2 million as a part of the Series 2009A Bonds on October 27, 2009 secured in part by the Authority's general obligation pledge of the Authority's unrestricted assets.
- Moody's reaffirmed the Authority's 'A3' issuer general obligation rating on November 13, 2014. The "A3" rating remains the current credit rating. Moody's included as a part of its rating report certain operating and debt ratios in its rating report.
- Moody's issued a Aaa rating to the Taxable Single Family Mortgage Revenue Refunding Bonds Series 2015.
- Moody's issued a Aaa rating to the Taxable Single Family Mortgage Revenue Refunding Bonds Series 2016.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Basic Financial Statements

The basic financial statements include information on a combined basis for the Authority as a whole, in a format designed to make the statements easier for the reader to understand. The statements include the balance sheets; the statements of revenues, expenses, and changes in net position; and the statements of cash flows.

The balance sheets (page 14) present the assets and liabilities separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the Authority is improving or deteriorating on an adjusted basis.

The statements of revenues, expenses, and changes in net position (page 15) present information showing how the Authority's net position changed as a result of the current year's operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The statements of cash flows (pages 16 - 17) present information showing how the Authority's cash changed as a result of the current year's operations. The combining cash flow statements are prepared using the direct method and include the reconciliation of net income (loss) to net cash provided by (used in) operating activities (indirect method) as required by Statement 34 of the Governmental Accounting Standards Board.

### COMBINED STATEMENT OF NET ASSETS AS OF DECEMBER 31, 2017 AND 2016 (In Thousands)

	<u>2017</u>	<u>2016</u>	<u>Change from Prior year</u>
Cash and Cash Equivalents	\$ 8,907	\$14,064	(\$5,157)
Brokered Certificates of Deposit	9,338	4,049	5,289
Guaranteed Investment Agreements	342	388	(46)
State, U.S. Government and Agency Securities	7,421	5,885	1,536
Mortgage-Backed Securities	52,847	62,252	(9,405)
Mortgage Loan Receivable - Net	153	452	(299)
Accrued Interest Receivable	293	254	39
Downpayment and Authority Assistance Programs	41	240	(199)
Note Receivable	81	183	(102)
Prepaid Insurance and Other Assets	63	35	28
Capital Assets (Net of Accumulated Depreciation)	1,513	1,512	1
Total Assets	<u>\$80,999</u>	<u>\$89,314</u>	<u>(\$8,315)</u>

(CONTINUED)

	<u>2017</u>	<u>2016</u>	<u>Change from Prior year</u>
Accounts Payable and Accrued Liabilities	\$ 33	\$ 64	\$ (31)
Accrued Interest Payable	167	196	(29)
Bonds Payable - Net	<u>46,129</u>	<u>53,263</u>	<u>(7,134)</u>
 Total Liabilities	 46,329	 53,523	 (7,194)
 Deferred Inflows - Related to Refunding of Bonds	 96	 101	 (5)
 Net Position:			
Net Investment in Capital Assets	1,513	1,512	1
Restricted *1	4,486	5,746	(1,260)
Unrestricted *2	<u>28,575</u>	<u>28,432</u>	<u>143</u>
 Total Net Position	 <u>34,574</u>	 <u>35,690</u>	 <u>(1,116)</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$80,999</u>	 <u>\$89,314</u>	 <u>(\$8,315)</u>

\*1 'Restricted net assets' represent those net assets that are restricted and as a result are not available for general use due to the terms of the various bond trust indentures under which certain specified assets are held and pledged as security for the individual bonds of the Authority constituting its mortgage lending programs.

\*2 'Unrestricted net assets' are those assets for which there is not a specific limitation pledge of any of the unrestricted net assets to a specific bond issue of the Authority.

#### **Authority Debt**

- The Authority had \$46.129 million in mortgage revenue bonds on December 31, 2017 as compared to \$53.263 million in mortgage revenue bonds as of December 31, 2016, as shown in the table below:

#### **OUTSTANDING AUTHORITY DEBT AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u> <u>(millions)</u>	<u>2016</u> <u>(millions)</u>	<u>Change from Prior Year</u> <u>(millions)</u>
Mortgage Revenue Bonds	\$46.129	\$53.263	\$(7.134)
Line of Credit (FHLB of Dallas)	—	—	—
Outstanding Debt (as of December 31)	<u>\$46.129</u>	<u>\$53.263</u>	<u>\$(7.134)</u>

- Mortgage Revenue Bonded Debt outstanding decreased by \$7.134 million as of December 31, 2017 as compared with December 31, 2016.

## **Accounts Payable and Accrued Interest Payable**

The Authority had Accounts Payable and Accrued Liabilities and Accrued Interest Payable of \$200,000 outstanding on December 31, 2017 (of which \$167,000 is accrued interest payable on the bonds) compared with \$260,000 for December 31, 2016 - a decrease of \$60,000.

## **Subsequent Events**

On February 1, 2018 CAFA used funds from the Unrestricted Fund and residual cash in the 2007B Series Bond Issue to optionally call the remaining \$935,000 in 2007B bonds. The GNMA and FNMA mortgage backed security collateral for the 2007B bonds was then transferred into the Unrestricted Fund.

Effective October 1, 2017 Mark Drennen was hired as President and CEO. Mr. Drennen's career includes serving eight (8) years as the Commissioner of Administration for the State of Louisiana and eight (8) years as CEO of the Public Affairs Research Council of Louisiana.

## **ECONOMIC FACTORS AND THE AUTHORITY'S 2018 BUDGET**

The Authority's Board of Trustees considered the following factors and indicators when the Authority adopted its 2018 Operating Budget. These factors and indicators include:

- The potential for the continuation of relatively low but rising conventional mortgage loan interest rates in 2018 will cause the velocity of early mortgage loans payoffs to stabilize.
- The Authority launched a Market Rate mortgage loan program with down payment and closing cost assistance with Raymond James as hedging agent and US Bank as Master Servicer in September 2014. Interest rates are published daily by 9:00am CST. The Authority conducted the first pooling of loans in January 2015. Due to the catastrophic flooding in March and August of 2016 there are several home financing products available through federal flood programs which have slowed the origination of loans through this program.
- The Authority created a parallel Market Rate mortgage program with down payment and closing cost assistance with GMFS Lending, LLC in August 2015. This program utilizes licensed financial institutions comprised of community banks, credit unions and mortgage brokers who choose to broker conventional and government mortgage loans. GMFS Lending serves as underwriter, funder, hedging agent and Master Servicer for this program. The Authority collects a one-time issue fee when the loans are closed. Due to the catastrophic flooding in March and August of 2016 there are several home financing products available through federal flood programs which have slowed the origination of loans through this program.
- During 2017 CAFA began a mortgage loan program which allows major mortgage loan companies to originate and then service their own loans. This is a pilot program in cooperation with Federal Home Loan Mortgage Corporation (Freddie Mac) and George K. Baum. Freddie Mac is working with a few select local Housing Finance Agencies ("HFAs") across the country similar to CAFA to participate in this pilot program. In this program each HFA can select up to five (5) Freddie Mac Seller/Serviceers to originate and service first mortgage loans under CAFA's Gold Program. It is a market rate program, but the structure of the program allows for a lower mortgage rate and increased down payment and closing cost assistance. CAFA started with one Seller/Serviceer in 2017 with plans to add at least two more during 2018.

## CONTACTING THE CAPITAL AREA FINANCE AUTHORITY

This Financial Report, including the MD&A, is designed to provide all citizens of the Capital Area Parishes, as well as the Authority's customers and creditors (i.e. bondholders) with a general overview of the Capital Area Finance Authority's finances and to show the Authority's accountability for the money it receives from its bond issue proceeds and other sources. The sources include income earned on mortgage loan receivables/mortgage backed securities, income earned on other investments and Authority fee income. If you have any questions about this report or need additional financial information, please contact:

Dennis Blunt  
Chairperson, Board of Trustees

Russel Mosely  
Chairperson, Audit Committee

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**CAPITAL AREA FINANCE AUTHORITY**  
**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND BALANCE SHEETS**

AS OF DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2016)

(In Thousands)

	2006 A	2007 A	2007 B	2009 A	2009 GSF	2015	2016	Unrestricted	2017	2016
	Program	Program	Program	Program	Program	Program	Program	Fund	Combined	Combined
<b><u>ASSETS</u></b>										
Cash and Cash Equivalents	\$ -	\$ -	\$ 124	\$ 253	\$ 1,181	\$ 212	\$ 183	\$ 6,954	\$ 8,907	\$ 14,064
Brokered Certificates of Deposit	-	-	-	-	-	-	-	9,338	9,338	4,049
Guaranteed Investment Agreements	-	-	110	232	-	-	-	-	342	388
State, U.S. Government and Agency Securities	-	-	-	-	-	-	-	7,421	7,421	5,885
Mortgage-Backed Securities	-	-	1,020	4,998	18,822	14,410	8,998	4,599	52,847	62,252
Mortgage Loans Receivable - Net	-	-	-	73	79	-	-	1	153	452
Accrued Interest Receivable	-	-	5	22	50	61	37	118	293	254
Downpayment and Authority Assistance Programs	-	-	41	-	-	-	-	-	41	240
Note Receivable	-	-	-	-	-	-	-	81	81	183
Inter-Program Receivable (Payable)	-	-	-	(3)	(30)	-	-	33	-	-
Prepaid Insurance and Other Assets	-	-	-	-	-	-	-	63	63	35
Capital Assets (Net of Accumulated Depreciation)	-	-	-	-	-	-	-	1,513	1,513	1,512
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,300</u>	<u>\$ 5,575</u>	<u>\$ 20,102</u>	<u>\$ 14,683</u>	<u>\$ 9,218</u>	<u>\$ 30,121</u>	<u>\$ 80,999</u>	<u>\$ 89,314</u>
<b><u>LIABILITIES, DEFERRED INFLOW</u></b>										
<b><u>OF RESOURCES, AND NET POSITION (DEFICIT)</u></b>										
<b>Liabilities:</b>										
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33	\$ 33	\$ 64
Accrued Interest Payable	-	-	13	71	34	32	17	-	167	196
Bonds Payable - Net	-	-	1,015	5,594	17,726	13,400	8,394	-	46,129	53,263
Total Liabilities	-	-	1,028	5,665	17,760	13,432	8,411	33	46,329	53,523
<b>Deferred Inflow of Resources:</b>										
Deferred Inflows -										
Related to Refunding of Bonds	-	-	-	-	-	36	60	-	96	101
<b>Net Position (Deficit):</b>										
Net Investment in Capital Assets	-	-	-	-	-	-	-	1,513	1,513	1,512
Restricted	-	-	272	-	2,342	1,215	747	-	4,576	5,746
Unrestricted	-	-	-	(90)	-	-	-	28,575	28,485	28,432
Total Net Position (Deficit)	-	-	272	(90)	2,342	1,215	747	30,088	34,574	35,690
Total Liabilities, Deferred Inflow of Resources, and Net Position (Deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,300</u>	<u>\$ 5,575</u>	<u>\$ 20,102</u>	<u>\$ 14,683</u>	<u>\$ 9,218</u>	<u>\$ 30,121</u>	<u>\$ 80,999</u>	<u>\$ 89,314</u>

The notes to the financial statements are an integral part of this statement.

**CAPITAL AREA FINANCE AUTHORITY**

**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)**

FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

(In Thousands)

	2006 A Program	2007 A Program	2007 B Program	2009 A Program	2009 GSE Program	2015 Program	2016 Program	Unrestricted Fund	2017 Combined	2016 Combined
<b>REVENUES:</b>										
Income Earned on Mortgage Loans										
Receivable/ Mortgage Backed Securities	\$ -	\$ -	\$ 64	\$ 290	\$ 661	\$ 778	\$ 477	\$ 235	\$ 2,505	\$ 3,035
Income Earned on Other Investments	-	-	3	10	-	-	-	502	515	462
Net Decrease in the Fair Value of Investments	-	-	(36)	(149)	(140)	(473)	(252)	(200)	(1,250)	(1,540)
Market Rate Loan Program Fees	-	-	-	-	-	-	-	228	228	245
Other Income	-	-	-	-	-	-	-	6	6	15
Authority Fee Income	-	-	-	-	-	-	-	837	837	661
Total	-	-	31	151	521	305	225	1,608	2,841	2,878
<b>EXPENSES:</b>										
Interest	-	-	60	280	430	417	208	-	1,395	1,819
Amortization of DAP & MLAP	-	158	41	21	179	-	-	55	454	711
Bond Issuance Costs	-	-	-	-	-	-	-	-	-	181
Authority Fees	-	-	5	13	129	371	319	-	837	661
Insurance Costs	-	-	-	-	-	-	-	29	29	23
Administrative Fees	-	-	-	-	-	-	-	7	7	57
Operating Expenses	-	-	4	2	7	5	2	1,215	1,235	1,285
Total	-	158	110	316	745	793	529	1,306	3,957	4,737
Net Income (Loss)	-	(158)	(79)	(165)	(224)	(488)	(304)	302	(1,116)	(1,859)
Transfers Among Programs	(60)	(289)	-	-	-	-	-	349	-	-
Net Position - Beginning of Year	60	447	351	75	2,566	1,703	1,051	29,437	35,690	37,549
Net Position (Deficit) - End of Year	\$ -	\$ -	\$ 272	\$ (90)	\$ 2,342	\$ 1,215	\$ 747	\$ 30,088	\$ 34,574	\$ 35,690

The notes to the financial statements are an integral part of this statement.

**CAPITAL AREA FINANCE AUTHORITY**

**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND**  
**STATEMENTS OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

(In Thousands)

	2006 A	2007 A	2007 B	2009 A	2009 GSE	2015	2016	Unrestricted	2017	2016
	Program	Program	Program	Program	Program	Program	Program	Fund	Combined	Combined
<b>Cash Flows From Operating Activities:</b>										
Cash Receipts for:										
Mortgage Loans and Mortgage-Backed Securities Income	\$ -	\$ -	\$ 65	\$ 296	\$ 669	\$ 788	\$ 483	\$ 241	\$ 2,542	\$ 3,007
Notes Receivable	-	-	-	-	-	-	-	102	102	17
Collections of Second Mortgage Loans	-	-	-	36	-	-	-	8	44	57
Collections of Mortgage-Backed Securities	-	-	236	1,031	2,283	2,153	1,336	1,223	8,262	23,674
Income on Other Investments	-	-	3	11	-	-	-	485	499	573
Cash Payments for:										
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-	-	-	-	-	-	-	(10,755)
Interest Paid	-	-	(63)	(322)	(434)	(423)	(210)	-	(1,452)	(2,252)
Other Items	-	-	(11)	(15)	(140)	(378)	(324)	(238)	(1,106)	(1,306)
Net Cash Provided by Operating Activities	-	-	230	1,037	2,378	2,140	1,285	1,821	8,891	13,015
<b>Cash Flows From Capital and Related Financing Activities:</b>										
Acquisition of Capital Assets	-	-	-	-	-	-	-	(61)	(61)	(39)
Net Cash Used in Capital and Related Financing Activities	-	-	-	-	-	-	-	(61)	(61)	(39)
<b>Cash Flows From Investing Activities:</b>										
Investment Purchases, Sales, and Maturities - Net	-	-	(68)	114	-	-	-	(6,927)	(6,881)	1,622
Net Cash Provided by (Used in) Investing Activities	-	-	(68)	114	-	-	-	(6,927)	(6,881)	1,622
<b>Cash Flows From Noncapital Financing Activities:</b>										
Proceeds from Bond Issues / Line of Credit	-	-	-	-	-	-	-	-	-	9,725
Retirement of Notes and Bonds Payable	-	-	(240)	(1,132)	(1,834)	(2,682)	(1,218)	-	(7,106)	(20,266)
Interfund Activities	(60)	(289)	-	-	-	-	-	349	-	-
Net Cash Provided by (Used in) Noncapital Financing Activities	(60)	(289)	(240)	(1,132)	(1,834)	(2,682)	(1,218)	349	(7,106)	(10,541)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(60)</b>	<b>(289)</b>	<b>(78)</b>	<b>19</b>	<b>544</b>	<b>(542)</b>	<b>67</b>	<b>(4,818)</b>	<b>(5,157)</b>	<b>4,057</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>60</b>	<b>289</b>	<b>202</b>	<b>234</b>	<b>637</b>	<b>754</b>	<b>116</b>	<b>11,772</b>	<b>14,064</b>	<b>10,007</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 124</b>	<b>\$ 253</b>	<b>\$ 1,181</b>	<b>\$ 212</b>	<b>\$ 183</b>	<b>\$ 6,954</b>	<b>\$ 8,907</b>	<b>\$ 14,064</b>

(CONTINUED)

**CAPITAL AREA FINANCE AUTHORITY**

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND  
STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

(In Thousands)

	<u>2006 A</u>	<u>2007 A</u>	<u>2007 B</u>	<u>2009 A</u>	<u>2009 GSI</u>	<u>2015</u>	<u>2016</u>	<u>Unrestricted</u>	<u>2017</u>	<u>2016</u>
	<u>Program</u>	<u>Program</u>	<u>Program</u>	<u>Program</u>	<u>Program</u>	<u>Program</u>	<u>Program</u>	<u>Fund</u>	<u>Combined</u>	<u>Combined</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by Operating Activities:										
Net Income (Loss)	\$ -	\$ (158)	\$ (79)	\$ (165)	\$ (224)	\$ (488)	\$ (304)	\$ 302	\$ (1,116)	\$ (1,859)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:										
Depreciation	-	-	-	-	-	-	-	60	60	51
Amortization of Bond Premiums	-	-	-	(28)	-	-	-	-	(28)	(97)
Unrealized and Realized Losses on Investments	-	-	36	149	140	473	252	200	1,250	1,540
Amortization of Downpayment and Authority Assistance Programs	-	158	41	21	179	-	-	55	454	711
Changes in Assets and Liabilities:										
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-	-	-	-	-	-	-	(10,755)
Collections of Second Mortgage Loans	-	-	-	36	-	-	-	8	44	57
Collections of Mortgage-Backed Securities	-	-	236	1,031	2,283	2,153	1,336	1,223	8,262	23,674
Collections of Notes Receivable	-	-	-	-	-	-	-	102	102	17
Other - Net	-	-	(4)	(7)	-	2	1	(129)	(137)	(324)
Net Cash Provided by Operating Activities	\$ -	\$ -	\$ 230	\$ 1,037	\$ 2,378	\$ 2,140	\$ 1,285	\$ 1,821	\$ 8,891	\$ 13,015

The notes to the financial statements are an integral part of this statement.

# CAPITAL AREA FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

### (1) Summary of Significant Accounting Policies -

#### (A) Organization of Authority

The Capital Area Finance Authority was created through a Trust Indenture dated August 14, 1974, pursuant to provisions of the Louisiana Revised Statutes of 1950, as amended. The initial legislation and subsequent amendments grant the Authority the power to obtain funds and to use the proceeds to promote the financing and development of any essential program conducted in the public interest within the boundaries of East Baton Rouge Parish, Louisiana.

At the September 18, 2014 meeting of the Louisiana State Bond Commission, the Amended and Restated Capital Area Finance Authority Trust Indenture was approved. The Amended and Restated Trust Indenture changed the name of the Authority from the East Baton Rouge Mortgage Finance Authority to the Capital Area Finance Authority and changed the geographic area in which the Authority can issue bonds for public purpose projects allowed in the Public Trust Act from East Baton Rouge Parish to the nine (9) Parish Capital Region consisting of the Parishes of East Baton Rouge, Ascension, East Feliciana, Iberville, Livingston, Pointe Coupee, St. Helena, West Baton Rouge and West Feliciana.

The Authority's operations consist primarily of single family mortgage purchase bond programs under which the Authority promotes residential home ownership through the acquisition of mortgage loans secured by first mortgage liens on single family residential housing. Under the 2007 B, 2009 A, 2009 GSE, 2015 and 2016 Programs, these loans are pooled and sold to the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) in exchange for mortgage-backed securities (MBS) on which GNMA, FNMA, or FHLMC guarantees payment of principal and interest when due. These securities are collateralized by the related loans. The Authority also issues short-term convertible program notes, which are securitized by government agency securities during the interim in preparation of long-term issues. The funds for the Authority's programs were obtained through the issuance of bonds in the following face value amounts (in thousands):

1987 Program, dated July 1, 1987	Closed	\$ 15,450
1988 C&D Program, dated August 1, 1988	Closed	26,975
1988 E&F Program, dated June 22, 1989	Closed	40,000
Municipal Refunding Collateralized Mortgage Obligations (MRCMO) Program, dated January 25, 1989	Closed	67,905
1990 Program, dated August 1, 1990	Closed	56,000
1992 A&B Program, dated April 1, 1992	Closed	25,000
1992 C Program, dated April 1, 1992	Closed	38,310
1992 D Program, dated April 1, 1992	Closed	8,975
1993 A&B Program, dated October 27, 1993	Closed	36,720
1993 C Program, dated October 27, 1993	Closed	15,270
1994 A&B Program, dated August 15, 1994	Closed	31,210
1994 C Program, dated December 29, 1994 (remarketed)	Closed	13,250
1995 A Program, dated February 23, 1995 (remarketed)	Closed	8,840

**CAPITAL AREA FINANCE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

1995 B Program, dated October 5, 1995	Closed	\$ 12,500
1995 C Program, dated September 28, 1995 (remarketed)	Closed	5,820
1996 A Program, dated February 29, 1996 (remarketed)	Closed	9,765
1996 B program, dated October 24, 1996	Closed	12,500
1996 C Program, dated September 27, 1996 (remarketed)	Closed	6,390
1997 B Program, dated March 27, 1997 (remarketed)	Closed	10,755
1997 C1-C3 Program, dated December 31, 1997	Closed	101,400
1997 D Program, dated June 1, 1997	Closed	18,600
1997 F Program, dated September 25, 1997 (remarketed)	Closed	5,135
1998 A Program, dated June 1, 1998	Closed	12,920
1998 B Program, dated June 1, 1998	Closed	23,595
1998 C Program, dated December 1, 1998	Closed	41,180
1998 D Program, dated December 1, 1998	Closed	6,000
1999 A Program, dated July 15, 1999	Closed	12,000
1999 B Program, dated July 15, 1999	Closed	16,485
2000 A&B Program, dated May 31, 2000	Closed	57,208
2000 C Program, dated November 9, 2000 (remarketed from 2000 A&B Program)	Closed	10,000
2000 D Program, dated November 9, 2000 (remarketed from 2000 A&B Program)	Closed	6,294
2000 E Program, dated November 9, 2000	Closed	14,787
2000 CR Program, dated August 14, 2001 (remarketed from 2000 C Program)	Closed	5,200
2000 DR Program, dated August 14, 2001 (remarketed from 2000 D Program)	Closed	3,330
2000 ER Program, dated August 14, 2001 (remarketed from 2000 E Program)	Closed	7,710
2002 A Program, dated June 18, 2002	Closed	30,925
2003 A Program, dated September 16, 2003	Closed	21,940
2004 A Program, dated October 5, 2004	Closed	24,451
2005 A Program, dated December 20, 2005	Closed	30,000
2006 A Program, dated July 25, 2006	Closed	20,000
2007 A Program, dated February 23, 2007	Closed	40,000
2007 B Program, dated December 28, 2007		20,000
2009 A Program, dated October 22, 2009		29,360
2009 GSE Program, dated November 22, 2011		25,000
2015 Program, dated September 24, 2015		20,000
2016 Program, dated November 3, 2016		9,725

The bonds issued by the Authority are general obligations of the Authority and are not obligations of the State of Louisiana or any other political subdivision thereof.

## CAPITAL AREA FINANCE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

The Authority's Board of Trustees is empowered under the bond trust indentures and the bond program agreements to contract with outside parties to conduct the day-to-day operations of the Authority and the programs it initiates. Under each of its single family mortgage purchase bond programs, the Authority utilizes area financial institutions to originate and service the mortgage loans acquired. In addition, a bank has been designated as the Trustee of the separate bond programs and has the fiduciary responsibility for the custody and investment of funds.

The President & CEO is responsible for the development of each new bond issue and loan program. Once the bond issue is closed, the President & CEO supervises the origination of the mortgage loans, underwrites (reviews and approves) the new mortgage loans for purchase under each program, maintains computerized current records on all loans, and supervises the servicing and trustee functions for each program.

- (B) **Basis of Presentation - Fund Accounting** - The proprietary funds are used to account for the Authority's ongoing operations and activities which are similar to those in the private sector. Proprietary funds are accounted for using a flow of economic resource measurement focus under which all assets and all liabilities associated with the operation of these funds are included in the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in total net position. The Authority follows the guidance included in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*, contained in pre-November 1989 FASB and AICPA pronouncements.

**Basis of Accounting** - The Authority prepares financial statements in accordance with accounting principles generally accepted in the United States of America. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 these estimates.

**Basis of Reporting** - The Authority follows GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, and the required portions of GASB Statements No. 37 and 38, which modified the disclosure requirements of GASB No. 34. GASB No. 34 establishes standards for external financial reporting for all state and local governmental entities. It requires the classification of net position in three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

- *Restricted* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

The net position of the Unrestricted Fund are net investment in capital assets or unrestricted. The net position of all other programs are substantially restricted under the terms of the various bond indentures.

**Combined Totals** - The combined financial statements include the totals of the similar accounts of each of the Authority’s bond programs and the Authority’s Unrestricted Fund. Because the assets of the bond programs are restricted by the related bond resolutions and indentures, the totaling of the accounts, including the assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the resolutions and indentures relating to the separate programs.

**GASB Statement No. 31** - The GASB issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement requires that most investments be 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, and the amount is disclosed in the statements of cash flows as unrealized gain (loss) on investments. The Authority applies the provisions of the Statement to brokered certificates of deposit, U.S. Government securities and mortgage-backed securities. The sale of these investments by the Authority is generally subject to certain restrictions as described in the individual bond indentures.

**GASB Statement No. 72** – In February 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Additional disclosures are included in Note 2.

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

**Reclassification of Prior Year Amounts** - Certain prior year balances have been reclassified to conform to the current year presentation.

**Statement of Cash Flows** - For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Summary Financial Information for 2016** - The financial statements include certain prior year summarized information in total. Such information does not include sufficient details to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2016 from which the summarized information was derived.

**(2) Cash and Investments -**

In compliance with State laws, those deposits not covered by depository insurance are 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 a result of the pledging of additional securities by custodial banks in the Authority's name, the Authority does not have any custodial credit risk at December 31, 2017.

The Authority recognizes all purchases of investments with a maturity of three months or less, except for short term repurchases agreements, as cash equivalents.

Credit Risk - 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 and treasury bonds and obligations of U.S. Government agencies that are deliverable on the Federal Reserve Systems.
- (3) Repurchase agreements in government securities in (2) above made with the 23 primary dealers that report to and are regulated by the Federal Reserve Bank of New York.
- (4) Guaranteed Investment Contracts with companies with good credit ratings.

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

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, 2017, the Authority's investments in MBS with GNMA, FNMA, and FHLMC are rated AAA by taking the average of the Moody's Investors Services, Standard and Poor, and Fitch ratings. 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 Authority has a portion of its assets as of December 31, 2017, invested in GNMA, FNMA, and FHLMC obligations including MBS totaling approximately \$52.847 million. GNMA is an instrumentality of the Federal government. Its obligations carry the full faith and credit of the United States of America. Neither FNMA nor FHLMC are instrumentalities of the federal government and as such do not carry the full faith and credit of the United States of America. FNMA is a federally chartered and stockholder-owned corporation. FNMA was originally established in 1938 as a United States government agency and was transformed into a stockholder-owned and privately managed corporation in 1968. FHLMC is a stockholder-owned government sponsored corporation created in 1970. The Authority's total investment in FNMA and FHLMC obligations (including MBS) as of December 31, 2017, was approximately \$11.825 million. Any potential downgrade in the credit rating of either FNMA and/or FHLMC could have an adverse impact on the market value of the obligations of FNMA and/or FHLMC (including MBS) owned by the Authority. In connection with the approximately \$10.653 million of FNMA and FHLMC MBS, which the Authority has pledged to bondholders pursuant to separate trust indentures authorizing various bond issues, the asset portion of these various balance sheets could be adversely affected while the liabilities are not since the liabilities are not marked to market. However, any financial risk to the Authority is entirely mitigated since the bond indentures authorizing the Authority's bonds do not provide any acceleration of the Authority's bonded debt as a result of potential downgrade of either FNMA and/or FHLMC credit rating.

For the year ended December 31, 2017, the Authority recognized \$1.31 million in net unrealized losses in the Net Decrease in the Fair Value of Investments.

Interest Rate Risk - As a means of limiting its exposure to fair value losses from rising interest rates, the Authority's Interest Rate Risk Program generally restricts investments to those whose terms are no longer than the terms of the related bonds.

The Authority's 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 brokered certificates of deposit with a weighted average maturity of approximately 6 years, U.S. Government and agency securities with a weighted average maturity of approximately 11 years, and in MBS with a weighted average maturity of approximately 15 years.

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

*Custodial Credit Risk*

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. At December 31, 2017, the Authority is not exposed to custodial credit risk with respect to its investments because all investments are either insured by federal depository insurance, registered in the name of the Authority, or collateralized by other investments pledged in the name of the Authority.

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it.

To mitigate this risk, state law requires for these deposits (of the resulting bank balances) to be secured by federal deposit insurance or the pledge of securities by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The pledged securities are deemed by Louisiana State Law to be under the control and possession and in the name of the Authority regardless of its designation by the financial institution in which it is deposited. As of December 31, 2017, none of the Authorities bank balance of \$8.907 million was exposed to custodial credit risk.

*Fair Value of Financial Instruments*

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; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements (in thousands) as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Brokered Certificates of Deposit	\$ 9,338	\$ -	\$ -	\$ 9,338
Guaranteed Investment Agreements State, U.S. Government and Agency Securities	-	-	342	342
Mortgage-Backed Securities	7,421	-	-	7,421
	-	52,847	-	52,847
Total Investments at Fair Value	<u>\$ 16,759</u>	<u>\$ 52,847</u>	<u>\$ 342</u>	<u>\$ 69,948</u>

**CAPITAL AREA FINANCE AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

**(3) Mortgage Loans Receivable and Mortgage-Backed Securities -**

In addition to the customary insurance required of the mortgagors, the mortgage loans are insured under special hazard policies, and supplemental mortgage trust policies for mortgagor defaults. Premiums for these policies are paid through the applicable Program's funds.

All of the single family mortgage loans are originated by participating mortgage lenders through conventional, FHA or VA programs sponsored by the mortgage lenders and are sold to the Authority without recourse. The participating mortgage lenders service the mortgage loans for the Authority and receive monthly compensation based upon the unpaid principal balance of the mortgage loans serviced.

Mortgage-Backed Securities - As discussed in Note 1, the mortgage loans originated under certain Authority programs are pooled and sold to GNMA, FNMA, or FHLMC in exchange for mortgage-backed securities on which GNMA, FNMA, or FHLMC guarantees payment of principal and interest when due. These securities bear the following terms and interest rates:

	<u>Term</u>	<u>Pass Through Interest Rate</u>
2007 B Program	30 years	5.750% - 5.850%
2009 A Program	30 years	4.875% - 7.100%
2009 GSE Program	30 years	3.250% - 4.125%
2015 Program	30 years	4.250% - 8.350%
2016 Program	30 years	5.125% - 5.475%
Unrestricted Fund	30 years	3.000% - 7.500%

The change to the mortgage-backed securities type of program was prompted by various factors including the unavailability of mortgage pool and related insurance coverage required for conventional mortgage loan programs. The guarantees by GNMA, FNMA, and/or FHLMC, which the Authority receives under this type of program, replaces the pool and related insurance coverage of the previous programs. Development of the new programs, origination of the mortgage loans and supervision of the servicing of the mortgage loans for compliance with federal mortgage bond tax laws by the Authority remain essentially the same.

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

**(4) Changes in Capital Assets -**

Capital asset activity for the year ended December 31, 2017 (in thousands):

Governmental Activities	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
Capital Assets not being Depreciated:				
Land	\$ 631	\$ -	\$ -	\$ 631
Total	631	-	-	631
Capital Assets being Depreciated:				
Furniture and Fixtures	193	57	-	250
Building and Improvements	883	4	-	887
Total	1,076	61	-	1,137
Less Accumulated Depreciation for:				
Furniture and Fixtures	102	36	-	138
Building and Improvements	93	24	-	117
Total Accumulated Depreciation	195	60	-	255
Total Capital Assets being Depreciated, Net	881	1	-	882
Capital Assets, Net	<u>\$ 1,512</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1,513</u>

Depreciation is being calculated using the straight-line method over the estimated useful life of capital assets. Depreciation expense was \$59,628 for the year ended December 31, 2017.

**(5) Notes Receivable -**

In accordance with a Cooperative Endeavor Agreement entered into by and between the Authority and a component unit of the City of Baton Rouge – East Baton Rouge Parish dated as of and effective September 1, 2011, and with the passage of a dedicated tax to support the component unit, the \$500 thousand grant awarded in the Cooperative Endeavor Agreement was converted into a loan in 2012. As of December 31, 2017, the loan has been fully paid off.

Additionally, on April 27, 2016, the Authority entered into an \$84,000 mortgage note receivable agreement with McGlynn Corp., LLC, which is secured by land, building and improvements located in East Baton Rouge Parish. The note is payable in 360 monthly installments beginning on June 1, 2016. The interest rate is fixed at 5% for each year set forth in the Schedule of Payments.

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

The Schedule of Payments is as follows (in thousands):

Year Ended	Amount
December 31, 2018	\$ 1
December 31, 2019	1
December 31, 2020	1
December 31, 2021	2
December 31, 2022	2
Thereafter	74
	\$ 81

**(6) Bonds Payable -**

The net proceeds obtained from the bond issues are used to establish funds authorized by the Bond Trust Indentures to purchase eligible mortgage loans, secured by first mortgage liens on single family owner-occupied residences, or to purchase GNMA, FNMA, and/or FHLMC mortgage-backed securities from qualified mortgage lenders accepted for participation in the programs by the Authority.

The Bond Trust Indentures provide that bond principal and interest are secured by pledges of all mortgage loans and mortgage-backed securities acquired, all revenues and collections with respect to such loans and securities and all funds established by the Indenture, together with all of the proceeds generated therefrom.

Outstanding bonds and lines of credit payable consist of the following at December 31, 2017 and 2016 (in thousands):

	2017
2007 B Program, due serially and term from 2015 through 2039, bearing interest at 3.80% to 5.45% payable semiannually	\$ 1,015
2009 A Program, due serially and term from 2015 through 2040, bearing interest at 2.95% to 5.25% payable semiannually	5,549
Plus unamortized bond premium	45
Total - 2009A Program	5,594
2009 GSE Program (Escrow bond), due 2042 bearing interest at 2.32% payable monthly	17,726
2015 Program, due 2038 bearing interest at 2.90% payable monthly	13,400
2016 Program, due 2038 bearing interest at 2.38% payable monthly	8,394
Total Bonds - Net at December 31, 2017	\$ 46,129

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

	2016
2007 B Program, due serially and term from 2015 through 2039, bearing interest at 4.00% to 5.45% payable semiannually	\$ 1,255
2009 A Program, due serially and term from 2015 through 2040, bearing interest at 3.50% to 5.25% payable semiannually	6,680
Plus unamortized bond premium	74
Total - 2009A Program	6,754
2009 GSE Program (Escrow bond), due 2042 bearing interest at 2.32% payable monthly	19,560
2015 Program, due 2038 bearing interest at 2.9% payable monthly	16,082
2016 Program, due 2038 bearing interest at 2.38% payable monthly	9,612
Total Bonds - Net at December 31, 2016	\$ 53,263

The bonds are subject to early redemption provisions as described in the Bond Trust Indentures at redemption prices equal to the principal amounts of the bonds redeemed plus accrued interest to the applicable call dates.

A summary of changes in debt during the years ended December 31, 2017 and 2016 (in thousands), is as follows:

	2017	2016
Balance - January 1	\$ 53,263	\$ 63,901
Proceeds from Issue of 2016 Bonds	-	9,725
Repayments and Maturities	(7,106)	(20,330)
Amortization of Premium	(28)	(33)
Balance - December 31	\$ 46,129	\$ 53,263

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.

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

Scheduled principal payments for the years subsequent to December 31, 2017, are as follows (in thousands):

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>	<u>Total</u>
2007 B Program	\$ 30	\$ 25	\$ -	\$ -	\$ -	\$ 960	\$ 1,015
2009 A Program	45	45	35	1,670	-	3,754	5,549
2009 GSE Program	-	-	-	-	-	17,726	17,726
2015 Program	-	-	-	-	-	13,400	13,400
2016 Program	-	-	-	-	-	8,394	8,394
	<u>\$ 75</u>	<u>\$ 70</u>	<u>\$ 35</u>	<u>\$ 1,670</u>	<u>\$ -</u>	<u>\$ 44,234</u>	46,084
Plus Unamortized Premium							45
Total Outstanding- December 31, 2017							<u>\$ 46,129</u>

Scheduled interest payments for the years subsequent to December 31, 2017, are as follows: (in thousands)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>	<u>Total</u>
2007 B Program	\$ 53	\$ 52	\$ 51	\$ 51	\$ 51	\$ 625	\$ 883
2009 A Program	282	281	279	278	190	2,094	3,404
2009 GSE Program	411	411	411	411	411	7,785	9,840
2015 Program	389	389	389	389	389	5,930	7,875
2016 Program	200	200	200	200	200	3,149	4,149
	<u>\$ 1,335</u>	<u>\$ 1,333</u>	<u>\$ 1,330</u>	<u>\$ 1,329</u>	<u>\$ 1,241</u>	<u>\$ 19,583</u>	<u>\$ 26,151</u>

**(7) Deferred Inflow of Resources -**

The Individual Programs and Unrestricted Fund Balance Sheets report a separate section for deferred inflows of financial resources. Deferred inflows of resources represent an acquisition of a net position that applies to future periods and so will not be recognized in an inflow of resources until that time. The Authority has deferred inflows of resources that are a result of the refunding of the 2004A and 2006A programs. The net carrying amount exceeded the reacquisition price of the old debt by a total of \$105,002. This amount is reported as a deferred inflow of resources and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. At December 31, 2017, the unamortized balance is \$96,229.

**(8) Operating Expenses -**

The members of the Authority's Board of Trustees receive a per diem fee for all committee and board meetings attended. For the years ended December 31, 2017 and 2016, payments to the Authority's Board members were as follows:

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

<u>Board Member</u>	<u>2017</u>	<u>2016</u>
Cheri Ausberry	\$ 9,800	\$ 7,400
Dennis Blunt	5,800	3,000
Norman Chenevert	9,400	5,600
Astrid Clements	10,400	7,200
Helena Cunningham	7,400	6,200
Robert Gaston, III	-	3,600
Blaine Grimes	9,400	5,400
Jake Netterville	-	2,600
Valerie Shexnayder	7,600	6,800
Russell Mosely	2,200	1,400
Sharon Perez	10,000	2,800
Total	<u>\$ 72,000</u>	<u>\$ 52,000</u>

These amounts are paid through the Unrestricted Fund and included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

**(9) Authority Fees -**

Beginning with the 1992 Programs, the Authority instituted an authority fee which is paid to the Unrestricted Fund by the individual programs. The Unrestricted Fund recognizes authority fee income related to the fees paid by the individual programs. The fee income received by the Unrestricted Fund is currently being used to provide the upfront funds required of the Authority's annual programs in order to finance such things as costs of issuance of bonds, subsidizing lower income mortgagors with waivers of discount points and providing down payment assistance to mortgagors. The actual fees paid by each program vary in accordance with the provisions of the respective program's indenture agreement. Authority fee income recognized by the Unrestricted Fund and Authority fee expense recognized by the individual programs are disclosed separately in the accompanying statements of revenues, expenses, and changes in net position.

**(10) Downpayment Assistance Program -**

The Authority has a Downpayment Assistance Program (DAP) which provides funds to borrowers that meet certain criteria in order to assist borrowers with closing costs or down payments. The amount of funds is based on a percentage of the loan amount (generally 3% to 4%). The interest rate charged on these loans is greater than the interest rate on loans that do not utilize this program.

Costs related to this program are capitalized and are being amortized over the lives of the related assets as yield adjustments based upon the average lives of the underlying assets. The remaining unamortized balances are classified on the accompanying balance sheets in the same caption as the related assets. A summary of the activity with respect to these programs during the years ended December 31, 2017 and 2016, is as follows (in thousands):

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

2017

	December 31, 2016	Paid in 2017	2017 Amortization	December 31, 2017
2007 A Program	\$ 158	\$ -	\$ (158)	\$ -
2007 B Program	82	-	(41)	41
	<u>\$ 240</u>	<u>\$ -</u>	<u>\$ (199)</u>	<u>\$ 41</u>

2016

	December 31, 2015	Paid in 2016	2016 Amortization	December 31, 2016
2006 A Program	\$ 95	\$ -	\$ (95)	\$ -
2007 A Program	317	-	(159)	158
2007 B Program	123	-	(41)	82
	<u>\$ 535</u>	<u>\$ -</u>	<u>\$ (295)</u>	<u>\$ 240</u>

**(11) Commitments -**

The Capital Area Finance Authority promotes economic development in the parish through its community grants program for non-profit organizations. The program provides grant funds and capital funds to be used for projects by non-profit organizations that advance the Authority's mission in increasing home ownership. Grants are awarded to organizations and agencies within East Baton Rouge Parish for use in East Baton Rouge Parish. At December 31, 2017, the Capital Area Finance Authority had one outstanding grant in the amount of \$31,000 for the 2018 fiscal year.

**(12) Transfers Among Programs -**

Transfers among programs generally consist of nonrecurring transfers associated with (1) the initial issuance of bonds, (2) transfers to the unrestricted fund of remaining fund assets of closed funds once bonds are redeemed, and (3) balances in the cost of issuance accounts.

**(13) Schedule of Compensation, Benefits and Other Payments to President & CEO -**

In accordance with Louisiana Revised Statute 24:513A, the following is a Schedule of Compensation and Benefits received by Victoria Theriot, Executive Vice President, who was the acting agency head from January 1, 2017 to September 30, 2017, and Mark Drennen, President & CEO, who was the acting agency head from October 1, 2017 through December 31, 2017:

**CAPITAL AREA FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

DECEMBER 31, 2017

	Mark Drennen	Victoria Theriot
Salary	\$ 68,750	\$ 140,495
Benefits - Health Insurance	8,634	13,289
Benefits - Retirement	2,063	4,215
Mileage and Parking Reimbursement	-	1,704
Conference Registration Fees	-	1,035
Conference Travel and Meals	-	4,662
	\$ 79,447	\$ 165,400

**(14) Employee Benefits - Health Insurance and Simple IRA -**

The Authority has a health insurance plan, administered by Blue Cross Blue Shield of Louisiana, which pays 100% of the premium for all employees and their families. In addition to the health insurance, the Authority has a Simple IRA plan for all employees which it provides matching of employee contributions of up to 3% of the employee's annual salary and maximum employee contribution of \$12,500 per employee. The Authority contributed \$12,026 to the plan in 2017.

**(15) Subsequent Events -**

Final Call - 2007B Series Bonds

On February 1, 2018, the Authority called the full remaining balance of the 2007B Series bonds. Funds from the Unrestricted Fund were used to pay off all outstanding principal (\$1,015,000) and accrued interest (\$17,766) as of February 1, 2018. The Mortgage-Backed Securities that served as collateral for the 2007B issue were transferred from the 2007B fund to the Unrestricted Fund in February of 2018. The FMV of these securities at the date of the transfer was \$861,696.

Management has evaluated subsequent events through June 12, 2018, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S 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*

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INDEPENDENT AUDITOR'S 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*

To the Board and Trustees of  
Capital Area Finance Authority  
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 which include each of the individual programs, the unrestricted fund, and the 2017 combined financial statements of the Capital Area Finance Authority (the Authority) as of and for the year ended December 31, 2017, 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 12, 2018.

**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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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; however, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

*Harris J. Bourgeois, CPA*

Baton Rouge, Louisiana  
June 12, 2018

**CAPITAL AREA FINANCE AUTHORITY**  
**SCHEDULE OF FINDINGS AND RESPONSES**

DECEMBER 31, 2017

A. Internal Control Over Financial Reporting

None

B. Compliance and Others Matters

None

**CAPITAL AREA FINANCE AUTHORITY**

**SCHEDULE OF PRIOR YEAR FINDINGS**

DECEMBER 31, 2017

A. Internal Control Over Financial Reporting

None

B. Compliance and Others Matters

None

**CAPITAL AREA FINANCE AUTHORITY**

**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**

**DECEMBER 31, 2017**

**BATON ROUGE, LOUISIANA**



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Independent Accountant's Report  
on Applying Agreed-Upon Procedures

To the Board of Directors  
Capital Area Finance Authority  
Baton Rouge, Louisiana

We have performed the procedures enumerated below, which were agreed to by Capital Area Finance Authority (the Authority) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2017 through December 31, 2017. 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 below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated exceptions are as follows:

***Written Policies and Procedures***

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1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
  - a) ***Budgeting***, including (1) preparing, (2) adopting, (3) monitoring, and (4) amending the budget. – **No exceptions.**
  - 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 exceptions.**

- c) *Disbursements*, including processing, reviewing, and approving. – **No exceptions.**
- d) *Receipts*, including receiving, recording, and preparing deposits. – **No exceptions.**
- e) *Payroll/Personnel*, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked. – **No exceptions.**
- 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 exceptions.**
- 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, and (5) monitoring card usage. – **No exceptions.**
- h) *Travel and expense reimbursement*, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers. – **No exceptions.**
- 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. Note: Ethics requirements are not applicable to nonprofits. – **No exceptions.**
- j) *Debt Service*, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements. – **No exceptions.**

***Board (or Finance Committee, if applicable)***

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- 2. Obtain and review the board/committee minutes for the fiscal period, and:
  - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board’s enabling legislation, charter, or other equivalent document. – **No exceptions.**
  - b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity’s prior audit (GAAP-basis). – **No exceptions.**
  - c) If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan. – **No exceptions.**
  - d) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period. – **No exceptions.**

## ***Bank Reconciliations***

---

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete. – **No exceptions.**
4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
  - a) Bank reconciliations have been prepared; – **No exceptions.**
  - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and  
**EXCEPTION** - We noted no evidence of review of the bank reconciliations.
  - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.  
**EXCEPTION** - We noted no documentation of research of reconciling items outstanding more than 6 months as of the end of the fiscal period.

**Management's Response/Corrective Action** – The Authority's management has been made aware of these exceptions and is currently addressing them.

## ***Collections***

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5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete. - **No exceptions.**
6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. **For each cash collection location selected:**
  - a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.  
**EXCEPTION** – We noted that the Executive Vice-President is responsible for both handling collected checks as well as depositing them in the bank.
  - b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected. - **No exceptions.**

c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

(1) Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

**EXCEPTION** - For the items tested, we noted the Authority made a deposit within 8 days of receipt.

(2) Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions. - **No exceptions.**

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections. - **No exceptions.**

**Management's Responses/Corrective Action** – The Agency's management has been made aware of these exceptions and are currently addressing the issues.

***Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)***

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8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete. – **No exceptions.**

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system. – **No exceptions.**

b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase. – **No exceptions.**

c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice. – **No exceptions.**

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system. – **No exceptions.**
11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases. – **No exceptions.**
12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks. – **No exceptions.**
13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions. – **No exceptions.**

#### ***Credit Cards/Debit Cards/Fuel Cards/P-Cards***

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14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), 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. – **No exceptions.**
15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.  
  
Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:
  - a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. – **No exceptions.**
  - b) Report whether finance charges and/or late fees were assessed on the selected statements. – **No exceptions.**
16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
  - a) For each transaction, report whether the transaction is supported by:
    - (1) An original itemized receipt (i.e., identifies precisely what was purchased) – **No exceptions.**

- (2) Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating. – **No exceptions.**
  - (3) Other documentation that may be required by written policy (e.g., purchase order, written authorization). – **No exceptions.**
- b) For each transaction, compare the transaction’s detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity’s written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions. – **No exceptions.**
  - c) For each transaction, compare the entity’s documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception. – **No exceptions.**

### ***Travel and Expense Reimbursement***

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17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management’s representation that the listing or general ledger is complete. – **No exceptions.**
18. Obtain the entity’s written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) and report any amounts that exceed GSA rates. – **No exceptions.**
19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
  - a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates. – **No exceptions.**
  - b) Report whether each expense is supported by:
    - (1) An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.] – **No exceptions.**
    - (2) Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating). – **No exceptions.**
    - (3) Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance) – **No exceptions.**

- c) Compare the entity’s documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception. – **No exceptions.**
- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement. – **No exceptions.**

***Contracts***

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- 20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management’s representation that the listing or general ledger is complete. – **No exceptions.**
- 21. Using the listing above, select the five contract “vendors” that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:
  - a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid. – **No exceptions.**
  - b) Compare each contract’s detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
    - (1) If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder) – **No exceptions.**
    - (2) If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice. – **No exceptions.**
  - c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment. – **No exceptions.**
  - d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract. – **No exceptions.**
  - e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter). **No exceptions.**

***Payroll and Personnel***

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- 22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management’s representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure. – **No exceptions.**
  - b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy. – **No exceptions.**
23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:
- a) Report whether 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.) – **No exceptions.**
  - b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials. – **No exceptions.**
  - c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave. – **No exceptions.**
24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management’s representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management. – **No exceptions.**
25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines. – **No exceptions.**

***Ethics (excluding nonprofits)***

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- 26. Using the five randomly selected employees/officials from procedure #22 under “Payroll and Personnel” above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed. – **No exceptions.**
- 27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management’s actions complied with the entity’s ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy. – **No alleged ethics violations or allegations received.**

***Debt Service (excluding nonprofits)***

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28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained. – **No new debt issued.**
29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants. – **No exceptions.**
30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off. – **Not applicable.**

***Other***

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31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled. – **None noted.**
32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at [www.la.gov/hotline](http://www.la.gov/hotline)) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds. – **Notice posted on premises and on website.**
33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception. – **No exceptions.**

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.

Respectfully submitted,

*Harris T. Bourgeois, CPA*

Baton Rouge, Louisiana  
June 12, 2018