

**LOUISIANA ECONOMIC DEVELOPMENT
CORPORATION AND SUBSIDIARY**
A Component Unit of the State of Louisiana
Baton Rouge, Louisiana

Financial Report
For the Year Ended June 30, 2017

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To the Board of Directors
Louisiana Economic Development Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Louisiana Economic Development Corporation, a component unit of the State of Louisiana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Louisiana Economic Development Corporation's basic financial statements as listed in the foregoing 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting principles used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a reasonable basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Louisiana Economic Development Corporation as of June 30, 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.

Other Matters

Required Supplementary Information. Management has omitted management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this omission.

Supplementary Information. My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying supplemental schedule of investments and State of Louisiana's Annual Fiscal Report are presented for the purpose of additional analysis and is not required parts of the basic financial statements of the Louisiana Economic Development Corporation.

The supplemental schedule of investments and the Annual Fiscal Report are the responsibility of management and was derived and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued a report dated December 4, 2017, on my consideration of the Louisiana Economic Development Corporation's internal control over financial reporting and on my 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 my 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 Corporation's internal control over financial reporting and compliance.



Jennings, Louisiana
December 4, 2017

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 11,429,892
Accrued interest receivable	1,328
Due from State of Louisiana - Capital Outlay Fund	8,650,552
Accrued vendor compensation receivable	2,346,714
Loans, net	136,386
Deferred awards expense	2,923,570
Total current assets	25,488,442

Noncurrent assets

Certificates of deposit	7,443,104
Loans, net	912,466
Investments, at cost net of impairments	13,872,281
Deferred awards expense	6,210,753
Total noncurrent assets	28,438,604

Total Assets

53,927,046

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	218,043
Deferred revenue	2,792,687
Total current liabilities	3,010,730

Noncurrent liabilities

Accrual for losses on loan guarantees	1,199,596
Total Liabilities	4,210,326

NET POSITION

Net position

Restricted for State Small Business Credit Initiative	6,318,667
Unrestricted	43,398,053
Total Net Position	\$ 49,716,720

The accompanying notes are an integral part of these statements.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Operating revenues

Interest income:		
Interest on loans	\$	67,049
Interest on deposits		68,992
Dividend income		22,832
Other		<u>77,666</u>
Total operating revenues		<u>236,539</u>

Operating expenses

Provision (credit) for losses:		
Direct and participation loans		(35,649)
Guaranteed loans		(165,795)
Unrealized loss on investments		897,837
Salaries and employee benefits		483,394
Management and professional fees		82,302
Business Incentives Services grants		12,100,393
Small and Emerging Business Development		1,810,151
Capital Outlay grants		4,821,676
Administrative fees		40,438
Travel		<u>11,249</u>
Total operating expenses		<u>20,045,996</u>

Operating loss (19,809,457)

Nonoperating revenues (expenses)

Intergovernmental:		
Vendors' compensation		12,423,119
Interagency transfer out - Department of Economic Development		(1,009,435)
Federal revenues		251,191
Interest on funds held by State Treasurer		<u>22,713</u>
Total nonoperating revenues (expenses)		<u>11,687,588</u>

Change in net position (8,121,869)

Net position - beginning of year 57,838,589

Net position - end of year \$ 49,716,720

The accompanying notes are an integral part of these statements.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash flows from operating activities	
Interest and dividends received	\$ 158,894
Received from customers	77,666
Payments to suppliers	(134,838)
Payments of program awards	(15,749,448)
Payments to or on behalf of employees	<u>(463,396)</u>
Net cash used in operating activities	<u>(16,111,122)</u>
Cash flows from noncapital and related financing activities	
Appropriations funding received/(relinquished)	734,301
Vendors' compensation	<u>12,626,996</u>
Net cash provided by noncapital and related financing activities	<u>13,361,297</u>
Cash flows from investing activities	
(Increase) decrease in certificates of deposit	607,500
Change in other receivables	35,039
Proceeds from sales and return of capital on investments	641,142
Interest on funds held at State Treasury	22,713
Payments on deferred awards	129,390
Principal payments on loans receivable	<u>241,939</u>
Net cash provided by investing activities	<u>1,677,723</u>
Change in cash and cash equivalents	(1,072,102)
Cash and cash equivalents - beginning of year	<u>12,501,994</u>
Cash and cash equivalents - end of year	<u>\$ 11,429,892</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (19,809,457)
(Provision) credit for losses on loans and guarantees	(201,444)
Unrealized (gain) loss on investments	897,837
Change in accrued interest and dividends receivable	21
Amortization of job credit awards	2,914,967
Change in deferred job credit awards	74,717
Change in accounts payable and accrued expenses	<u>12,237</u>
Net cash used in operating activities activities	<u>\$ (16,111,122)</u>

The accompanying notes are an integral part of these statements.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The Louisiana Economic Development Corporation (LEDC) is a public authority whose purpose is to stimulate the flow of private capital in the form of loans and other financial assistance for the sound financing of the development, expansion, and retention of small business concerns in the state of Louisiana as a means of providing higher levels of employment, income growth, and expanded social and economic opportunities, especially to disadvantaged persons and within distressed areas. It is a component unit of the state of Louisiana and was authorized by Louisiana Revised Statutes (R.S.) 51:2311.

Effective July 1, 2001, pursuant to Act No. 9 dealing with House Bill No. 1666, the authority for the administration of the Workforce Development and Training Program (Workforce) and the Economic Development Award Program (EDAP) was transferred from the Department of Economic Development to LEDC. Additionally, in June 2012, LEDC introduced a new program called the Economic Development Site Readiness Program (EDRED). Workforce provides training services to employers. EDAP provides funding for public infrastructure near sites in exchange for new employments. EDRED provides funding to local governments and economic development districts to improve sites in order to attract new business. The financial activities of these three programs are also included in these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. REPORTING ENTITY

Using the criteria in GASB Codification Section 2100, the state of Louisiana is defined as the governmental reporting entity. LEDC is considered a discretely presented component unit of the state of Louisiana because the state exercises oversight responsibility in that the governor appoints eleven members of the board. The accompanying financial statements present only the activity of LEDC. Annually, the state of Louisiana issues a Comprehensive Annual Financial Report, which includes the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

C. BASIS OF ACCOUNTING

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, and the measurement focus refers to what transactions and events should be recorded. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recognized when they are earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. All assets and liabilities associated with the operations are included on the Statement of Net Position.

Operating revenues and expenses generally result from providing services in connection with LEDC's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of LEDC is revenues derived from loan programs and venture capital investment programs. Operating expenses include administrative expenses, salaries, and program expenses.

D. BUDGET PRACTICES

The appropriation for LEDC is dedicated each year from the dedicated Louisiana Economic Development Fund, although it receives operating and nonoperating income during the year.

The appropriations made for the operations of the various programs of LEDC are annual lapsing appropriations.

- (1) The budgetary process is an annual appropriation valid for one year.
- (2) The agency is prohibited by statute from overspending the categories established in the budget.
- (3) Budget revisions are granted by the Joint Legislative Committee on the Budget, and interim emergency appropriations may be granted by the Interim Emergency Board.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash held by the State Treasury, cash held in interest-bearing money market funds, and all non-negotiable certificates of deposit and highly liquid investments with an original maturity of three months or less.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

F. INVESTMENTS

The process of valuing investments requires valuing LEDC's ownership interest in the venture capital companies. LEDC writes down the cost of investments for impairments of market value that fall below the cost of the investment in venture capital companies. In preparing the financial statements, LEDC's management makes judgments that affect the reported amounts of investments as of June 30, 2017. Because of the inherent uncertainty of valuation, these estimated values may differ significantly from the value that would have been used had a market for the investments been readily available.

During the year ended June 30, 2017, LEDC engaged an independent third-party investment banker to perform valuations of certain investments. As of June 30, 2017, LEDC's investments have been written down to their estimated impaired values, as determined by the independent appraisal.

G. LOANS RECEIVABLE

Loans receivable consist of direct loans, participation loans, and economic development loans. Direct loans are loans that LEDC provides to a qualified and approved borrower. Participation loans are loans that LEDC provides to a borrower contingent upon the business also receiving a loan from a third party that is of at least equal value to the LEDC loan. LEDC no longer issues direct loans or participation loans; however, there are still loan balances outstanding. Economic Development loans are loans that LEDC provides to a borrower to spur economic development. Receivables for the economic development loans consist of EDAP and Economic Development Loan Program (EDLOP) loans in which a company has not met set benchmarks therefore owes funds back to LEDC. In addition, LEDC could receive some funds back on guaranteed loans that have defaulted. The bank goes through its normal collection process and LEDC is entitled to a pro-rata share of the collateral. LEDC also shares pro-rata in any legal and collection fees involved in the process.

H. UNAMORTIZED AWARD EXPENSE

Under the EDAP and the EDLOP programs, LEDC has entered into agreements to finance public and private infrastructure related to new or expanded commercial facilities. As part of the agreements, these awards do not have to be repaid to LEDC if the new facilities create and sustain a certain number of new jobs and payroll levels as approved by LEDC's board of directors. Payments under this program are recorded as unamortized awards expense and are amortized as the job creation thresholds are met. Unamortized awards expense results from awards funded as of the end of the year that have not yet been expensed as the conditions of expense recognition have not yet been met. Once job and payroll credits are met, the expense would be recognized.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

I. UNEARNED REVENUES

LEDC participates in a Federal program sponsored by the U.S. Department of the Treasury called State Small Business Credit Initiative (SSBCI). The purpose of the program is to assist the state in increasing the amount of capital made available by private lenders to small businesses through LEDC's Small Business Loan Guarantee Program and the Louisiana Seed Capital Program. LEDC will use \$8 million of the funds to support the existing Small Business Loan Guarantee Program that will guarantee up to 75% percent of the principal value of a loan made to an eligible small business. Additionally, LEDC will use \$5,168,350 to support the Louisiana Seed Capital Program, a state-run venture capital program that will invest in funds that invest in eligible small businesses. The state of Louisiana was allocated an amount not to exceed \$13,168,350 to be used for a guaranteed loan program and a venture capital program. The funds are distributed by the Department of the Treasury in three installments. As of June 30, 2017, LEDC has received three installments totaling \$12,366,058, of which \$2,792,687 is unearned at June 30, 2017.

J. NONCURRENT LIABILITIES

Noncurrent liabilities include an accrual for losses on loan guarantees. LEDC sets aside an amount that it considers to be a potential loss from its loan guarantee portfolio. The reserve rate is contingent on the amount of time the loan is delinquent. Currently, LEDC carries a reserve of 18% for current guarantee loans. If a loan is 30, 60, or 90 days delinquent, it is considered to be a higher risk and can be reserved up to 25%, 50%, or 100%, respectively.

**K. COMPENSATED ABSENCES, PENSION BENEFITS, AND
POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE
BENEFITS**

LEDC's daily operations are performed by LED employees. Compensated absences, pension benefits, and postemployment benefits are provided and recorded by LED and allocated to the corporation based on time worked. These allocated expenses are included in the corporation's financial statements; however, no liability for compensated absences or postemployment benefits is recorded in the corporation's financial statements, and no disclosure for compensated absences, pension benefits, or postemployment benefits are included in the corporation's financial statements as the ultimate liability is with LED rather than the corporation.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

L. NET POSITION

LEDC's net position is classified as follows:

(1) Restricted Net Position

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. LEDC's restricted expendable net position includes resources that LEDC is legally or contractually obligated to spend that have restrictions imposed by external third parties.

(2) Unrestricted Net Position

Unrestricted net position is the remaining net position that is not included in the restricted net position category previously mentioned.

M. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and 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.

2. DEPOSITS

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Under state law, LEDC may invest in time certificates of deposit in any bank domiciled or having a branch office in the state of Louisiana; in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

For the purpose of the Statement of Cash Flows, all highly-liquid investments are considered to be cash equivalents.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2017, LEDC has cash and cash equivalents (book balances) of \$11,429,892 as follows:

Held in Treasury	\$	7,724,369
Money market funds		<u>3,705,523</u>
 Total		 <u>\$ 11,429,892</u>

Custodial credit risk is the risk that, in the event of a bank failure, LEDC's deposits may not be recovered. Under state law, LEDC's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of LEDC or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

As of June 30, 2017, LEDC had money market accounts totaling \$3,705,523 and non-negotiable certificates of deposit with original maturities exceeding three months totaling \$7,443,104. These funds were fully collateralized and insured.

3. INVESTMENTS

Under state law, LEDC may invest in, among other things, obligations of the U.S. Treasury or any other federally-insured investment, as well as common or preferred stock of certain closely held businesses. As provided for in R.S. 51:2312(D)(9), LEDC invests in venture capital startup-type companies. Investments are carried on the face of the Statement of Net Position at the carrying value.

At June 30, 2017, the cost, carrying value, and fair value of LEDC's investments were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Write-downs for Impairment</u>	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Fair Value</u>
Equity investments	\$ 30,863,518	\$ (16,991,237)	\$ 13,872,281	\$ 4,401,544	\$ 18,273,825

Custodial credit risk is the risk that, in the event of the failure of the counterparty, LEDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In the normal course of business, LEDC becomes party to various financial transactions that involve various risks. The management of LEDC minimizes exposure to loss from investing activities by evaluating the business prospects of potential investee companies. Under state law, LEDC may invest in, among other things, obligations of the U.S. Treasury or any other federally-insured investment, as well as common or preferred stock of certain closely-held businesses.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

LEDC's venture capital funds are invested in small businesses to create jobs, wealth, and to have a substantial impact on the economy of Louisiana. LEDC's investments in these companies are designed to provide financial assistance to small businesses by providing access to capital. Venture capital funds are attractive to new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure funding or complete a debt offering. These companies are usually not publicly-traded entities. In exchange for LEDC's investment in these companies, LEDC receives a portion of the company's ownership.

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. In an effort to diversify the risk in the investment portfolio, the management of LEDC follows established policies designed to avoid concentrations in any one industry or customer group. LEDC places no limits on the amount it may invest in any one issuer. At June 30, 2017, more than five percent of total investments are invested in the following issuers:

Issuer	Carrying Amount	Fair Value	% of Total Investments
Aurora Ventures IV, LLC	\$ 907,142	\$ 907,142	6.54
Business Resource Capital Specialty BIBCO	\$ 1,560,000	\$ 1,580,000	11.25
Healthcare Innovation Fund	\$ 884,164	\$ 884,164	6.37
Louisiana Fund I, LP	\$ 4,230,628	\$ 8,351,200	30.50
Louisiana Venture Fund	\$ 3,071,969	\$ 3,071,969	22.14
Murphree Venture Partners VI, LP	\$ 1,165,127	\$ 1,165,127	8.40
Themelios Ventures II, L.P.	\$ 806,474	\$ 806,474	5.81

4. DUE FROM OTHER FUNDS

LEDC is appropriated funds from the Louisiana State Legislature through the Capital Outlay Act for an infrastructure assistance program which provides funds to entities that have been determined eligible under the program. As of June 30, 2017, a total of \$44,350,000 had been appropriated to date. Of this amount, \$8,650,552 has not been drawn down from the State Capital Outlay Fund.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

5. LOANS RECEIVABLE

The balance in the LEDC's loan portfolio consisted of the following at June 30, 2017:

Direct loans	\$ 674,400
Economic development loans	<u>560,209</u>
Total loans	1,234,609
Allowance for loan losses	<u>(185,757)</u>
Loans, net	<u>\$ 1,048,852</u>

Activity in the allowance for loan losses was as follows for the year ended June 30, 2017:

Beginning balance	\$ 221,496
Provision (credit) for loan losses	(35,649)
Charge-offs	<u>(90)</u>
Ending balance	<u>\$ 185,757</u>

Scheduled maturities of loans as of June 30, 2017, are as follows:

Loan Type	Principal Balance	Maturities					
		2018	2019	2020	2021	2022	2023
Direct loans	\$ 674,400	\$ -	\$ 245,023	\$ 275,575	\$ 153,802	\$ -	\$ -
Economic development loans	<u>560,209</u>	<u>136,386</u>	<u>78,392</u>	<u>82,312</u>	<u>86,427</u>	<u>90,749</u>	<u>85,943</u>
	<u>\$ 1,234,609</u>	<u>\$ 136,386</u>	<u>\$ 323,415</u>	<u>\$ 357,887</u>	<u>\$ 240,229</u>	<u>\$ 90,749</u>	<u>\$ 85,943</u>

Concentration of Credit Risk:

In an effort to diversify the risk in the loan portfolio, the management of LEDC follows established policies. In addition, management attempts to avoid concentrations in any one industry or customer group. LEDC places percentage and dollar limits on how much can be lent any one borrower. At June 30, 2017, more than five percent of the total loans are due from the following borrowers:

Borrower	Carrying Amount	% of Total Loans
Town of Colfax, Louisiana	\$ 498,482	40.4%
Golfballs.com	\$ 674,400	54.6%

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

6. UNAMORTIZED AWARD EXPENSE

Under the EDAP and the EDLOP, LEDC has entered into agreements to finance public and private infrastructure related to new or expanded commercial facilities. The awards are conditioned on meeting certain job creation and payroll level thresholds as approved by the LEDC board of directors. The awards are expensed as these thresholds are met. When thresholds are not met a receivable is set up for the portion owed to LEDC. A portion of the unamortized awards relates to two zero percent interest loans made under the EDLOP. Management has imputed interest on these loans at market rates at the origination of the loan, and an offset to the unamortized discount is carried on the books as unamortized awards.

Unamortized award expense	\$	15,862,766
Imputed interest on loans		102,291
Allowance for loan losses		<u>(6,830,734)</u>
Ending balance	<u>\$</u>	<u>9,134,323</u>

7. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals at June 30, 2017, were as follows:

<u>Activity</u>	<u>Amount</u>
Salaries and benefits	\$ 120,682
Grants payable	97,361
Total	<u>\$ 218,043</u>

8. LONG-TERM ACCRUALS

Long-term accruals consist of the accrual for losses on loan guarantees. The activity for the year ended June 30, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount due Within one year</u>
Accrual for losses on loan guarantees	\$ 1,365,392	\$ -	\$ (165,796)	\$ 1,199,596	\$ -

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Accrual for Losses on Loan Guarantees

LEDC is a party to various financial loan guarantees. These instruments involve elements of risk of loss in the event of nonperformance by the other party to the financial loan guarantees. LEDC evaluates customers' creditworthiness on a "case-by-case" basis. The amount of collateral obtained, if considered necessary by LEDC upon extension of credit, is based on management's credit evaluation of the customer. Financial loan guarantees are conditional commitments issued by LEDC to guarantee the performance of a customer to a third party. LEDC estimates an allowance for loss on defaulted loans which LEDC will not be able to recover. The estimate is based on the number of days delinquent, beginning with 25% for 30 days and up to 100% for loans over 90 days delinquent.

At June 30, 2017, LEDC had guaranteed \$6,591,863 of \$8,641,813 in loans to customers made by various banks.

9. CONTINGENT LIABILITIES AND RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies would be paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by appropriation from the state's General Fund. LEDC does not have any contingent liabilities to disclose at June 30, 2017.

10. RESTRICTED NET POSITION

LEDC has restricted net position for State Small Business Credit Initiative program funds that have been obligated, in accordance with program eligibility requirements as of June 30, 2017, of \$6,318,667.

11. DEFERRED COMPENSATION PLAN

Certain employees of LED who perform work activities for LEDC participate in the Louisiana Public Employees' Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor's website at www.la.gov.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

12. COOPERATIVE ENDEAVOR AGREEMENTS

Cooperative endeavor is any form of economic development assistance between and among the state, its local government subdivisions, political corporations, public benefit corporations, the U.S. government or its agencies, or any public or private association, corporation, or individual. The term “cooperative endeavor” includes cooperative financing, cooperative development, or any form of cooperative economic development activity. LEDC has entered into 28 cooperative endeavor agreements with private companies and public sponsors to generate economic growth by issuing award amounts. If a private company/public sponsor does not receive the full award amount, LEDC recognizes it as an award amount outstanding in the note disclosure; the amount is not reflected in the accompanying financial statements as a liability. The amount outstanding as of June 30, 2017, for these agreements is \$9,899,051.

Of the 28 cooperative agreements, 14 are EDAP and six are EDLOP. The purpose of the EDAP program is to assist in the financing of projects for which LEDC assistance is requested in order to promote economic development in this state and provide an incentive to influence a company’s decision to locate, relocate, maintain, rebuild and/or expand its business operations in Louisiana, and/or to increase its capital investment in Louisiana. The EDLOP program is a supplement to the EDAP program to provide direct loans to Louisiana businesses that need to fund privately-owned property and improvements, including the purchase of building sites, and to provide for construction, renovation, rebuilding and improvement of buildings, surrounding property and equipment purchases for businesses locating in the state or existing businesses within the state. The amount outstanding as of June 30, 2017, for EDAPs and EDLOPs is \$8,988,486 and \$32,145, respectively. The remaining eight cooperative agreements are for the EDRED. The purpose of this program is to provide financial assistance for readying sites that will be useful in promoting the state as a business and industrial location. The amount outstanding as of June 30, 2017, for EDREDS is \$878,420.

13. NONEXCHANGE FINANCIAL GUARANTEES

LEDC extended nonexchange financial guarantees during fiscal year 2017. LEDC is party to various financial loan guarantees in which LEDC guarantees the obligation of another legally-separate entity’s loan to a third party. LEDC guarantees loans to banks for entities that may otherwise have difficulties obtaining a loan. This assistance helps entities maintain and expand operation which promotes job growth, tax revenues, etc. for Louisiana. In the event of default, LEDC would be responsible for the portion of the loan it has guaranteed. The lending institution would foreclose on any collateral, and upon liquidation LEDC would receive its proportionate share of the proceeds. LEDC management and legal counsel would determine the appropriate pursuit to recover any collateral shortfall. LEDC is the guarantor on small business loans totaling \$6,591,863 for various lengths of time, with the latest commitment through November 2023, as of June 30, 2017.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

Changes in loan guarantees for fiscal year 2017:

Beginning balance	\$ 7,585,511
New loans guaranteed during year	1,269,174
Payments made to third party on defaulted loans	-
LEDC obligation decreased or released	<u>(2,262,822)</u>
Ending balance	<u>\$ 6,591,863</u>

Louisiana R.S. 51:2312 and Louisiana Administrative Code Title 19, Part VII, authorizes LEDC to extend small business loan guarantees as follows:

<u>Authorized Limit</u>	<u>On Loans</u>
75%	up to \$650,000
70%	up to \$1,100,000
65%	up to \$2,300,000
\$1,500,000	over \$2,300,000

Management makes judgments as to the level of risk the state will be exposed to in these financial guarantees through consideration of current and anticipated economic conditions and their potential effects on specific borrowers; an evaluation of the existing relationships among loans and potential losses; and an internal review of the loan and loan guarantee portfolio. In determining the collectability of certain loans and the possibility of losses on loan guarantees, management also considers the fair value of any underlying collateral. Management uses relevant historical data and payment history in assessing the likelihood that LEDC may be required to make a payment in relation to those guarantees and records an accrual for the estimation that a loan may default. In the event that an entity would default on a loan, LEDC would be required to indemnify the bank for the loss in accordance with the agreement between LEDC and the bank.

Change in accrual for losses on loan guarantees for fiscal year 2017:

Beginning balance	\$ 1,365,392
Change in accrual	<u>(165,796)</u>
Ending balance	<u>\$ 1,199,596</u>

There have been no indemnification payments made on outstanding loan guarantees as of June 30, 2017.

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

14. EVALUATION OF SUBSEQUENT EVENTS

LEDC has evaluated its subsequent events through December 4, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
SUPPLEMENTAL SCHEDULE OF INVESTMENTS
JUNE 30, 2017

	<u>Cost</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Equity Investments			
Audubon Capital Fund, LP - 14.09% limited partnership interest	\$ 1,420,896	\$ -	\$ -
Aurora Ventures IV, L.L.C. - Five Class A units (5.86% ownership)	3,541,795	907,142	907,142
Business Resource Capital Specialty BIDCO - 2,000,000 shares of Class B nonvoting common stock	2,000,000	1,560,000	1,580,000
Endgame Entertainment Fund, L.L.C. - 4.8% interest	5,000,000	451,371	451,371
Gulf Coast Business and Industrial Development Corporation - 113,636 shares Class C common stock	112,697	-	-
Healthcare Innovation Fund - 40% interest	1,000,000	884,164	884,164
Jefferson Capital I, L.P. - 9.09% limited partnership interest	39,512	8,811	8,811
Louisiana Fund I, L.P. - 20.67% limited partnership interest	5,238,918	4,230,627	8,351,200
Louisiana Venture Fund - 21.15% limited partnership interest	4,665,681	3,071,969	3,071,969
Murphree Venture Partners VI, L.P. - 11.68% limited partnership interest	3,719,689	1,165,127	1,165,127
Northpeak Wireless, L.L.C. - 6,250 Class A Units	123,710	-	-
Presonus Audio Electronics, Inc. - 101,828 shares common stock and 20,400 shares of Series A preferred stock	276,828	160,196	390,207
Qcorps Residential, Inc. - 674,797 shares common stock	95,000	-	-
Source Capital, L.L.C. - 18,000 shares common stock	2,500,000	626,400	657,360
Sterifx, Inc. - 260,000 shares of Class A preferred stock and 2,954,513 shares of Class B preferred stock	128,792	-	-
Themelios Ventures, II, L.P. - 30.39% limited partner	1,000,000	806,474	806,474
Total investments	<u>\$ 30,863,518</u>	<u>\$ 13,872,281</u>	<u>\$ 18,273,825</u>

**ANNUAL FISCAL REPORT (AFR)
FOR 2017**

AGENCY: 20-16 - Louisiana Economic Development Corporation

PREPARED BY: Aaron Cooper

PHONE NUMBER: 337-794-2470

EMAIL ADDRESS: aaron@acoopercpa.com

SUBMITTAL DATE: 12/04/2017 03:37 PM

STATEMENT OF NET POSITION

ASSETS

CURRENT ASSETS:

CASH AND CASH EQUIVALENTS	11,429,892.00
RESTRICTED CASH AND CASH EQUIVALENTS	0.00
INVESTMENTS	0.00
RESTRICTED INVESTMENTS	0.00
DERIVATIVE INSTRUMENTS	0.00
RECEIVABLES (NET)	2,348,042.00
PLEDGES RECEIVABLE (NET)	0.00
LEASES RECEIVABLE (NET)	0.00
AMOUNTS DUE FROM PRIMARY GOVERNMENT	0.00
DUE FROM FEDERAL GOVERNMENT	0.00
INVENTORIES	0.00
PREPAYMENTS	0.00
NOTES RECEIVABLE	136,386.00
OTHER CURRENT ASSETS	11,574,122.00
TOTAL CURRENT ASSETS	\$25,488,442.00

NONCURRENT ASSETS:

RESTRICTED ASSETS:

CASH	0.00
INVESTMENTS	0.00
RECEIVABLES (NET)	0.00
NOTES RECEIVABLE	0.00
OTHER	0.00
INVESTMENTS	21,315,385.00
RECEIVABLES (NET)	0.00
NOTES RECEIVABLE	912,466.00
PLEDGES RECEIVABLE (NET)	0.00
LEASES RECEIVABLE (NET)	0.00
CAPITAL ASSETS (NET OF DEPRECIATION & AMORTIZATION)	
LAND	0.00
BUILDINGS AND IMPROVEMENTS	0.00
MACHINERY AND EQUIPMENT	0.00
INFRASTRUCTURE	0.00
INTANGIBLE ASSETS	0.00
CONSTRUCTION IN PROGRESS	0.00
OTHER NONCURRENT ASSETS	6,210,753.00
TOTAL NONCURRENT ASSETS	\$28,438,604.00
TOTAL ASSETS	\$53,927,046.00

DEFERRED OUTFLOWS OF RESOURCES

ACCUMULATED DECREASE IN FAIR VALUE OF HEDGING DERIVATIVES	0.00
DEFERRED AMOUNTS ON DEBT REFUNDING	0.00
ADJUSTMENT OF CAPITAL LEASE OBLIGATIONS	0.00
GRANTS PAID PRIOR TO MEETING TIME REQUIREMENTS	0.00
INTRA-ENTITY TRANSFER OF FUTURE REVENUES (TRANSFEREE)	0.00
LOSSES FROM SALE-LEASEBACK TRANSACTIONS	0.00
DIRECT LOAN ORIGINATION COSTS FOR MORTGAGE LOANS HELD FOR SALE	0.00
FEES PAID TO PERMANENT INVESTORS PRIOR TO SALE OF MORTGAGE LOANS	0.00
PENSION-RELATED DEFERRED OUTFLOWS OF RESOURCES	0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$0.00

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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES **\$53,927,046.00**

LIABILITIES

CURRENT LIABILITIES:

ACCOUNTS PAYABLE AND ACCRUALS	218,043.00
ACCRUED INTEREST	0.00
DERIVATIVE INSTRUMENTS	0.00
AMOUNTS DUE TO PRIMARY GOVERNMENT	0.00
DUE TO FEDERAL GOVERNMENT	0.00
AMOUNTS HELD IN CUSTODY FOR OTHERS	0.00
UNEARNED REVENUES	2,792,687.00
OTHER CURRENT LIABILITIES	0.00

CURRENT PORTION OF LONG-TERM LIABILITIES:

CONTRACTS PAYABLE	0.00
COMPENSATED ABSENCES PAYABLE	0.00
CAPITAL LEASE OBLIGATIONS	0.00
ESTIMATED LIABILITY FOR CLAIMS	0.00
NOTES PAYABLE	0.00
BONDS PAYABLE	0.00
POLLUTION REMEDIATION OBLIGATIONS	0.00
OTHER LONG-TERM LIABILITIES	0.00
TOTAL CURRENT LIABILITIES	\$3,010,730.00

NONCURRENT PORTION OF LONG-TERM LIABILITIES:

CONTRACTS PAYABLE	0.00
COMPENSATED ABSENCES PAYABLE	0.00
CAPITAL LEASE OBLIGATIONS	0.00
ESTIMATED LIABILITY FOR CLAIMS	1,199,596.00
NOTES PAYABLE	0.00
BONDS PAYABLE	0.00
NET OPEB OBLIGATION	0.00
NET PENSION LIABILITY	0.00
POLLUTION REMEDIATION OBLIGATIONS	0.00
OTHER LONG-TERM LIABILITIES	0.00
UNEARNED REVENUE	0.00
TOTAL LONG-TERM LIABILITIES	\$1,199,596.00
TOTAL LIABILITIES	\$4,210,326.00

DEFERRED INFLOWS OF RESOURCES

ACCUMULATED INCREASE IN FAIR VALUE OF HEDGING DERIVATIVES	0.00
DEFERRED AMOUNTS ON DEBT REFUNDING	0.00
ADJUSTMENT OF CAPITAL LEASE OBLIGATIONS	0.00
GRANTS RECEIVED PRIOR TO MEETING TIME REQUIREMENTS	0.00
SALES/INTRA-ENTITY TRANSFER OF FUTURE REVENUES (TRANSFEROR)	0.00
GAINS FROM SALE-LEASEBACK TRANSACTIONS	0.00
POINTS RECEIVED ON LOAN ORIGINATION	0.00
LOAN ORIGINATION FEES RECEIVED FOR MORTGAGE LOANS HELD FOR SALE	0.00
PENSION-RELATED DEFERRED INFLOWS OF RESOURCES	0.00
TOTAL DEFERRED INFLOWS OF RESOURCES	\$0.00

NET POSITION:

NET INVESTMENT IN CAPITAL ASSETS	0.00
RESTRICTED FOR:	

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CAPITAL PROJECTS	0.00
DEBT SERVICE	0.00
NONEXPENDABLE	0.00
EXPENDABLE	0.00
OTHER PURPOSES	6,318,667.00
UNRESTRICTED	\$43,398,053.00
TOTAL NET POSITION	\$49,716,720.00

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STATEMENT OF ACTIVITIES

PROGRAM REVENUES

EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
20,045,996.00	236,539.00	0.00	0.00	\$(19,809,457.00)

GENERAL REVENUES

PAYMENTS FROM PRIMARY GOVERNMENT	11,413,684.00
OTHER	273,904.00
ADDITIONS TO PERMANENT ENDOWMENTS	0.00
CHANGE IN NET POSITION	\$(8,121,869.00)
NET POSITION - BEGINNING	\$57,838,589.00
NET POSITION - RESTATEMENT	0.00
NET POSITION - ENDING	\$49,716,720.00

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DUES AND TRANSFERS

Account Type	Intercompany (Fund)	Amount
Amounts due from Primary Government		
	Total	\$0.00

Account Type	Intercompany (Fund)	Amount
Amounts due to Primary Government		
	Total	\$0.00

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FUND BALANCE/NET POSITION RESTATEMENT

Account Name/Description	Restatement Amount
Total	\$0.00

**ANNUAL FISCAL REPORT (AFR)
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SUBMISSION

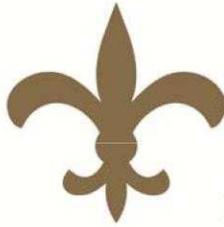
Before submitting, ensure that all data (statements, notes, schedules) have been entered for the agency.

Once submitted no changes can be made to any of the agency data for the specified year.

By clicking 'Submit' below you certify that the financial statements herewith given present fairly the financial position and the results of operations for the year ended in accordance with policies and practices established by the Division of Administration or in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board.

Reminder: You must send Louisiana Legislative Auditors an electronic copy of the AFR report in a pdf, tiff, or some other electronic format to the following e-mail address:
LLAFileroom@lla.la.gov.

**REPORTS REQUIRED BY
*GOVERNMENT AUDITING STANDARDS***



J. Aaron Cooper , CPA, LLC

P.O. Box 918 • 510 North Cutting Avenue • Jennings, Louisiana 70546
768 Parish Line Road • DeRidder, Louisiana 70634

Member of the American Institute of Certified Public Accountants and the Society of Louisiana Certified Public Accountants

INTERNAL 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*

Louisiana Economic Development Corporation
Baton Rouge, Louisiana

I have audited, 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, the financial statements of the business-type activities of the Louisiana Economic Development Corporation, a component unit of the State of Louisiana as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued my report thereon dated December 4, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the 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.

My consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Corporation's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in blue ink that reads "J. Aaron Coogan, CPA, LLC". The signature is written in a cursive style.

Jennings, Louisiana
December 4, 2017

**LOUISIANA ECONOMIC DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AND PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

Summary of Auditors' Results

As required by the Office of Louisiana Legislative Auditor, the following is a summary of the results of my audit:

- Type of report issued on financial statements – unqualified.
- There were no material weaknesses in internal controls over financial reporting.
- There were no findings to be reported under *Government Auditing Standards*.
- The results of my audit procedures disclosed no material noncompliance.

Current Year Findings - Internal Control

None

Current Year Findings - Compliance

None

Prior Year Findings

None